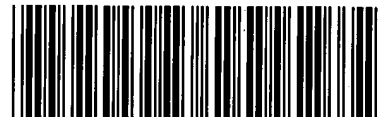


# **Growth**

**Greggs plc Annual Report  
and Accounts 2015**

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**Greggs is a much-loved and trusted brand. We believe we can continue to build on our strong bakery heritage to compete successfully in the food-on-the-go market. Our offer is differentiated by the fact that we freshly prepare food and drinks in our shops each day, to ensure our customers enjoy high quality and great value for money.**

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### Great tasting fresh food

*We freshly prepare food which is both great tasting and value for money.*

### A great shopping experience

*We are taking Greggs to where our customers are, providing them with a great shopping environment and fulfilling more of their needs by focusing on food-on-the-go at all times of the day.*

### Simple and efficient operations

*We are realising the significant efficiency and capacity benefits to be gained within our existing network in order to develop simple and efficient operations.*

### Improvement through change

*We are investing in our processes and systems platform to enable us to compete more effectively in the fast-moving food-on-the-go market.*

## Strategic progress

In 2015 Greggs made further progress in executing the strategic plan outlined in 2013, which focused the business on the growing food-on-the-go market. This is bringing about significant changes to the quality and relevance of our product offer as well as the positioning and condition of the Greggs shop estate.

We are also two years into a significant change programme, with ongoing investment in processes and systems, delivering benefits in terms of efficiency and greater agility, both essential in such a competitive marketplace. The result has been another excellent financial performance, founded on strong like-for-like sales growth and leveraging the vertical integration of the Greggs business model.

More detail: Strategy P06-P15

## Financial highlights

**£836m**

Total sales **+5.2%\***

**4.7%**

Company-managed shop like-for-like sales

**£73m**

Pre-tax profit\*\* **+25.4%**

**55.8p**

Diluted EPS\*\* **+28.6%**

**48.6p**

Dividend per share, including special dividend of 20p per share

**26.8%**

Return on capital employed

More detail: Financial review P20-P21

\* Based on comparing 52 weeks' sales.  
\*\* Before exceptional items in 2014.

**Greggs at a glance**

**With 1,698 shops, 12 bakeries  
and 20,000 employees who serve  
millions of customers each week,  
Greggs is the UK's leading bakery  
food-on-the-go retailer.**

Bakeries

Distribution centre

Manufacturing centre of excellence for savouries -

Shops

## Our vision

**... is to be a winning brand in the food-on-the-go market.**

### How will we achieve this?

**Our people...** are what makes our business successful. We aim to provide them with a great place to work, where they feel valued.

**Our food...** is made with high quality, wholesome ingredients. Our daily-fresh sandwiches and freshly-baked savouries ensure that we deliver food that is both high quality and great value for money to our customers.

**Our shops...** are being remodelled and relocated to meet the demands of busy food-on-the-go customers.

**Our vertically-integrated supply network...** currently comprises 12 bakeries, one distribution centre and one manufacturing centre of excellence for savouries. This allows us to make and deliver great value, fresh products to our shops every day.

**Our values...** commit us to being enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.

**Our commitment to sharing the benefits of our success...** is deep-rooted and was cemented by the establishment of the Greggs Foundation in 1987. Along with our values it forms the bedrock of our approach to social responsibility.

## Our business model

### Our vertically-integrated operations

We own and operate a vertically-integrated supply chain, from production through distribution to point-of-sale. This means we can make great tasting, high quality bakery food at great prices offering value for our customers.

### Our target market

Food on-the-go is a growing market. Greggs is a brand with broad appeal, attracting customers of all types and we have the opportunity to fulfil more of their needs by focusing on great tasting food-on-the-go, at all times of the day.

### Our market locations

Convenience is key in the food-on-the-go market and we continue to open and relocate shops to ensure that our estate is well positioned. A high proportion of our openings are in areas away from traditional high streets as we diversify our portfolio in line with market trends. Working with franchise partners, we have extended the Greggs offer to previously inaccessible travel, workplace and other convenience locations.

## Our vertically-integrated operations

Central support

Manufacturing

Delivery logistics

Shops

## Our target markets

Food-on-the-go

All consumer demographics

United Kingdom

## Our market locations

Shopping

Work

Travel

Leisure

## Our offering to customers

High quality food and drinks

Great value

Convenient shops

Great service

Happy customers

# **In 2015 Greggs delivered an exceptional operational and financial performance, whilst also making good progress against its longer-term strategic plan.**

**"The excellent outcome in 2015 gives us confidence as we go into what we expect to be another busy year."**

**Ian Durant, Chairman**

In 2015 Greggs delivered an excellent operational and financial performance whilst also making good progress against its longer-term strategic plan. Trading conditions have continued to be supportive but the food-on-the-go market remains competitive and fast-moving, and so must Greggs. The excellent outcome in 2015 gives us confidence as we go into what we expect to be another busy year.

#### **Overview**

In 2015, Greggs made further progress in executing the strategic plan outlined in 2013, which focused the business on the growing food-on-the-go market. This is bringing about significant changes to the quality and relevance of our product offer as well as the positioning and condition of the Greggs shop estate. We are also two years into a significant change programme, with ongoing investment in processes and systems delivering benefits in terms of efficiency and greater agility. The result has been another excellent financial performance, founded on strong like-for-like sales growth and leveraging the vertical integration of the Greggs business model.

The Chief Executive's report provides greater detail on performance in 2015, progress against our strategic plan and key targets.

#### **Our people and values**

As a Board, we believe that the Greggs culture and heritage is a key component of how the brand is perceived and cherished by our customers. The ongoing success of our business requires constant embracing of change but the way in which we implement changes is very much informed by our values and the long-term mind-set that has served the business so well.

I would like to thank everyone who has worked for Greggs during the past year and contributed to its success. We are proud of our achievements and have delivered an excellent financial performance whilst ensuring that Greggs remains an engaging place to work and a positive contributor to the communities in which we trade.

### **The Board**

There were no changes in the composition of the Board in 2015, following a number of appointments in 2014. We completed our first independent Board evaluation in the year; the results were reassuring in terms of the effectiveness of the Board and have given us a number of actions for further improvement in the year ahead.

Board members are encouraged to spend time in the business, exploring its operations and talking with staff (for my part this included a night shift in South Wales) in order to inform our discussions about the business. Our aspiration is to maintain an open and constructive dialogue with a management team which values the contributions of the Non-Executive Directors. Our discussions are often lively and, whilst mutually respectful, a diversity of views is considered a strength.

The Board's priorities in the past year have included oversight of the programme of process and systems change, people development and increasing our understanding of customer needs. In addition, we have spent a significant amount of time considering plans to invest in the Company's internal supply chain, including the acquisition of an additional distribution facility in north London and the other proposals outlined in the Chief Executive's report.

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

### **Dividend policy and capital structure**

Our progressive dividend policy targets an ordinary dividend that is two times covered by earnings, with any further surplus capital being returned by way of special dividends.

In line with its progressive dividend policy the Board intends to recommend at the Annual General Meeting (AGM) a final dividend of 21.2p per share (2014: 16.0p), giving a total ordinary dividend for the year of 28.6p (2014: 22.0p), an increase of 30.0 per cent.

During 2015 the Board carried out a review of the appropriate capital structure of the Group, including consultation with some shareholders on different options for returning surplus capital. Given the leasehold nature of the shop portfolio the Board concluded that it is not currently appropriate to take on structural debt and intends to maintain a net cash position.

In 2015 the Group paid its first special dividend of 20.0p per share (a total of £20.2 million), in addition to ordinary dividends paid in the year totalling 23.4p per share. Our Finance Director, Richard Hutton, outlines the expected application of the distribution policy in more detail in the financial review.

### **Looking ahead**

We have made great progress in executing the strategic realignment of the business and, in the year ahead, will continue to make changes to improve further in all areas. This is expected to include major investment and change in our supply chain, which will involve some proposed bakery closures, as detailed in the Chief Executive's report. We realise that this will be difficult for the people impacted but is essential to support growth and the long-term competitiveness of the business.

High quality delivery of our change programme and operational plans has resulted in a strong business performance over the last two years. I am confident that we can make further progress in the year ahead.

**Ian Durant**

**Chairman**

1 March 2016

# Continuing to focus on four key areas will deliver success in food-on-the-go.

**Our approach**  
*Keeping our people, communities and values at the heart of our business.*

## Great tasting fresh food

*We freshly prepare food which is both great tasting and value for money.*

### Progress made in 2015

- Extension of breakfast range adding new porridge, free-range egg omelette in addition to breakfast baguettes.
- Relaunch of hot food menu with a range of soup, hot sandwiches and pizza.
- Extension of 'Balanced Choice' range, to include soup, salads, 'heat-to-eat' sandwiches and 'no added sugar' soft drinks.
- Core sweet lines upgraded.
- Coffee sales grew strongly and we invested substantially in additional coffee machines.
- We introduced further great value deals.

▶ More detail: Strategy in action P08-P09

## A great shopping experience

*We are taking Greggs to where our customers are, providing them with a great shopping environment and fulfilling more of their needs by focusing on food-on-the-go at all times of the day.*

### Progress made in 2015

- 222 shops refitted, most with seating, and 34 re-sites.
- Franchise partnerships developed, including expansion into Northern Ireland.
- 27 new Company-managed shops opened.
- New systems to manage shop labour allocation have enabled us to improve service standards at busiest times of the day.
- Continued to build on reputation for fast and friendly service and have invested significantly with independent customer experience visits, rewarding teams who deliver great standards.
- Greggs Rewards loyalty programme grows in popularity.

▶ More detail: Strategy in action P10-P11

## Simple and efficient operations

*We are realising the significant efficiency and capacity benefits to be gained within our existing network in order to develop simple and efficient operations.*

### Progress made in 2015

- New benefits achieved through better procurement, product management, investment in manufacturing projects and adoption of more efficient structures.
- We continued to consolidate production activity by focusing on centres of excellence in our supply chain.
- Acquisition of a freehold distribution depot adjacent to our existing bakery in Enfield to support the growth potential of the business.
- Combined annual financial benefits of £12 million in 2015.

▶ More detail: Strategy in action P12-P13

## Improvement through change

*We are investing in our processes and systems platform to enable us to compete more effectively in the fast-moving food-on-the-go market.*

### Progress made in 2015

- Significant progress in second year of our investment programme to create the integrated systems platform necessary to compete more effectively as a centralised brand in the food-on-the-go market.
- Workforce and supplier relationship management implemented and delivering benefits in excess of expectations.
- Installed the infrastructure necessary to run SAP as our core ERP system and implemented the first module of this, going live with our new customer contact system to help improve customer relationship management.

▶ More detail: Strategy in action P14-P15

### Our vision and strategy

Our strategic plan focuses on growing like-for-like sales by further improving the quality of our food offer and existing estate and making our operations simpler and more efficient. The plan has four key pillars which are underpinned by our approach to keeping our people, communities and values at the heart of our business.

### Measuring progress

Our strategic plan represents a major programme of change over a period of up to five years and we have mapped out a number of key targets and milestones that we will use to track progress:

- Driving like-for-like sales growth.
- Achieving targeted returns on our transformational investment in shop refurbishment.
- Delivery of operational efficiencies.
- Achieving the planned benefits from our investment in processes and systems.

### Plans for 2016

We have another strong pipeline of new product developments and upgrades, with many opportunities to continue to improve our product offer and further develop our position in the food-on-the-go market. For example, we have just launched a new flat white coffee together with improved recipes for other hot drinks. Balanced Choice development is a key priority with new soup options recently launched and a freshly prepared salad range planned for the summer.

▶ See: Chief Executive's report P17

### Plans for 2016

We plan to enhance the customer experience further by continuing to improve our service offering, shop environments and locations, rebalancing our estate towards new convenient catchment areas, with help from our franchise partners in travel and other convenience locations. We expect to open 100-120 shops, including further development of our franchise partnerships, refit around 200 shops and close 50-60 shops. We will also launch a new improved mobile app and more flexible payment options.

▶ See: Chief Executive's report P18

### Plans for 2016

We plan to invest around £100 million in our manufacturing and distribution operations over the next five years to reshape our operations. This will enable us to increase capacity to support shop expansion substantially beyond 2,000 outlets in the UK and compete more effectively in the food-on-the-go market.

▶ See: Chief Executive's report P19

### Plans for 2016

We will continue with the implementation of our strategic plan to enable the business to compete more effectively in the food-on-the-go market whilst driving efficiencies and adding capacity for further sustainable growth. We will continue to build a suite of new capabilities, including centralised supply, procurement, product lifecycle management and centralised ranging, forecasting and replenishment. Results of the programme expected to make an annual net contribution of around £6 million once all key functionality is in place.

▶ See: Chief Executive's report P18

Company-managed shop  
like-for-like sales growth

**4.7%**

Refit return on  
investment

**22.9%**

Operational  
efficiencies

**£8.1m**

Savings from processes  
and systems change

**£4.0m**

## Strategy in action

# Great tasting fresh food

**Expert bakers for over 75 years, Greggs prides itself on freshly preparing food in shops every day and delivering both great tasting food and value for money to its customers.**

Because we own and run all of our bakeries, we know, and can control, exactly what goes into our food. Our vertically-integrated supply chain, unique recipes and bakery expertise all help to set Greggs apart and deliver simple, good quality, great tasting fresh food at affordable and competitive prices.

### Progress made in 2015

We continued to see improved sales as a result of the product changes and improvements made last year. Our 2015 product initiatives across the day, combined with our great value deals, continued to drive increased customer visits and higher average transaction values. Coffee sales continue to grow, and we invested substantially in additional coffee machines in early 2015. We extended our breakfast range to include new porridge and breakfast sandwich options, including a free-range egg omelette option which attracted the 'Good Egg Award'. The extension of our Balanced Choice range to include salads and sandwiches and improved own-label drinks with 'no added sugar', all with fewer than 400 calories, has proven popular with sales continuing to grow strongly. The range was recognised by IGD

(The Global Food and Consumer Goods Experts) with a 'Health and Wellness Award'. In the autumn, we completely overhauled and re-presented our hot food menu, introducing new products such as the Aberdeen Angus spicy meatball melt baguette, the Balanced Choice peri peri chicken flatbread and improved existing lines, such as pizza slices. Our core sweet lines were also upgraded. Our reputation for value for money continues to grow as we further extend our popular meal deals.

### Plans for 2016

We plan to develop our position in the food-on-the-go market by building on the success of the changes we introduced in 2015 and a healthy pipeline of activity in the year ahead. Highlights include the introduction of a flat white coffee to our hot drinks menu, a freshly prepared salad range planned for summer, upgrading product recipes, introducing new products and widening our meal deal offers.

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**"I regularly visit Greggs on my lunch break to grab a coffee and a sandwich. I am a big fan of the Balanced Choice range and enjoy trying the latest additions to the menu."**

**Jane Lipton, Leeds**



## Strategy in action

# A great shopping experience

**Our bakery food-on-the-go format comprises a contemporary interior that draws on Greggs' bakery heritage but is designed to meet the demands of the modern retail environment and busy food-on-the-go shoppers.**

Important features include the provision of seating for customers where appropriate, improved customer flow and more efficient queue management. The Greggs customer experience has been further enhanced by improved service levels and more convenient shop locations, with new franchise partnerships enabling us to reach previously inaccessible travel and other convenience locations.

### Progress made in 2015

We have continued to benefit from the changes we made to service levels, including improved availability, to drive excellent volume growth, and have extended further the times our shops are available to customers. We continue to build on our reputation for fast and friendly customer service and have introduced an independent 'customer experience' programme, rewarding teams delivering great standards. Our digital customer reward programme, Greggs Rewards, continues to attract new members and provides us with valuable information to enhance the customer experience.

Our investment programme to improve the quality of our estate is progressing well, with 202 refits,

plus 20 conversions of larger bakery cafés completed in 2015. During 2015, we returned to net shop growth, opening 122 new shops (including 61 franchise shops) and closing 74 shops, giving a total of 1,698 shops (of which 105 are franchise shops) trading at 2 January 2016. Together with franchise partners Moto, Euro Garages, Applegreen UK and Ireland, Wightlink Limited, Blakemore Retail, Compass and the Sandpiper Group, most of our new shops were opened in locations away from high streets. We also opened our first shop in Northern Ireland with franchise partner Applegreen.

### Plans for 2016

We remain committed to improving the quality of our existing estate and our service offering. In 2016, we will continue to reshape our estate which will involve closing 50-60 shops, relocating others and opening up to 120 new ones away from the high street. We will continue to improve our service levels through a combination of improved availability at lunchtime, further roll out of our extended opening hours programme and the launch of a new, improved mobile app and more flexible payment options.

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**"The staff in Greggs are so helpful and friendly. I'm always greeted with a smile."**

**Sam Meadows, Sheffield**



## Strategy in action

# Simple and efficient operations

**As a retailer with a vertically-integrated supply chain, from production through distribution to point-of-sale, we have an important advantage over many of our competitors.**

To make sure we continue to deliver good quality, great tasting fresh food at competitive prices, it is imperative that we continue to focus on realising the significant efficiency and capacity benefits to be gained within our supply chain and network of bakeries. We will also continue to improve our operational effectiveness in support areas in order to maximise our scope for investment in front-line customer service.

### Progress made in 2015

We made good progress in our drive to make supply and support functions simpler and more efficient. Better processes, particularly around procurement, workforce and product management, have delivered lower costs and reduced waste and we continue to consolidate production activity by focusing on centres of excellence, ensuring great product quality and consistency. In total, our actions delivered savings of £12 million in 2015. We acquired a freehold distribution depot close to our Enfield bakery which will be brought into use in the second half of 2016, providing additional distribution capacity for shop growth expansion. We were again

recognised by the award of British Retail Consortium accreditation to a number of our bakeries and production facilities during the year.

### Plans for 2016

We plan to invest around £100 million in our manufacturing and distribution operations over the next five years to reshape our operations. This will enable us to increase capacity to support shop expansion substantially beyond 2,000 outlets in the UK and compete more effectively in the food-on-the-go market. We currently operate 12 bakeries, but not all are suitable for long-term investment due to their size or location. As a result, we are proposing to close our Twickenham, Edinburgh and Sleaford bakeries. We will be treating all those affected with fairness, consideration and respect in line with our values.

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***“My day starts at 4am to help ensure each shop is fully stocked for the day ahead. My reward is a bacon breakfast roll and coffee at the end of the run!”***

**Andy Coull, Relief Team Leader in Transport**



Strategy in action

# Improvement through change

**We continue to make significant progress in creating the integrated systems platform needed to compete more effectively as a centralised brand.**

We are now halfway through our five-year change programme which involves investing in a process and systems platform that enables us to compete more effectively in the fast-moving food-on-the-go market.

#### Progress made in 2015

We made significant progress in the second year of our investment programme to overhaul our processes and systems and introduce new ways of working. We installed the infrastructure necessary to run SAP as our core ERP system and implemented the first module of this through the introduction of a new customer

contact system to improve customer relationship management. We are well advanced with plans to bring finance into SAP in the first half of 2016.

#### Plans for 2016

Plans are well underway for the next major phase of change which will focus on core elements such as finance, procurement, product lifecycle management, centralised ranging, forecasting and replenishment. Results of the programme are expected to make an annual net contribution of around £6 million, once all key functionality is in place.

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***"I work for the Greggs in-house customer care team and I'm always happy to help our customers find out more about our range of products. The new system helps me to do my job more effectively and efficiently."***

***Lauren McGettigan, Customer Care Team Leader***



**We delivered another excellent performance in 2015, making further progress with our plan to transform Greggs from a traditional bakery business into a modern, attractive food-on-the-go retailer.**

**"Our estate is stronger and our products, value and service are all improving the customer experience."**

**Roger Whiteside, Chief Executive**

In 2015 we delivered another excellent performance in the second year of implementation of our strategy to transform Greggs from a traditional bakery business into a modern, attractive food-on-the-go retailer. We have made significant progress across all areas of our strategic plan, with the result that our estate is stronger and our products, value and service are all improving the experience for customers. Trading conditions have continued to be favourable and we have grown sales whilst continuing to drive efficiencies in our operations, resulting in a second consecutive year of record profits.

**Financial performance**

Total sales grew to £835.7 million in 2015, up 5.2 per cent on a comparable 52 week basis and up 3.7 per cent when compared to the 53 week financial year in 2014. Company-managed shop like-for-like sales grew by 4.7 per cent and our franchised shops continued to perform well.

Operating profit (before exceptional items in 2014) grew by 25.9 per cent to £73.1 million and pre-tax profit (before exceptional items in 2014) grew by 25.4 per cent to £73.0 million. Our Finance Director, Richard Hutton, comments on financial performance in more detail in the financial review.

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

Market conditions continued to be favourable during 2015, with low inflation leading to further rises in real disposable consumer income. We saw strong growth throughout the year, although customer footfall in some shopping locations was subdued in the final quarter, resulting in slower growth in this period. The market for food-on-the-go remains highly competitive but our like-for-like sales performance demonstrates the strength of the Greggs brand, its quality and its differentiated offer. Greggs appeals to a broad customer base and we saw increased numbers of customer visits as well as growth in average transaction values in the year.

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

Our strategic plan, announced in 2013, focuses on growing like-for-like sales by improving the customer proposition and the quality of our existing estate and making our operations simpler and more efficient. The plan has four key pillars:

1. Great tasting fresh food.
2. A great shopping experience.
3. Simple and efficient operations.
4. Improvement through change.

These pillars are all supported by our approach to keeping our people, communities and values at the heart of our business.

## Highlights of the year

Our Balanced Choice range won recognition at the 2015 IGD Awards.

We opened our 100th franchise shop increasing our presence in travel, leisure and work-centred catchments.

We acquired a new freehold distribution depot, close to our Enfield bakery, to support business growth.

Investment in new systems to manage shop labour allocation has enabled us to improve service standards at the busiest times of the day.

The strategic plan represents a major programme of change over a period of up to five years and we are tracking progress against a number of key targets:

- Driving like-for-like sales growth.
- Achieving targeted returns on our transformational investment in shop refits.
- Delivery of operational and supply chain efficiencies.
- Achieving the planned benefits from our investment in processes and systems.

In 2015 we once again met our objectives in all of these areas:

- A second consecutive year of strong like-for-like sales growth.
- Refit investment returns exceeded our hurdle.
- A second year of significant cost efficiencies.
- Process and systems investment benefits ahead of plan.

### Delivering our strategy

#### 1. Great tasting fresh 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.

#### Improvements to product range

We continue to make improvements to our product range in order to tailor it to the demands of the food-on-the-go customer and this has been successful in driving sales growth.

Demand for breakfast products continues to grow strongly as increasing numbers of customers look to grab breakfast as they go about their busy lives. In the early part of the year we successfully extended our breakfast menu to include free-range egg omelette in addition to breakfast baguettes. Coffee sales continue to grow strongly and we invested substantially in additional coffee machines to meet rising demand at this time of day.

Growth in sandwich sales continued its momentum in the second year following the category re-launch and we saw a further step-up in sales with the successful launch of our new 'heat-to-eat' sandwich range in the autumn.

Our Balanced Choice range offers healthier choices with fewer than 400 calories and which are either amber or green on the FSA traffic light system. This has provided a strong platform for

growth, with sales already accounting for 10 per cent of turnover. Success this year has come from range extensions including soup and salads, 'heat-to-eat' sandwiches and 'no added sugar' soft drinks.

With growing concern over obesity this is a strategically important area of development and we were particularly proud to be awarded the 2015 IGD 'Health and Wellness Award' in recognition of our work in improving the nutritional value of our products. The judges recognised our efforts to help our customers to make informed choices and our achievement in delivering a significant positive change in the shopping habits of customers.

#### Value

Greggs continues to lead the market in offering outstanding value for money and the attractiveness of our value deals has driven growth in both transaction numbers and average values. We maintained our £2 breakfast meal deal for the sixth year running and saw increased participation in our range of all-day meal deals offering any savoury or sweet product plus any hot drink for £2.

#### 2016 product initiatives

We have another strong pipeline of new product developments planned for 2016. As an example we have just launched a new 'flat white' coffee together with improved recipes for other hot drinks, and these are already proving popular. Balanced Choice development remains a priority with new soup options recently launched and a new freshly-prepared salad range planned for the summer.

Traditional bakery favourites in savoury and sweet products remain very important and we have an exciting line up of new developments and quality upgrades in our plans for this year. We also aim to build on our strong growth in sandwich sales, with further improvements this spring to maintain momentum in this part of our offer.

#### 2. A great shopping experience

As well as improvements to our products we have continued to make changes in our shop operations to meet the needs of our food-on-the-go customers better. Our investment in new systems to manage shop labour allocation has enabled us to improve service standards at the busiest times of the day and we have continued to extend opening hours as opportunities arise. Our shop teams have an outstanding reputation for fast and friendly service and we have invested significantly to build on this with independent customer experience visits rewarding teams who deliver great standards.

## Chief Executive's report continued

### Estate changes and refurbishments

The food-on-the-go market continues to grow, offering exciting opportunities to increase our estate to substantially more than 2,000 shops, particularly in new locations away from high streets. 2015 saw us return to net shop growth, opening 122 new shops (including 61 franchised units and our first in Northern Ireland) in the year and closing 74, resulting in 1,698 shops trading at 2 January 2016. 90 per cent of our new shop locations were away from high streets in areas such as retail and industrial parks, motorway service stations and travel hubs. At the end of 2015 we had 105 franchised shops operating in travel and other convenience locations, with a particular focus on motorway services and petrol forecourts.

We completed 202 shop refurbishments during the year and converted a further 20 existing bakery cafés to our bakery food-on-the-go format. These investments are transformational and allow our shops to really focus on the food-on-the-go customer. By the end of 2015 82 per cent of our shops had been converted to the food-on-the-go format and in the year ahead we anticipate progressing with this refurbishment programme at a similar rate.

In 2016 we again expect to open 100-120 shops, including further development of our franchise partnerships, and to close 50-60 shops. With our leasehold property structure we have the flexibility to relocate as customer trends move and our new shop opening programme is steadily shifting the balance of the 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 2015 this proportion had risen to 27 per cent. This, coupled with our refit investment programme, is progressively improving the quality and performance of our shop estate.

### Greggs Rewards loyalty scheme

We have continued to build membership of our digital customer reward programme, which is providing valuable insight into consumer behaviour and developing loyalty. This is a strategically important initiative as we pursue our long-term ambitions to develop digital engagement with our customers. In 2016 we will take an important next step by launching a new improved mobile app and more flexible payment options.

### 3. Simple and efficient operations

Our drive to make our supply and support functions simpler and more efficient continued to make good progress in 2015. New benefits were achieved through better procurement, investment in manufacturing projects and the adoption of more efficient structures.

In addition we were able to extract further gains from our investment in better processes and systems, particularly in workforce management where we continued to build upon the initial deployment and refine our approach. In total our actions to make the business simpler and more efficient delivered savings of £12 million in 2015, slightly ahead of the targets we had set. We expect a lower level of overall cost benefit in 2016 as we focus on implementing core SAP, and should then achieve further cost and revenue benefits from 2017.

In September 2015, in order to provide additional distribution capacity for shop growth, we acquired a freehold distribution depot adjacent to our existing bakery in Enfield. The total

investment, including conversion works, is likely to be around £13 million and the facility will be brought into use in the second half of 2016. This marks a first step towards a major new programme of investment in our supply chain which will have far-reaching implications and major benefits for our business. The proposals are described in more detail in our view on the outlook below.

### 4. Improvement through change

#### Investment in systems

We have made significant progress in the second year of our major investment programme to create the integrated systems platform necessary in order to compete more effectively as a centralised business in the food-on-the-go market. The initial phases, involving workforce management and supplier relationship management, have delivered benefits in excess of our initial expectations.

In 2015 we installed the infrastructure necessary to run SAP as our core Enterprise Resource Planning system and implemented the first module of this, going live with a new customer contact system in the fourth quarter. We are well advanced with plans to bring our existing finance processes into SAP in the first half of 2016. This will provide the platform on which we will build a suite of new capabilities across logistics, procurement, product lifecycle management and centralised ranging, forecasting and replenishment. We plan to trial improved processes around shop ordering in the latter part of the year.

We continue to be encouraged by the results of the programme, which is expected to make an annual net contribution of around £6.0 million once all the key functionality is in place, as well as making us more agile in terms of our ability to adopt further change in the future.

#### Keeping our people, communities and values at the heart of our business

The business continues to implement successfully a far-reaching programme of change as we progress with our plan to position Greggs so it continues to succeed in the growing food-on-the-go market. I would like to take this opportunity to thank all of our teams in every part of our business for the role they played in delivering another record-breaking year of success.

As a business one of the ways in which we share the benefits of our success is through our profit sharing scheme, which distributes ten per cent of our profit to employees. I am delighted that our people will be sharing a record £8.1 million as a result of our strong performance in 2015.

#### Greggs in the community

We also aim to share our success with the local communities in which we operate. Around £600,000 was raised in our shops and our bakeries for the Greggs Foundation and this, combined with donations from the Company and the proceeds of carrier bag charges, enabled the Greggs Foundation to distribute £1.8 million in support of a wide range of local community initiatives. These included the award-winning Greggs Breakfast Club programme, which provided over four million free wholesome breakfasts to children in 363 primary schools in 2015. 163 of these clubs are supported by our partner organisations, who share our ambition to improve the learning opportunities for children in disadvantaged areas.

Our customers were once again incredibly generous, helping Greggs to raise over £1.0 million for the North of England Children's Cancer Research Fund, the BBC Children in Need appeal and the Disasters Emergency Committee's Nepal earthquake appeal collectively in 2015.

Our 'Fresh Start' employability programme helped to promote the employability skills of over 600 people in 2015. We also created 91 new apprenticeships through our national apprentice development programme.

In 2015 we continued our support for the Business in the Community's (BITC) 'Business Connectors' scheme and, through our employee volunteering scheme, we donated 500 volunteer days to good causes.

#### Social responsibility

In addition to our support for the local communities in which we trade, we have made significant progress in the other key areas of our social responsibility agenda. We were particularly pleased to have gained recognition for our work through independent accreditation, achieving a 'three-star' rating in the BITC CR index scheme and a 'tier three' assessment with the Business Benchmark on Farm Animal Welfare.

One area of particular focus remained the donation of end-of-day food to charitable organisations. In 2015 we improved our processes and were successful in more than doubling the amount of end-of-day food that we donated to good causes, benefitting those in need whilst reducing waste in the business.

#### Outlook for 2016

##### **£100 million investment programme in manufacturing and distribution operations**

As part of our strategic plan to grow Greggs and transform it from a decentralised traditional bakery business into a centrally-run modern food-on-the-go brand we have been reviewing our manufacturing and distribution operations. Greggs is unusual in this sector in that it is vertically-integrated, owning and operating manufacturing facilities and its logistics network.

Following a lengthy and detailed review we have concluded that this integrated business model gives us competitive advantage, lying at the heart of our ability to offer outstanding quality and value. We intend to invest substantially to support growth and reshape the supply chain in order to compete more effectively in the food-on-the-go market. This requires an investment of around £100 million in a major programme over the next five years to create additional manufacturing centres of excellence and increase capacity to support shop expansion substantially beyond 2,000 outlets in the UK.

Greggs currently operates from 12 bakeries; unfortunately not all are suitable for long-term investment due to their location and size. As a result we are proposing to close three bakeries and use the disposal proceeds to contribute to the investment in our remaining bakeries over the course of the five-year programme.

The bakeries proposed for closure are Twickenham, Edinburgh and Sleaford, and we aim to agree a programme to transfer production and distribution operations from these sites to other bakeries in our network over the next year. Alongside these proposed changes in our bakeries we have further steps to take in the centralisation of support services which we believe will require some restructuring amongst our teams deployed in the regions. We will be entering into consultation shortly to work with trade unions and employee representatives of those affected to refine and develop these proposals.

This may result in a total of 355 roles becoming redundant. These are difficult changes that we believe are needed to support the long-term growth of the business; however our immediate priority is to work to minimise the negative impact on our people, many of whom have worked in these roles for a significant number of years. Wherever possible we would look to offer alternative employment to affected employees but, due to the location of our sites, we anticipate that unfortunately many will leave the business.

Our recently-acquired distribution facility in London will enable us to invest in our Enfield bakery to create a manufacturing centre of excellence in the south east region and we now propose to invest in the extension of our Clydesmill bakery in Glasgow to create a centre of excellence in Scotland. These investments will mark the first phase of our five-year programme to transform our supply chain.

#### Trading

This year has started well and like-for-like sales in the eight weeks to 27 February 2016 have grown by 4.2 per cent, with total sales up 6.8 per cent. The consumer outlook remains positive with disposable incomes expected to grow further in 2016.

Costs were well controlled in 2015 and we will drive further efficiencies in the year ahead. Wage costs will increase above the rate of general inflation but food input costs are again likely to be deflationary for the first half of the year. In order to protect our reputation as an attractive employer we have agreed a wage increase of 5 per cent for our shop team members, lifting our hourly rate to £7.47 and retaining a premium over the statutory minimum.

Overall 2016 will be another year of significant change as we advance with our strategic plan and propose major investment in our supply chain. Alongside this we are confident of delivering a further year of underlying growth. The Board's expectations for the year ahead remain unchanged.

**Roger Whiteside**  
**Chief Executive**

1 March 2016

**“Cash generation continued to be strong, supporting investment for future growth of the business as well as a record dividend.”**

**Richard Hutton, Finance Director**

	2015 £m	2014 £m
Revenue	835.7	806.1
Operating profit* (excluding property profits)	71.9	56.5
Property profits	1.2	1.5
Operating profit*	73.1	58.0
Operating margin*	8.7%	7.2%
Finance (expense)/income	(0.1)	0.2
Exceptional items	0.0	(8.5)
Profit before taxation	73.0	49.7

\* excluding exceptional items in 2014

In 2015 we delivered an excellent financial performance, combining good sales growth with strong returns on investment and firm cost control. Strong cash generation allowed us to invest in the business for future growth whilst making record dividend distributions to shareholders.

**Sales**

Total Group sales for the 52 weeks ended 2 January 2016 were £835.7 million (2014: £806.1 million), an increase of 3.7 per cent. Excluding the impact of the additional week in 2014 the growth in total Group sales compared with the same 52 weeks in 2014 was 5.2 per cent. Company-managed shop like-for-like sales grew by 4.7 per cent across the year as a whole, measured on a consistent 52 week basis.

**Profit**

Operating profit was £73.1 million (2014: £58.0 million before exceptional items), a 25.9 per cent increase on an underlying basis. The result reflects further good like-for-like sales growth combined with significant savings arising from structural changes and our investment in better processes and systems.

After net finance costs of £0.1 million (2014: £0.2 million income) pre-tax profit was £73.0 million (2014: £49.7 million, £58.3 million excluding exceptional items).

**Operating margin**

Operating margin was 8.7 per cent (2014: 7.2 per cent before exceptional items).

Within this gross margin increased to 63.5 per cent (2014: 62.2 per cent excluding exceptional items) reflecting structural changes made in 2014 and the operational gearing impact of strong like-for-like sales growth in the absence of significant inflationary pressure. Whilst the outlook for ingredient costs remains deflationary we have agreed enhanced pay awards for our retail colleagues in the year ahead. The cost of these awards, in excess of the annual award agreed for all other employees, will amount to £3 million annually.

We continued to seek efficiencies from our cost base in 2015 and realised further benefits from our significant programme of investment in better processes and systems. Including the annualisation of our restructuring activity from 2014 we realised total cost reduction benefits of £12 million in 2015, helping to fund the investment required for the future whilst also enhancing our operating margin.

In 2015 we recognised gains on the disposal of freehold properties totalling £1.2 million (2014: £1.5 million) largely as a result of the sale of freehold shops on closure. On the basis of our pipeline of activity for 2016 we expect property gains to make a similar contribution in the year ahead.

**Financing charges**

There was a net financing expense of £0.1 million in the year (2014: £0.2 million income) reflecting finance income of £0.2 million and a £0.3 million charge in respect of the funding position of the defined benefit pension scheme. In the year ahead we expect to incur a small financing expense relating to the net liability of the pension scheme at the end of the year.

**Taxation**

The Group's effective tax rate was 21.1 per cent (2014: 24.0 per cent before exceptional items). 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 2016 to be around 22 per cent, and to remain around two per cent above the headline corporation tax rate going forward.

### Earnings per share

Diluted earnings per share were 55.8 pence (2014: 43.4 pence before exceptional items), an increase of 28.6 per cent. Basic earnings per share were 57.3 pence (2014: 44.0 pence before exceptional items).

### Dividend

The Board recommends a final ordinary dividend of 21.2 pence per share (2014: 16.0 pence). Together with the interim dividend of 7.4 pence (2014: 6.0 pence) paid in October 2015, this makes a total ordinary dividend for the year of 28.6 pence (2014: 22.0 pence). This is covered two times by diluted earnings per share in line with our progressive dividend policy. In addition in July 2015 the Group paid a special dividend of 20.0 pence per share. Total dividends paid in the year therefore amounted to £43.7 million (2014: £19.6 million).

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 20 May 2016 to shareholders on the register on 22 April 2016.

### Capital expenditure

We invested a total of £71.7 million (2014: £48.9 million) on capital expenditure in the business during 2015. This included £36.3 million on 202 shop refurbishments, the conversion of 20 existing bakery cafés and the opening of 61 new shops (excluding franchises). We continued to invest in shop equipment to support further growth in sales of coffee and hot sandwiches, totalling £6.9 million, and also invested £7.0 million in our programme of process and systems improvement. Investment in our supply chain of £17.8 million included £8.9 million in the year in respect of the acquisition of our new distribution facility in Enfield. Depreciation and amortisation in the year was £40.1 million (2014: £38.0 million).

Following the success of our 2015 capital investment programme we plan capital expenditure of around £85 million in 2016. This will support further conversion of our core shops to the bakery food-on-the-go format, continued growth and diversification of the estate and more work on the upgrading of our process and systems platform. We plan to refurbish around 200 shops in 2016 and expect to invest in 80-90 new Company-managed shops, with further openings funded by franchise partners. The 2016 capital expenditure plan also includes the first phase of the proposed programme of investment in our supply chain.

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. Property disposal proceeds following the proposed bakery closures are expected to be significant, in the case of the Twickenham site in particular, and we therefore expect to fund this investment programme from cash flow. Detailed planning on investment phasing is ongoing and we will provide further details as they become available; however, in the next 12 months these proposed changes would result in £12 million of capital expenditure and one-off change costs of around £7 million (of which £6 million would be a cash cost).

Net of disposal proceeds the total incremental cash cost of the programme compared to our previously planned capex is expected to be no greater than £30 million. Once the programme is complete we anticipate the overall incremental cash benefit to be around £10 million per year (£7 million after depreciation) from 2020 onwards, delivering a strong return on investment as well as a more flexible and capable supply chain.

### 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 and refurbishments 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 investment returns on our refurbishment expenditure in the year were good, with 2015 investments meeting our return hurdle and more mature refurbishments showing very strong returns, well above 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 2015 of 26.8 per cent (2014: 22.4 per cent excluding exceptional items). 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 £103.7 million (2014: £97.1 million). At the end of the year the Group had net cash and cash equivalents of £42.9 million (2014: £43.6 million) and a short-term cash deposit of £nil (2014: £10.0 million). The year-end cash position includes £6.5 million from the sale of a piece of land at Southall, which was not required as part of our future supply chain plans.

In 2015 the Board reviewed the capital structure of the Group and its distribution policy, taking into account the views of shareholders and advisers. The Board continues to be mindful of the leverage inherent in the Group's predominantly leasehold shop estate (which will in due course appear as part of the balance sheet in line with new accounting requirements) and of working capital requirements. As a result we have concluded that it is not currently appropriate to take on structural debt and we will aim to maintain a year-end net cash position of around £40 million to allow for seasonality in our working capital cycle.

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 2016 we expect that cash flows will be sufficient to meet the Group's investment plans whilst maintaining a year-end net cash position in line with our stated target.

**Richard Hutton**  
Finance Director  
1 March 2016

## Key financial performance indicators

**We use eight key financial performance indicators to monitor the performance of the Group against our strategy. These KPIs and how we performed against them are detailed below:**

Total sales growth:

2014: 4.7% ▲

**5.2%**

Like-for-like sales growth:

2014: 4.5% ▲

**4.7%**

The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53 week year in 2014. Total sales grew to £835.7 million in 2015, up 5.2 per cent on a comparable 52 week basis and up 3.7 per cent when compared to the 53 week financial year in 2014.

Compares year-on-year sales in our Company-managed 'core' shops, i.e. it is not distorted by shop openings and closures. Like-for-like sales growth includes selling price inflation and excludes VAT. Company-managed shop like-for-like sales grew by 4.7 per cent in 2015 (2014: 4.5 per cent). We saw strong growth throughout the year although customer footfall in some shopping locations was subdued in the final quarter, resulting in slower growth in this period.

Adjusted operating profit:

2014: £58.1m ▲

**£73.1 million**

Operating margin:

2014: 7.2% ▲

**8.7%**

Reflects the performance of the Group before financing and taxation impacts and excludes any exceptional items arising in the year. Adjusted operating profit for the year increased by 25.9 per cent to £73.1 million (2014: £58.1 million). The result reflects further good like-for-like sales growth combined with significant savings arising from structural changes and our investment in better processes and systems.

Shows the adjusted operating profit of the Group as a percentage of turnover. Operating margin for the year has increased to 8.7 per cent (2014: 7.2 per cent).

Adjusted diluted earnings per share (pence): 2014: 43.4p ▲

**55.8p**

Calculated by dividing profit attributable to shareholders before exceptional items by the average number of dilutive outstanding shares. Diluted earnings per share increased by 28.6 per cent to 55.8p (2014: 43.4p).

Capital expenditure: 2014: £48.9m ▲

**£71.7 million**

The total amount incurred in the year on investment in fixed assets. Capital expenditure in 2015 was £71.7 million (2014: £48.9 million). This reflected continued investment in shop refurbishments, an increased rate of new shop opening, the purchase of a distribution facility in north London and further investment in our programme of process and systems improvement.

EBITDA: 2014: £96.2m ▲

**£113.3 million**

Earnings (excluding exceptional items) before interest, tax, depreciation and amortisation. EBITDA in 2015 was £113.3 million (2014: £96.2 million).

Return on capital employed (ROCE): 2014: 22.4% ▲

**26.8%**

Calculated by dividing profit before tax before exceptional items by the average total assets less current liabilities for the year. ROCE increased to 26.8 per cent in 2015 (2014: 22.4 per cent). The year-on-year increase reflects the higher overall operating profits in 2015 and continued good returns on invested capital.

## 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.**

### Our risk management approach

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

### 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 which 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.

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, 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 owned by an Operating Board member.

### Risk Committee

The Risk Committee is a management committee 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 developing an appropriate risk management strategy for the business. Significant areas of concern identified by this body will be reported through to the Board, generally via the Audit Committee. Although the group'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 43, which is advertised across the business.

### Business Assurance

The Business Assurance function provides independent internal audit coverage for the entire business operation, and also supports risk management activity across the organisation. The Information Security and Compliance Manager now forms part of the team, having previously reported into the Head of IT. This improves the independence of our IT governance and strengthens the profile of information security within the business.

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

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 on the following page, 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 the following page.

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. The following subjects have been removed from our principal risks list this year, as we believe our exposure is no more significant than other comparable businesses in our sector:

- Information security and cyber risk.
- Market saturation.

However, the Board continues to oversee and receive reports on the management of these risk areas in line with our normal business practice. In particular, the Company's approach to cyber risk is driven by a cross-functional working group, which sets the priorities and monitors progress. Both the Audit Committee and the Board receive reports on information security and cyber risk, ensuring that an appropriate level of risk management is in place.

The following risks are in no particular order.

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
<p>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 involves a major programme of business change involving restructuring, new systems, increased capital investment and a major overhaul of every aspect of the business.</p> <p>Progress may not be in line with plans, disruption could occur and financial returns may fall short of expectation.</p>	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.	➔ No change
<p>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 the premises. This exposes us to greater risk in ensuring good food safety than many of our competitors.</p>	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
<p>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.</p>	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
<p>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.</p>	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
<p>Market pressures – Changing shopping habits driven by the convenience of new customer channels and locations may have a greater impact on Greggs due to our historical bias to shops located on high streets.</p>	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 who are away from home for reasons other than shopping.	▲ Improving
<p>Consumer trends – Increasing customer concern with health and nutrition may affect demand for some of our traditional bakery product ranges.</p>	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 2018. 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 financial resilience of the Company, scenarios were created to simulate the impact of significant sales declines. The Directors considered the impact of a ten per cent annual sales decline, and also the impact of a significant one-year reduction resulting from a brand-damaging event. 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.

## Social responsibility

# We want our business to have a positive impact on people's lives – our teams, customers, suppliers and local communities.

We believe it is our social responsibility to do business in a way that brings benefits to people who shop with us, work for us, supply to us, or live near us. In addition, we recognise our broader responsibility to respect the environment.

Our social responsibility programme has 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 an Operating Board Director has been assigned to be a champion for each of the areas – as illustrated below. This group meets quarterly to review progress at a steering group convened by the Company Secretary.

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

### 2015 Highlights

<b>Community</b>	We won the 'Business of the Year' award at the Third Sector Business Charity Awards, in recognition of our work to embed a culture of supporting charities at all levels of our organisation.
<b>Customer health</b>	We won the IGD 'Health and Wellness Award' in recognition of our work to improve the nutrient profile of our products and how we are helping customers make informed choices.
<b>Responsible sourcing</b>	We made a step-change in our management of farm animal welfare through the introduction of a new policy, a move recognised by the Business Benchmark on Farm Animal Welfare scheme.
<b>People</b>	Staff engagement continues to grow with 75 per cent of our team members agreeing with the statement 'I would recommend Greggs as a great place to work' – up six per cent since 2014.
<b>Environment</b>	We met our five-year target to reduce the carbon intensity of our business by 25 per cent. We were accredited to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies.
<b>BitC CR Index</b>	We continue to take part in the Business in the Community Corporate Responsibility Index, achieving a two-star rating in 2014 and a three-star rating in 2015.
<b>FTSE4Good</b>	We have been reconfirmed as a FTSE4Good index company, recognising our commitment to corporate responsibility practices, in particular demonstrating our strong environmental, social and governance practices against global standards.

## COMMUNITY

**Our commitment: We share our success with the people around us**

Greggs is successful because of the support we receive from our customers and employees. We repay that loyalty by choosing to help others that they care about and those who are facing tough times.

### **The Greggs Foundation**

The Greggs Foundation was created in 1987 with an endowment from the then Chairman Ian Gregg with the intention of helping people in the immediate area. This investment continues to help people in the North East via the Hardship Fund, as well as by contributing to the core running costs of small organisations that serve the area through the North East Core Funding programme.

However, today, a significant proportion of Greggs Foundation's income comes from an annual donation from the Company of at least one per cent of the previous year's pre-tax profits, as well as the generosity of our employees and customers. In 2015, fundraising in our shops and bakeries totalled £520,370, including £100,000 raised from the sale of our 'Jammy Heart' Foundation biscuit. In 2015 all funds raised by the new carrier bag levy were also donated to the Foundation.

This enabled the Greggs Foundation to distribute a total of £1.8 million in support of a wide range of local community initiatives in 2015, including the Breakfast Club programme (see below) and £718,000 through local community grants. Now in its 29th year, the Foundation has given in excess of £20 million to support our local communities.

### **Breakfast Clubs**

One of the main beneficiaries of the Foundation's donations is the Breakfast Club programme which provides primary school children in disadvantaged areas with a wholesome breakfast, free of charge. We know that eating breakfast provides a good start to the day helping children to concentrate and learn at school. In this way, the Breakfast Clubs help to give children a good start in life.

In 2015, the Breakfast Clubs supplied four million wholesome breakfasts free of charge to children in 363 primary schools around the UK. Each Breakfast Club receives free bread from its local Greggs shop. The Foundation provides a cash grant towards running costs at 161 schools. Partnership work has been central to the growth of Breakfast Clubs and an additional 202 clubs are supported by fundraising and Greggs' partners. For a list of partner organisations please see the Greggs Foundation's website [www.greggsfoundation.org.uk](http://www.greggsfoundation.org.uk).

### **Supporting other charities**

The Greggs Foundation is not the only charity we support. Each year, we also fundraise for other charities which our people and customers feel passionate about including Children in Need, the Poppy Appeal and the Disasters Emergency Committee (DEC). In 2015, we supported DEC's Nepal Earthquake Appeal, raising over £67,000 through our customers' generosity.

We have supported the North of England Children's Cancer Research charity (NECCR) since 1992 and are the main sponsor of its annual Children's Cancer Run. Every competitor receives a free Greggs lunch, prepared by our staff and their families. To date, the run has raised £6 million to fund research into improving recovery rates.

### **Sharing our skills with the local community**

We enable all managers to devote one day each year to volunteering. As a result, in 2015 our people gave over 500 days of time to benefit local charities and organisations, many deploying their professional skills to the benefit of the charitable groups. For instance, our supply chain team volunteered at a food bank in Newcastle and improved production and organisation in its warehouse. In 2016, we plan to make more of our volunteering days skills-based, by sharing our expertise in areas like accounting, marketing, planning, administration, legal and operations.

As part of this drive to share our skills with the wider community, we support the Business in the Community 'Business Connector' initiative. Business Connectors are selected team members who undertake a long-term secondment from Greggs and are tasked with creating a sustainable bridge between businesses and community organisations in a particular area. The programme supports our people's skill development while harnessing their expertise and energy to tackle local challenges.

## Social responsibility

### CUSTOMER HEALTH

**Our commitment: We encourage healthy food-on-the-go choices**

Our customers tell us they want help eating well on-the-go. We recognise that obesity, in particular, is a serious health issue and want to play our part in helping people watch their weight and manage their fat, salt and sugar intake. We know that if we can help our customers to make healthier choices, we can play a positive role in the health of the nation.

#### **Growing our Balanced Choice brand**

In 2015, our Balanced Choice food-on-the-go range achieved sales over £78 million – over £13 million more than we had forecast. Every food item in the range contains fewer than 400 calories, and is rated amber or green on the Food Standards Agency traffic light system for fat, salt and sugar. This range now represents almost ten per cent of our sales value and is growing faster than our core offering.

We have increased the number of Balanced Choice sandwiches by 43 per cent in the last 12 months, and the range now includes flatbreads too. We have also launched a choice of soups and freshly-prepared salads. All our own-brand soft drinks have 'no added sugar'.

Our Balanced Choice range won the IGD 'Health and Wellness Award', 2015 and, at the British Sandwich Association's Sammies Awards, our Cajun Chicken flatbread was highly commended.

**"Greggs is a great example of how an organisation has taken the needs of its customers to heart and delivered a new range of healthy products. It wasn't just the exceptional products it developed that impressed the judges; it was how the Company is going about it."**

**Judge of IGD Award**

#### **Working to improve the nutritional value of our savouries**

We recognise that our savouries are a major driver of customers to our shops. We have long been committed to improving the nutritional value of these core products: since 2009 our products have contained no added trans fats, no artificial colours and no artificial flavours. In 2012, we also removed all monosodium glutamate (MSG). In recent years we have added fat and salt reduction to our objectives, focusing on reformulating some of our iconic products while ensuring the taste everyone loves. The focus on salt reduction has been felt elsewhere in our portfolio too: we are proud that all our bread, rolls and savouries now contain less salt than the limits recommended by the Department of Health Responsibility Deal targets.

#### **Helping our customers make informed choices**

We believe in helping people make informed choices about what they eat and drink. Building on our 2011 commitment through the Department of Health Responsibility Deal pledge on out of home calorie labelling, we provide nutritional information about our products on our website, on the Greggs mobile phone app and in leaflets available in our shops. In addition, customers can easily access information about the presence of all major serious allergens, by recipe.

We have also enhanced the information displayed at point of sale by using icons to inform our customers about important features of a particular product, such as 'vegetarian', 'no mayonnaise' or '1 of your 5 a day'.

## RESPONSIBLE SOURCING

**Our commitment: We care about where our ingredients come from**

Our customers trust us to do the right thing. That's why we continually improve the environmental, social and ethical standards of the products we sell.

### Partnering with our suppliers

As both a retailer and manufacturer of products, we stay close to the roots of where our food comes from. We focus on purchasing quality goods from over 2,500 great food producers, a number of whom we have been working with for decades. We pride ourselves on paying promptly and rewarding suppliers of quality products with long-term relationships.

We are embarking on a journey with our producers to ensure that our relationships include engagement on sustainability. A key part of this is the development of a balanced scorecard for suppliers that will enable us to collaborate on improving performance on social and environmental factors.

We are members of the Supplier Ethical Data Exchange (SEDEX), an organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains. We are encouraging our supply base to join the platform to help us ensure that labour standards in our supply base are observed.

### Promoting Fairtrade and environmental stewardship

We are not only committed to our suppliers themselves but recognise the positive role we can play in the communities and environment that surrounds their operations. We are active supporters of Fairtrade: all the tea, coffee, hot chocolate, sugar sachets, orange juice and apple juice we sell are certified Fairtrade. We also recognise that the palm oil industry can do enormous damage to forests and wildlife habitats. We are working closely with our suppliers in the first half of the year to insist that 100% of the palm-derived fats and oils we use in our products are certified as sustainable.

### Animal welfare

We use meat, fish, eggs and dairy products in our recipes and take care to ensure that these are produced and delivered in a way that avoids abuse or exploitation of animals. In 2015, we introduced the Greggs Farm Animal Welfare policy, a standard based on existing legislation and farm animal welfare certifications such as the RSPCA's Five Freedoms and the Red Tractor assurance scheme. We have shared this policy with all our suppliers and will regularly review our work in the area. Today, all the whole eggs we buy are free range and we are proud to have received the Good Egg award from Compassion in World Farming (CiWF) as a result. Additionally, all our prawns are sourced from MSC certified sustainable sources, and we are working to make our tuna supplies free from fish aggregating devices (known as FADs).

The Business Benchmark on Farm Animal Welfare is the leading global measure of company performance on farm animal welfare. As a result of our Farm Animal Welfare policy and approach, Greggs moved from tier five to tier three in their six-tier benchmark.

### Food assurance

In 2015, The Food Standards Agency placed Greggs in seventh place in its food hygiene ranking of the 20 biggest high street chains in the UK. In total, nine out of ten Greggs shops received the maximum score of 'very good', and none were found to be unsatisfactory.

We also take food hygiene, safety and integrity seriously in our supply chain, assessing all our suppliers against the British Retail Consortium Global Standard for Food Safety, and introducing controls to reduce possible risks. By the end of 2016, we will have audited all of our production sites against the latest version of these standards, to ensure that each one has maintained their certification status within this UKAS accredited scheme.

## Social responsibility

### PEOPLE

**Our commitment: We are committed to creating a great place to work**

Our people are the heart of our business and if they are happy, our customers are happy. We listen, develop and reward our 20,000 colleagues, and as they thrive, so do we.

#### **Keeping our people safe**

Making sure our people and customers are safe is our top priority.

In 2015, we reduced reportable accidents in our supply chain by more than 30 per cent, exceeding our target. In part, we achieved this through our 'near miss' programme which records potential hazards, raising awareness of areas of risk and encouraging our teams to take these seriously. In 2015, there was an 80 per cent increase in reports of 'near misses' and a corresponding 28 per cent reduction in minor incidents. Three of our 12 major sites had no reportable incidents.

Within our retail operations, we fell short of the ambitious target we had set ourselves but still delivered progress. We began developing more engaging materials to help our shop teams to prioritise and improve health and safety performance, and held two health and safety awareness weeks.

#### **Listening to our people**

Every year we survey the opinions of our employees in order to hear their feedback and understand how they feel about their jobs. In 2015, 93 per cent of our team members completed the survey and we achieved another high engagement score of 79 per cent, up four per cent since 2014.

We know it is the people on the ground who have the best ideas for business improvements, so in 2014, we introduced 'Your Ideas Matter', a feedback mechanism for our people to use on a daily basis. During 2015, 295 people shared useful ideas about how we can improve our business.

#### **Rewarding our people**

We believe everyone who works here should share in the Company's success and, each year, distribute ten per cent of all profits between our team members. For 2015, our people will be sharing a record £8.1 million as a result of our strong performance.

Team members are invited to join the Greggs Share Incentive Plan which lets them reinvest their profit share into Greggs shares. We also have a Greggs Share Save scheme which allows people to save money and invest in Greggs shares. In 2015, 2,542 team members participated in 'Share Save'.

#### **Developing our people**

We are helping to grow the nation's skills base by giving all our team members quality training.

All new starters complete a 12-week programme, known as Your Greggs Welcome, that teaches them everything they need to know about health and safety, customer service and how we operate. High potential team members are invited to join our Career Pathways programme which provides support to prepare them for management roles. For those who are already managers, we have created the 'Brilliant' programme of bespoke workshops to help our people grow the specific skills we know

they need to succeed. In 2015, 93 per cent of our managers received development support.

#### **Women in the workplace**

We are proud of our reputation for bringing the best talent through the business regardless of gender. This year our people were recognised for this success, with Suzanne Cooper, Bakery Manager at our Manchester site appointed a 'Retail Ambassador of the Year' at the EveryWoman Awards. In total, 71 per cent of our workforce and almost half of our management population are female. Of the eight Board posts, three are held by women.

#### **Gender of workforce**

#### **Giving people a Fresh Start**

We know the passion and energy for work that comes from people who are given an opportunity to kick-start their careers or to turn their lives around, and have programmes in place to recruit and train accordingly. These programmes sit under the banner of 'Fresh Start'.

We believe in the principle that 'no member of the Armed Forces Community should face disadvantage in the provision of public and commercial services compared to any other citizen' and work closely with services and veteran groups to support the employability of veterans.

We provide training and work experience for people who are transitioning into work. We deliver training sessions in prisons for people who are nearing the end of a sentence and we give work experience to those who demonstrate potential. In 2015, more than 600 people benefitted from a training session and 52 participants completed a four-week work placement with us. As a result, 47 of them secured a permanent job with us. Additionally, we partner with Job Centre Plus to offer the long-term unemployed work experience or paid employment. In 2015, we gave three people a work placement and provided 24 with paid employment.

## ENVIRONMENT

**Our commitment: We aim to use energy efficiently and minimise waste**

The success of our business is based on offering excellent value to our customers. One of the ways we do this is by paying close attention to every cost to our business, including our energy use or how much food waste we create.

### Our carbon footprint

Our net carbon footprint in the 2015 financial year was 124,776 tonnes of carbon dioxide and equivalent gases (CO<sub>2</sub>e), which represents an absolute reduction of seven per cent on our 2014 emissions, and a 10.7 per cent reduction in intensity (which we measure as tonnes of CO<sub>2</sub>e per £ million turnover).

We are pleased to report that we have achieved our 2010 ambition to reduce our emissions intensity by 25 per cent by 2015. In the last year alone, we have reduced the energy intensity of our manufacturing operations by 4.94 per cent and retail operations by 6.23 per cent (calculated as kwh/£m turnover).

Our photovoltaic arrays, which are installed on the roofs of ten of our bakeries, generated 1,012,696 kWh of electricity in 2015, saving almost 468 tonnes of carbon.

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. We have reported on all of the emission sources which we deem ourselves to be responsible for.

Our GHG reporting year is the same as our financial year, 4 January 2015 to 2 January 2016.

		Current reporting year 2015 (tonnes CO <sub>2</sub> e)	Comparison year 2014 (tonnes CO <sub>2</sub> e)
Scope 1	Combustion of fuel & operation of facilities	31,509	31,313
	Fugitive emissions from refrigeration	4,360	5,691
Scope 2	Electricity purchased for own use (including PV generated electricity)	89,375	97,919
GROSS emissions	Total scope 1 and 2 CO <sub>2</sub> e emissions	125,244	134,923
NET emissions	Total emissions excluding PV generated electricity	124,776	134,327
NET intensity measure	Tonnes of CO <sub>2</sub> e per £ million of turnover adjusted to account for use of renewable energy	149.3	167.1

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.

Our 2014 emissions were verified by the Carbon Trust and, in 2015, we were again accredited to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies. Our 2015 emissions are currently being verified by the Carbon Trust. In addition, we disclose our greenhouse gas emissions through the CDP.

### Waste management

We divert 99.6 per cent of waste from our manufacturing sites away from landfill. We continue to work closely with our waste management partners to ensure that all of our waste streams are processed through the most sustainable routes.

To avoid wasting edible food in our shops, we aim to give away unsold food to community groups and charities. In the last year, we achieved our target of doubling food donations and have ambitious plans to grow this more in the years ahead. Some of our shops have direct links with local organisations and we also partner with the Trussell Trust and FareShare to donate food to worthy causes. We have now been working with FareShare for over a decade and supply eight of their regional distribution centres.

## Social responsibility

# Social responsibility: achievements and targets

- Green indicates the target has been met.
- Amber indicates that the target/commitment is progressing on schedule but was not completed.
- Red indicates we did not meet the requirement for the given period of time.

### Community. We share our success with the people around us

	Measured by	2015 Achievements	2016 Targets
We will extend the Greggs Breakfast Club scheme, developing the model's sustainability through partnerships and dedicated fundraising.	10% increase on 2014. Fund 330 Breakfast Clubs.	19% increase on 2014. We are now funding 363 Breakfast Clubs.	Extend the Greggs Breakfast Club scheme to 400+ schools, working with our partners.
We will increase employee awareness of the work of the Greggs Foundation.	Team members agree: 'I am proud of the work Greggs Foundation does in our local communities' (Employee Opinion Survey).	89% of team members are proud of the work Greggs Foundation does in our local communities.	Support the Greggs Foundation to donate more than £2.0 million through our fundraising activity.
We will trial an education partnership to promote greater understanding of food and nutrition.	Pilots conducted.	We supported the Newcastle Falcons Foundation's 'Tackling Health' initiative and, whilst we did not pilot our own planned initiative, we have made progress on this goal and will achieve it in the first half of 2016.	Support the delivery of engaging nutritional education in schools.

### Customer health. We encourage healthy food-on-the-go choices

	Measured by	2015 Achievements	2016 Targets
We will continue to increase the number of healthier options for customers.	Increase sales of Balanced Choice range by 15% to £65 million.	Annual sales of Balanced Choice products were £78.8 million, an increase of 42% on 2014.	Target to increase Balanced Choice sales value by at least £5 million for 2016.
	100% of pastries to meet DoH Responsibility Deal out of home salt targets.	100% of pastries now meet DoH Responsibility Deal out of home salt targets.	Introduce a Healthy Children's Meal Menu.
	100% of bread and rolls to meet DoH Responsibility Deal 2012 salt targets.	100% of bread and rolls meet DoH Responsibility Deal 2012 salt targets.	To minimise the use of unfamiliar ingredients in our products we will initiate a structured plan for the implementation of Clean Label.
	100% own label cold drinks to contain 'no added sugar'.	100% of our own label cold drinks now contain 'no added sugar'.	
We will develop customer communications re: allergens.	Roll out of new customer communications plan re: allergens.	Customers can now access information about the presence of all major serious allergens, by recipe, in shops and online.	
	Conduct benchmarking survey of allergen data available to customers.	We conducted a thorough allergen data review of our competitors. As a result, it was concluded that our allergen data provision is in line with the industry. Therefore, we have continued with our current format and no further action was required.	

### Responsible sourcing. We care about where our ingredients come from

Measured by	2015 Achievements	2016 Targets
We will work with our suppliers to ensure high standards of animal welfare.	Implement animal welfare strategy. We implemented an animal welfare policy.	● Only source Tuna from 'FAD free', 'FAD entanglement free' or 'pole and line' methods of harvesting.
	Achieve tier 3 ranking in the Business Benchmark on Farm Animal Welfare. We achieved tier 3 ranking in Business Benchmark on Farm Animal Welfare.	● Develop standards and controls for Field to Fork (Spork) for our fresh produce.
	Develop and trial a balance scorecard for suppliers. We developed and trialled a balanced scorecard.	● Achieve BRC Global Standard V7 at all bakery sites (certified as Grade A).

### People. We are committed to creating a great place to work

Measured by	2015 Achievements	2016 Targets
We will make Greggs an even greater place to work.	2% increase in staff agreement with the statement 'I would recommend Greggs as a great place to work'. 3% increase in staff agreeing with the statement 'I would recommend Greggs as a great place to work'.	● Maintain our 2015 employee engagement target (Employee Opinion Survey).
We will use our volunteering days to develop our people and add real value to our local communities.	30% of our committed volunteering days are matched to people's skills and abilities. 29% of committed days were matched to people's skills and abilities.	● Ensure 30% of our volunteering days are matched to people's skills and abilities.
We will drive our service culture across the business.	100% of teams participate in 'Superstar Service'. All team members across the business are invited to participate.	● Continue to engage colleagues with 'Superstar Service' business-wide.
	100% of teams participate in 'Your Ideas Matter'. All team members across the business are invited to participate. In total we received 295 suggestions through 'Your Ideas Matter'.	● Further drive our service culture through continued focus on 'Your Ideas Matter' to achieve a 100% response rate.
We will drive our diversity agenda.	80 apprenticeships given to school leavers. 91 apprenticeships were given to school leavers.	● Undertake a National Equality Standards audit in 2016 enabling a three-year plan to be developed to receive accreditation in 2019.
We will improve employee safety/ reduce RIDDOR accidents.	10% reduction of reportable incidents per hours worked in supply chain. We achieved a 28% reduction in reportable incidents per hours worked in our supply chain operations.	● Supply: 10% reduction of reportable incidents per hours worked.
	5% reduction of reportable incidents per hours worked in retail. We did not achieve a reduction in reportable injuries in our retail operations.	● Retail: 5% reduction of reportable incidents per hours worked.
We will continue to utilise the skills of our people to improve the employability of people from marginalised groups.	Team members are encouraged to support the programme. People are given support through the programme. 111 graded managers supported the programme. 611 people given support through the programme.	● Increase the impact of our Fresh Start programmes through offering 450 opportunities in 2016.

### Environment. We aim to use energy efficiently and minimise waste

Measured by	2015 Achievements	2016 Targets
We will complete our five-year target to reduce our carbon emission per £m turnover by 25% (compared to 2010 baseline).	Deliver 1.5% improvement in logistics distribution fuel efficiency (measure in 'miles per gallon'). We improved fuel efficiency in our logistics distribution by 0.5%.	● Complete certification of our Environmental Management System to ISO 14001.
	Reduce electricity usage across our retail operations by 3% (measured in Kwh per £million turnover). We reduced the amount of energy we use in our retail operations by 6.2%.	● Minimise the impacts from Climate Change through the development and delivery of an engagement plan for our staff and customers.
	Reduce energy usage (electricity and gas) in our supply chain operations by 3% (measured in Kwh per £million turnover). We reduced the amount of energy we use in our supply chain operations by 4.9%.	● Further develop waste management practices to ensure long-term focus on resource efficiency over and above recycling.
We will again double the amount of unsold food that we donate to good causes.	100% increase on 2014. We gave away 423.1 tonnes of food to good causes, double our target.	● Increase the amount of unsold food that we donate to good causes by at least 50% (based on 2015 result).

## Board of Directors and Secretary

<b>Name and title</b>	<b>Ian Durant Chairman</b>	<b>Roger Whiteside Chief Executive</b>	<b>Richard Hutton FCA Finance Director</b>	<b>Raymond Reynolds Retail Director</b>
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<b>Biography</b>	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 Sea Containers 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 & Gamble before joining Greggs in 1998. Richard has previously been a non-executive director of Northern Recruitment Group and is a trustee of the Greggs Foundation.	Raymond is a career retail professional. He joined Greggs in 1986 in field management and progressed his career through a number of roles in Scotland, ultimately becoming Managing Director for that region in 2002. He was appointed to the Board in 2006 after four successful years growing the Scottish arm of the business.
<b>Appointed since</b>	5 October 2011	17 March 2008 (Non-Executive Director until 3 February 2013)	13 March 2006	18 December 2006
<b>Independent</b>	Yes	Not applicable	Not applicable	Not applicable
<b>External appointments</b>	Chairman of Capital and Counties PLC; Non-Executive Director of Greene King plc and Home Retail Group PLC.	No external appointments.	Member of Business in the Community's Finance and Risk Committee. Trustee of the Alnwick Garden Trust.	Director of the Sunderland Business Improvement District and North East Chamber of Commerce Board member.
<b>Committee membership</b>	Chair of Nominations Committee	Not applicable	Not applicable	Not applicable

**Allison Kirkby**  
Non-Executive  
Director

**Helena Ganczakowski**  
Non-Executive  
Director

**Peter McPhillips**  
Non-Executive  
Director

**Sandra Turner**  
Senior Independent  
Non-Executive  
Director

**Jonathan Jowett**  
Company Secretary  
and General Counsel

Allison is currently the President and CEO of Tele 2 AB, a major European telecoms company. Prior to Tele 2 AB, where she joined as CFO, Allison spent two decades in the FMCG sector at Procter & 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 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 spent most of his executive career in food manufacturing, having held a number of executive positions including Divisional Managing Director of Hilldown Holdings, Director of Terranova (the chilled foods business demerged from Hilldown Holdings) and ultimately as UK Managing Director of Uniq plc. More recently, Peter was European Chairman of Hain Celestial Group.

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

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

30 January 2013

2 January 2014

10 March 2014

1 May 2014

12 May 2010

Yes

Yes

Yes

Yes

Not applicable

No additional activities.

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, a privately-owned chilled and frozen food producer.

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.

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

## **Report of the Directors**

### **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 3 January 2015 and 2 January 2016, are set out in Note 26 to the accounts. Details of the Directors' share options are set out in the Directors' remuneration report on page 62.

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 in pages 38 to 43 forms part of the Directors' report.
- Greenhouse gas emissions: All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (strategic report and Directors' report) Regulations 2013, are contained in the social responsibility section of the strategic review on page 31.

### **Authority to purchase shares**

At the AGM on 30 April 2015, 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 2p each.

That authority had not been used as at 3 January 2016.

The authority remains in force until the conclusion of the AGM in 2016 or 31 July 2016, whichever is the earlier. It is the Board's intention to seek approval at the 2016 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 2p each. As at 1 March 2016, 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 to be present or vote at a general meeting either personally or by proxy (or to exercise any other right in relation to meetings of the Company) in respect of that share in certain circumstances if any call or other sum is payable and remains unpaid, if the shareholder is in default in complying with a duly served notice under section 793(1) of the CA 2006 or if any shareholder has failed to reply to a duly served notice requiring him or her to provide a written statement stating he or she is the beneficial owner of the shares.
- A notice convening a general meeting can contain a statement that a shareholder is not entitled to attend and vote at a general meeting unless his or her name is entered on the register of members of the Company at a specific time (not more than 48 hours before the meeting) and if a shareholder's name is not so entered he or she is not entitled to attend and vote.
- Under the Company's articles of association the Directors may, in their absolute discretion, refuse to register the transfer of a share in certified form in certain circumstances where the Company has a lien on the share (provided that the Directors do not exercise their discretion so as to prevent dealings in partly paid shares from taking place on an open and proper basis), where a shareholder has failed to reply to a duly served notice under section 793(1) CA 2006 or if a transfer of a share is in favour of more than four persons jointly. In addition, the Directors may decline to recognise any instrument of transfer unless it is in respect of only one class of share and is deposited at the address at which the register of members of the Company is held (or at such other place as the Directors may determine) accompanied by the relevant share certificate(s) and such other evidence

as the Directors may reasonably require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the Directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time).

- Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company.
- There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights.
- Details of significant holders of the Company's shares are set out on page 43.
- Where, under an employee share plan operated by the Company, participants are the beneficial owners of shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant.
- The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders.
- The Company's articles of association set out how Directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting. At each Annual General Meeting, any Director appointed by the Board since the last Annual General Meeting must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all the Directors will be subject to annual re-election by shareholders. Under the CA 2006 and the Company's articles of association, a Director can be removed from office by the shareholders in a general meeting.
- The Company's articles of association set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or the Company's articles of association required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution.
- Under the CA 2006 and the Company's articles of association, the Directors' powers include the power to allot and buyback shares in the Company. At each Annual General Meeting, resolutions are proposed granting and setting limits on these powers.
- The Company is not party to any significant agreements which take effect, alter or terminate upon a change in control of the Company, following a takeover bid.
- 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 49 to 65. 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. Communication takes a number of forms including weekly briefings and bulletins. More details on our employee relations can be found on page 30 in the social responsibility report.

### **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 Board has an excellent commitment to team performance and a positive determination to drive the business forward.**

## **Chairman's introduction**

Dear shareholder,  
Welcome to the Board's governance report for 2015.

Following the changes that were made in 2014, the Board composition has remained stable during 2015, which has enabled the Non-Executive Directors to build upon their knowledge to ensure that they can support and challenge the management team in its execution of our strategy.

We undertook our first externally-facilitated Board evaluation, and the results are set out below. The report concludes that "there is an excellent commitment to team performance and a positive determination to drive the business forward". I would like to take the opportunity to thank Nigel Davies, of NJMD Corporate Services, for conducting the evaluation on our behalf.

The Board has worked together really well, despite the short terms of office of several of the Non-Executive Directors and I see strong, but challenging, relationships being built with the Chief Executive and his senior team. We continue to operate in our culture of openness, challenge and debate, and the size of the Board facilitates this. Each of the Non-Executive Directors serves on each of the three main Board committees and is able to take account of the relationship between the work of the committees.

During the year, the Board has been able to focus on overseeing the delivery by the executive of the key priorities that were set for the business, and as reported elsewhere, we have had another successful year.

As we did for the first time at our 2014 Annual General Meeting (AGM), in April 2015, we asked shareholders to vote by poll. I am pleased to say that the process is now established, and the resolutions were strongly supported by shareholders both institutional and private, for which I offer my thanks on behalf of the Board.

Our two main committees, Audit and Remuneration, have again had a quieter year in terms of their need to adopt new legal and governance requirements. The Audit Committee reports on pages 44 to 48 on how it has risen to the new requirements of the September 2014 UK Corporate Governance Code, which has applied to the Company throughout the financial year.

I would also draw your attention to the new requirement for the Board to make a 'viability statement'. The Board's consideration of this can be found on page 25.

I look forward to welcoming shareholders to the AGM which will be held on 10 May 2016 and to receiving and answering your questions.

**Ian Durant**  
**Chairman**  
1 March 2016

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 2015 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 2015 and will be relevant to the Company for the 2016 financial year.

The Company was re-elected to the FTSE 350 index on 22 December 2014 and has remained a constituent of that index throughout 2015. The Company 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 and 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.

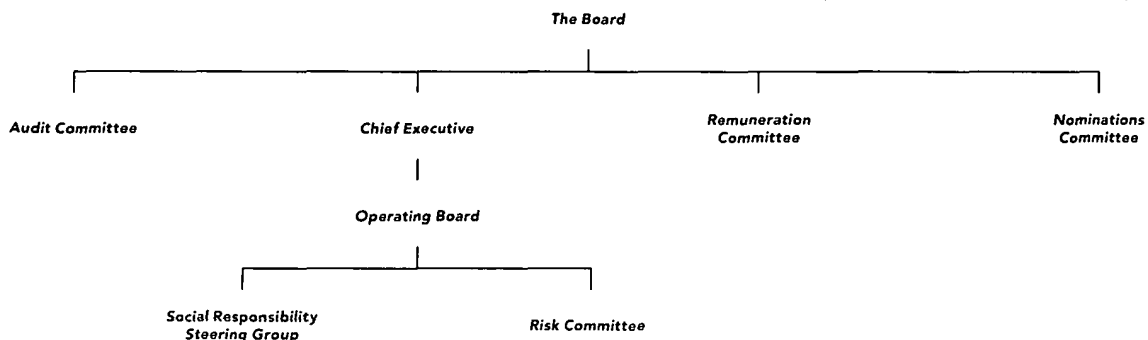
The Board generally schedules six meetings per year and meets on an ad hoc basis as required. In 2015 one additional short meeting was held to consider the plans for the redistribution of capital.

The Board also holds one session each year, with all of the Operating Board in attendance, to consider strategy and key priorities in the next financial year.

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
<b>Number of meetings held</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>2</b>
Ian Durant	7/7	–	–	2/2
Roger Whiteside	7/7	–	–	–
Richard Hutton	7/7	–	–	–
Raymond Reynolds	7/7	–	–	–
Helena Ganczakowski <sup>1</sup>	6/7	3/4	3/3	2/2
Allison Kirkby	7/7	4/4	3/3	2/2
Peter McPhillips <sup>2</sup>	7/7	4/4	2/3	2/2
Sandra Turner	7/7	4/4	3/3	2/2

1. Helena was unable to attend one Board and an Audit Committee meeting (held on the same day) but had reviewed all papers beforehand and provided a number of observations and questions that were raised by other Directors.
2. Peter provided his views on the Remuneration Committee meeting that he could not attend, to the Chair in advance.



**Governance** continued

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. This is what the Non-Executive Directors had to say about their experiences:

**"It is important that Non-Executive Directors understand all aspects of the business, including 3am shop deliveries of fresh sandwich ingredients."**

**Ian Durant**  
Night-time deliveries

**"Seating is what our customers have said they want, and we try to accommodate them wherever possible."**

**Allison Kirkby**  
Visit to new Glasgow mall shop

**"Freshers' Fairs show the potential for Greggs among the student population on campus."**

**Helena Ganczakowski**  
Attending Freshers' Fair with the Marketing team

**"It is critical that we look at our shops as customers actually experience them, and hear first-hand their feedback."**

**Sandra Turner**  
Visiting shops with the Retail team

**"Seeing the supply chain from crops in the field to flour in the bakery helps to provide an understanding of raw material costs."**

**Peter McPhillips**  
Accompanying the Commercial Director on a supplier visit

Where a Director is unable to attend a meeting, the Chairman solicits his or her views on key items of business ahead of the meeting, in order that all individual views are presented at the meeting.

All Directors are invited to attend the Audit Committee and the Chief Executive attends the Remuneration and Nomination Committees.

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.
- Customer insight, competitor activity, marketing and category plans.
- The ERP integration programme.
- Supply chain developments.
- 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 was launched in 2012 to encourage women to strive for the most senior positions in the business. Our gender reporting is now contained within page 30 of the social responsibility 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 2014 the Board identified that it should review the way in which social responsibility was positioned at Board meetings to include a consideration of the Company's vision and values. As a consequence of that review, progress against social responsibility priorities were presented at each Board meeting in the same way as the key priorities for the year and at the strategy meeting held mid-year, the Board approved the social responsibility priorities for 2016, alongside its core business plans.

For the first time in 2015 the Board had its annual evaluation facilitated by an external consultant. The Company Secretary conducted an informal tender process, and subsequently the Board appointed Nigel Davies of NJMD Corporate Services to provide support. Mr. Davies had no prior link with the Company.

Each Director and the Secretary responded directly to Mr. Davies' questionnaire, which was followed up with a face-to-face discussion. Mr. Davies then prepared a report for the Board, which was tabled at its meeting in December 2015. The report concluded that:

"There is an excellent commitment to team performance and a positive determination to drive the business forward... We have not found any areas of major concern or identified any matters which are of a particular concern to individual Directors".

Following a review of the report, the Directors asked a number of questions of themselves, and agreed a number of actions to be undertaken during 2016 including:

- Increase formality of risk appetite review.
- Introduce formal process for the review of significant decisions.

The Chairman meets with the Non-Executive Directors at least annually without the Executive Directors present, and the Senior Independent Director meets the Non-Executive Directors annually without the Chairman present to appraise the Chairman's performance.

## Governance continued

### Re-election of Directors

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

### Board committees

The Board delegates some of its activities to the following committees, each of which has written terms of reference, which are available on the Company's website. The Company Secretary acts as secretary to and is 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 44 to 48.

**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 (that it discharged during the year) are set out within the Directors' remuneration report which is set out on pages 49 to 65 of this annual report. This includes for information purposes the Board's Policy on Remuneration, which was approved by shareholders at the AGM held on 1 May 2014. A separate Executive Director committee, after discussion with the Chairman, sets the fees for the Non-Executive Directors so as to ensure that no Director is involved in setting his or her own remuneration.

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

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

The Nominations Committee did not seek external consultancy support during 2015.

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 scheduled Board meeting.

### Risk management

Details of the Company's principal risks and the management of them are set out within the strategic report and given on pages 24 to 25.

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, meeting them as part of Company presentations and briefings, holding individual meetings or telephone calls.

The Chairman has undertaken three meetings with significant shareholders during the year. Topics of conversation included culture, Board composition and executive remuneration.

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 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 and who wish to ask questions. This is in addition to the opportunity given to shareholders to ask questions of the Board during the formal meeting, which session is always welcomed by those in attendance. In 2015, 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](http://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 1 March 2016 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
Old Mutual Group	7,957,333	7.87%
Standard Life	5,153,213	5.09%
FMR	5,027,000	4.96%
Norges Bank	3,048,851	3.01%

### 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: [www.greggs.co.uk](http://www.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 01 to 33, together with the statutory accounts themselves, the Board duly considers the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.

A statement of Directors' responsibilities in respect of the preparation of accounts is given on page 66. A statement of auditor's responsibilities is given in the report of the auditor on page 69.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For this reason, they continue to adopt the going concern basis in preparing the accounts (see basis of preparation on page 76). For the first time, the Board is required to make a 'viability statement' in accordance with Code provision C.2.2; this can be found on page 25.

### 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.

#### By order of the Board

Jonathan D Jowett  
Company Secretary



Greggs plc (CRN 502851)  
Fernwood House  
Clayton Road  
Jesmond  
Newcastle upon Tyne  
NE2 1TL  
1 March 2016

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

## **Introduction**

I am pleased to introduce the report of the Audit Committee for 2015.

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 will continue to keep its activities under review in the light of regulatory developments and the emergence of best practice. In particular, the 2014 UK Corporate Governance Code has taken effect for the first time in our 2015 financial year and we are awaiting finalisation of the UK implementation of the EU Directive and Regulation on statutory audit.

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**  
1 March 2016

### 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 2015.

Training is provided for any new members of the Audit Committee by way of a thorough induction process which includes access to the external auditor, the Head of Business Assurance and relevant members of management.

The Directors' biographies on pages 34 and 35 detail the Committee members' previous experience. 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: [corporate.greggs.co.uk/investor-centre/corporate-governance/company-documents](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 39.

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 2015, made contact with an audit partner independent of the partner responsible for the audit.

### Financial reporting

In 2015 the Audit Committee reviewed the 2014 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 financial statements for the 52 weeks ended 2 January 2016 are as follows:

## Audit Committee report continued

Area of focus	Action taken
<p><b>Dilapidations</b></p> <p>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.</p> <p>The balance held in respect of dilapidation provisions at the end of the year was £3,343,000 (2014: £3,456,000).</p>	<p>The Committee reviewed management's assessment of the need for dilapidation provisions and concluded that the principles applied were appropriate.</p>
<p><b>Accounting for onerous leases</b></p> <p>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.</p> <p>The onerous lease provision held on the balance sheet at 2 January 2016 is £2,289,000 (2014: £3,155,000).</p>	<p>The Committee reviewed management's assessment in respect of these leases and concluded that the assumptions made were appropriate.</p>
<p><b>Asset impairment</b></p> <p>The financial statements 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 potential net realisable value of the sites was considered and the net book value of any obsolete equipment compared to its recoverable amount.</p> <p>The carrying value of fixed assets at the end of the year is reduced by impairment provisions totalling £3,445,000 (2014: £4,186,000).</p>	<p>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.</p>
<p><b>Going concern</b></p> <p>The accounts continue to be prepared on a going concern basis.</p>	<p>Information provided by the Finance Director regarding future financial plans, risks and liquidity is presented to the Committee to enable them to determine whether the going concern basis of accounting remained appropriate.</p> <p>The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the going concern statement on page 43 of the Directors' report.</p>
<p><b>Viability</b></p> <p>Recent revisions to the UK Corporate Governance Code 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 new requirement, the Committee considered this to be a significant reporting matter.</p>	<p>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 25 of the strategic report.</p>
<p><b>Accounting for defined benefit pension schemes</b></p> <p>The determination of the defined benefit obligation depends on the selection of certain assumptions including the discount rate, inflation rates and mortality rates.</p> <p>The net liability held in relation to defined benefit pension schemes at the end of 2015 was £3,910,000 (2014: £8,518,000).</p>	<p>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.</p>
<p><b>Fair, balanced and understandable</b></p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>- ensuring that all the statements are consistent with one another;</li> <li>- verifying that figures in the narrative sections are consistent with the relevant financial detail;</li> <li>- identifying any duplication of information;</li> <li>- confirming that 'bad news' is included, as well as 'good news'; and</li> <li>- highlighting any inappropriate use of technical language or jargon.</li> </ul> <p>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.</p>

The Audit Committee also considered other key accounting issues and related disclosures in the Group's financial statements 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 Listing Rules.

**External audit**

**Assessing external audit effectiveness**

The Audit Committee discussed and agreed the scope of the audit with the external auditor and agreed their fees in respect of the audit.

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

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

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

**Appointing the auditor and safeguards on non-audit services**

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

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

The Company has a formal policy to ensure that the provision of non-audit services by the external auditor 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 external auditor. An annual base plan for non-audit fees paid to the external auditor is agreed in advance by the Audit Committee. Expenditure in accordance with this plan can then be committed without further referral to the Audit Committee. Expenditure that is not included in the agreed plan is subject to strict authority limits and is reviewed by the Committee.

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

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

The FRC have yet to conclude their deliberations on the implementation of the EC Audit Directive and Regulation in the UK. Their consultation document and emerging best practice suggest that KPMG will not be able to undertake any 'blacklisted' non-audit work if they remain as auditor beyond the effective date for the EU implementation of 17 June 2016, but the Committee will review the position once the FRC guidance has been finalised and take appropriate action at that time.

In 2015, non-audit fees paid to KPMG LLP and related KPMG operations amounted to £52,000 (which is 37 per cent of the audit fee for the year) and principally related to taxation services and pension scheme audits.

Reappointment of auditor

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

**Risk management and internal control**

**Internal Control**

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

## **Audit Committee report** *continued*

### **Whistle-blowing**

The Company's whistle-blowing policy is made available to all employees through the intranet, as well as via posters displayed across the business. This gives information regarding how to raise a concern in strict confidence. Three reports were made during the year, all relating to health and safety issues. 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 Business Conduct policy, which documents the whistle-blowing procedures, has been refreshed during the year.

### **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 24, 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:

<b>Area of focus</b>	<b>Action taken</b>
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. The Committee recommended a focus on those risks to which Greggs is more exposed than its peers, to provide greater clarity.
SAP implementation	The Committee has received regular updates on the implementation plans for SAP, including timeframes, resource requirements and governance arrangements.
Insurance review	A major tendering exercise of the Company's insurance provision was undertaken in 2014, and the Audit Committee evaluated the outcome of this to ensure that it was satisfied with the arrangements in place.
Resource levels within the Finance function	The Committee considered the resourcing of the Finance team, particularly with regard to the implementation of the relevant modules within the SAP programme. It concluded that recent appointments provided an appropriate balance of skills within the team.
Cyber risk assessment	The Audit Committee Chair completed the Government's Cyber Governance Health Check 2015 by means of a questionnaire to assess the Board's view of Greggs management of cyber risk. This identified five low risk areas where additional focus is required and actions are in progress to address each of these. No significant areas of concern were noted.

### **Internal audit**

The work of the Internal Audit function is set out in more detail within the Principal Risks and Uncertainties section on pages 24 to 25 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**

1 March 2016

## Directors' remuneration report

# **We believe our remuneration policy continues to deliver a robust link between reward and performance and is aligned with our strategic goal of delivering long-term sustainable shareholder value.**

### **Annual statement**

As Chair of the Remuneration Committee and on behalf of your Board, I am pleased to present our Directors' remuneration report for the 52 weeks ended 2 January 2016.

The annual report on remuneration will be subject to an advisory shareholder resolution at the Company's Annual General Meeting on 10 May 2016. Our Directors' remuneration policy was approved by shareholders at our AGM on 1 May 2014 and became effective for three years from that date. We have set out our policy again to allow cross-reference against its operation during the year.

### **Business strategy and link to remuneration policy**

Executive pay rightly continues to be high on the agenda of shareholders and other stakeholders. It is understandable that shareholders need comfort that the team running the business is being paid in a way that reflects that business's performance, and the value they are receiving from their investment. I have endeavoured to be as transparent as possible in this year's remuneration report, aiming for a report that is easy to read with a continued emphasis on improved disclosure wherever possible to support shareholders' ability to hold companies to account.

With this in mind, our annual bonus provides a strong link to the operational delivery of the business strategy. The Performance Share Plan focuses the Executive Directors on the longer-term outputs of that strategy, by rewarding sustained improvements in earnings per share and long-term return on capital employed.

As outlined in the Chairman's statement and Chief Executive's report, 2015 was another strong year operationally for Greggs with continued good progress against the longer-term strategic plan. Although 2016 will be another busy year, we have started the year well and I believe this remuneration policy will support the business in delivering continued progress in a competitive and fast-moving market.

### **Performance in 2015 and incentive payments**

The Company performed strongly against its financial targets as described in the financial review on pages 20 to 21. Against the targets set at the beginning of the year for the annual bonus, profit and sales performance resulted in 100 per cent of the maximum potential being payable under these elements. There was an equally strong performance with regards to the strategic objectives that were set for cost savings and operational efficiencies in line with our step change programme. The cost savings targeted against operational efficiencies and the process and systems change project, were achieved in full and accordingly there is also a 100 per cent bonus payment against this strategic element. Refit investment returns exceeded our hurdle rate but did not meet the maximum target, and so in this instance there was a 37 per cent pay out against this strategic objective. Overall, annual bonuses representing 117.1 per cent and 84.3 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 exceptional financial performance during the year and strong delivery of the strategic objectives. 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 subject to a two-year holding period.

## **Directors' remuneration report** continued

Under the Performance Share Plan, awards made in March 2013 are due to vest in March 2016. These awards are based on EPS growth over the three years to the end of 2015 and relative total shareholder return (TSR) against a comparator group. The EPS performance condition measured to the 2015 financial year end has been achieved in full. At the time of writing it is likely that the TSR condition will also be achieved in full, although the final calculation is made based on the average TSR over the one month prior to vesting in March 2016. 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 47 per cent and our TSR (based on the three-month average prior to our year end) has been 269 per cent. The Committee is very comfortable that this performance justifies a full vesting level for this award.

### **Decisions taken by the Committee in 2015**

During 2015 the business conducted by the Committee related primarily to the more usual standing agenda items, including the determination of base salary levels and performance conditions for the annual bonus and the 2015 Performance Share Plan awards.

### **Approach for 2016**

The Committee has reviewed the operation of our remuneration policy for 2015 and has concluded that the policy should be implemented on an unchanged basis.

The Chairman's fee has been reviewed and will be increased in line with that of the base increase for the workforce generally. The salary increase for both the Chairman and Executive Directors was 2.75 per cent. Increases to salaries and fees took effect from 1 January 2016.

Targets for the 2016 annual bonus have been set in line with the financial plan for the business for the year and the rolling five-year strategic plan. Due to the commercial sensitivity of these they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

Under the Performance Share Plan 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. Following a review of our business performance against the strategic plan, the EPS and ROCE target ranges have been increased for the 2016 awards, so as to ensure that they remain appropriately stretching.

It is the intention of the Committee to undertake a full benchmark review of salary, bonus and long-term incentives for the Directors in 2016 to ensure that their remuneration is in line with the current market levels, the structure continues to support the business strategy and there remains a strong alignment of interest with shareholders. Any resulting changes from this exercise will be subject to consultation with institutional shareholders and will be presented as a proposal for the 2017 policy vote.

The Committee remains mindful of ongoing developments in executive remuneration best practice and the views of our shareholders and actively welcomes feedback on our remuneration policy and its implementation.

We believe that our policy continues to deliver a robust link between reward and performance and is aligned with our strategic goal of delivering long-term sustainable shareholder value. We look forward to receiving your continued support at this year's AGM.

**Sandra Turner**  
**Chair of the Remuneration Committee**  
1 March 2016

### Regulatory framework

The policy 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 policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders. The policy was subject to a binding shareholder vote at the 2014 AGM, and took formal effect from that date.

The annual statement by the Chair of the Remuneration Committee and the annual report on remuneration will be subject to an advisory vote at the 2016 AGM.

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 67 to 69 and we have indicated appropriately the audited sections of this remuneration report.

### Remuneration policy report (as approved by shareholders on 1 May 2014)

Our Directors' remuneration policy was approved by shareholders at our AGM on 1 May 2014 and became effective for three years from that date. We have set out our policy again in this year's report to enable cross-reference against its implementation during the year.

The Company's remuneration policy is to continue to provide competitive remuneration packages that will incentivise Executive Directors to achieve sustainable long-term growth and value that will best serve the interests of the Company, its shareholders, its employees and customers.

### Key aspects of the remuneration policy for Executive Directors

The policy for the remuneration of the Executive Directors is set out in the table below:

Element	Purpose and strategy	Operation	Maximum opportunity
Base salary	To attract and retain high calibre individuals in order to promote the long-term success of the business.	Reviewed and set annually in January.  Benchmarked periodically by the Committee against the remuneration levels for executives in similar roles in companies of a comparable size. Individual performance and contribution is recognised in setting salary levels.  Salaries are paid monthly in cash.	Key reference points for salary increases are market and economic conditions and, in line with our values, the approach to employee pay throughout the organisation.
Benefits	To support a competitive remuneration package in the marketplace.	Benefits include provision of a Company car (or cash in lieu), private medical health care, life assurance and permanent health insurance.	No maximum limit is prescribed particularly as the cost of providing insured benefits fluctuates over time. However, the Committee monitors on an annual basis the overall cost of the benefit provision.
Pension	To support a competitive remuneration package in the marketplace.	Executive Directors can elect to either: <ul style="list-style-type: none"> <li>– participate in the Company defined contribution pension scheme (up to a cap). Above the cap Executive Directors receive a salary supplement; or</li> <li>– take cash in lieu of this contribution paid as a supplement to their salary on a monthly basis.</li> </ul> <p>The Executive Directors are able to make this choice on an annual basis. The remuneration adjustment is disclosed later in this report.</p>	Up to 22.5% of base salary contribution for the Chief Executive and up to 15% of base salary for other Executive Directors.

## Directors' remuneration report continued

<b>Annual bonus (including profit share)</b>	To support a competitive remuneration package in the marketplace.	<p>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.</p> <p>Targets for each metric are set in advance and in line with business planning objectives set by the Committee.</p> <p>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.</p> <p>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.</p> <p>Any bonus paid in excess of 50% of the maximum will be payable in shares, deferred for two years with vesting subject to continued service.</p> <p>The dividends payable on deferred bonus shares are paid to the individual as they fall due.</p> <p>Recovery and withholding provisions allow the Company to recoup annual bonus payments within three years in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration, or recover the overpayment direct from the individual concerned.</p>	<p>Capped at 125% of base salary for the Chief Executive and 90% of base salary for other Executive Directors.</p> <p>On target performance delivers a bonus of 60% of the maximum.</p> <p>No more than 25% of the bonus opportunity is payable under each element for threshold performance.</p>
<b>Performance Share Plan (PSP)</b>	To incentivise long-term value creation, retention of our talent and ensure alignment of Executive Directors' and shareholders' interests.	<p>Awards are granted under the PSP annually at the discretion of the Committee.</p> <p>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).</p> <p>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 direct from the individual concerned.</p>	<p>90% of base salary for CEO and 70% of base salary for other Executive Directors.</p> <p>120% of base salary in exceptional circumstances.</p> <p>Threshold vesting at 25% of the maximum.</p>
<b>Saving Related Share Option Scheme (SAYE)</b>	To encourage employees at all levels within the Company to understand better and so participate in the growth in value of the Company.	<p>No performance conditions have been attached to options granted pursuant to the Company's SAYE Scheme, which is available for all employees.</p> <p>The rules of that scheme require that all options granted must be on the same terms.</p>	Executives may enter into a contract to save up to the maximum allowed under HMRC guidelines.
<b>Share retention guidelines</b>	To further align the interests of Executive Directors to those of shareholders.	<p>The Chief Executive is required to build up a shareholding of 150% of base salary within five years of appointment.</p> <p>Other Executive Directors are required to build up a shareholding of 100% of their respective base salaries within a five-year period.</p> <p>This is achieved through vested awards granted via the PSP and deferred bonus shares.</p>	n/a

### Executive Share Option Scheme

The Committee is responsible for overseeing the operation of all the share-based incentives deployed in the Company. The 2014 Company Share Option Plan and the 2014 Executive Share Option Scheme were approved by shareholders at the 2014 AGM.

### Choice of performance measures and approach to target setting

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.

The PSP is based on an equal split of EPS and ROCE performance. EPS, which is a direct measure of profit performance, is our primary long-term KPI. ROCE is considered to be particularly relevant at the current time as this will focus Executives on re-deploying capital efficiently through the planned investment programme, whilst continuing to create returns well above the WACC. The relative mix of the performance measures may be altered for future awards.

A sliding scale of challenging performance targets is set for each measure. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each PSP award. The Committee has discretion to set different targets for future awards. The targets for awards granted under this remuneration policy are set out for shareholder approval in the annual report on remuneration.

#### **Policy discretion**

The Committee will operate incentive plans in accordance with their respective rules, the Listing Rules and the HMRC rules 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;
- the result indicated by the relative TSR performance condition may be scaled back (potentially to zero) in the event that the Committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal;
- 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.

#### **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.

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.	<p>The Chairman is paid an all-encompassing fee.</p> <p>Non-Executives 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.</p> <p>Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements.</p>	There is no prescribed maximum.

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

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

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

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

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

With the SIP, all employees may purchase Company shares from pre-tax salary subject to HMRC limits.

After six months' service all employees are eligible to participate in the profit sharing scheme in which all employees share ten per cent of our profits.

The Committee does not currently consult with employees on Directors' pay policy, although the Committee will keep this under review.

### **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 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.

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
<b>Remuneration</b>	<ul style="list-style-type: none"> <li>- salary, pension and benefits;</li> <li>- Company car or cash allowance;</li> <li>- private medical health care for the Director;</li> <li>- permanent health insurance;</li> <li>- participation in annual bonus and profit share (subject to scheme rules);</li> <li>- participation in long-term incentive schemes or similar arrangements (subject to scheme rules); and</li> <li>- life assurance.</li> </ul>
<b>Notice period</b>	<ul style="list-style-type: none"> <li>- Chief Executive's contract is terminable on 12 months' notice served by either the Company or the Director;</li> <li>- 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</li> <li>- any future Executive Directors' service contracts will be terminable on 12 months' notice served by either party.</li> </ul>
<b>Termination payment</b>	<ul style="list-style-type: none"> <li>- payment in lieu of notice equal to any unexpired notice of termination given by either party; and</li> <li>- payment in lieu shall not include:               <ul style="list-style-type: none"> <li>- any bonus payment;</li> <li>- any payment in respect of benefits which the Director would have been entitled to receive; and</li> <li>- any payment in respect of any holiday entitlement that would have accrued during the period for which the payment in lieu is made.</li> </ul> </li> </ul> <p>Details of the circumstances in which the Committee has the ability to exercise discretion with regards to termination payments are set out below.</p>

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;
- any unvested awards held under the deferred annual bonus will normally lapse at cessation unless the individual is leaving for certain reasons (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 cessation (unless the Committee decides they should vest at the normal vesting date);
- any unvested awards held under the PSP will lapse at cessation, unless the individual is leaving in the circumstances set out above for the deferred annual bonus. In these circumstances, unvested awards will normally vest at the normal vesting date (unless 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); 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.

## **Directors' remuneration 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 2016 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance, and the maximum remuneration available.

#### **Chief Executive – Roger Whiteside**

#### **Finance Director – Richard Hutton**

#### **Retail Director – Raymond Reynolds**

#### **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 2016.

The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 2 January 2016.

Share price movement and dividend accrual have been excluded.

**Shareholder engagement**

The Committee considers shareholder feedback received in relation to the AGM each year and otherwise from time to time. This feedback is then considered as part of the Company's annual review of remuneration policy.

The Committee engages pro-actively with shareholders, and takes their views seriously. When any material changes are made to the remuneration policy, the Committee Chair will inform major shareholders of these in advance, and will offer to attend a meeting with those shareholders to discuss any concerns they may have.

Details of votes cast for and against the resolution to approve last year's remuneration report during the year are provided in the annual report on remuneration.

**External appointments**

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.

**Annual report on remuneration****Implementation of our policy in 2016**

The section below summarises the implementation of our Remuneration Policy for 2016.

**Base salaries**

The annual base salaries for the Executive Directors are:

Director	Salary as at 1 January 2015	Salary as at 1 January 2016	% Increase
Roger Whiteside	£507,187	£521,135	2.75%
Richard Hutton	£289,734	£297,702	2.75%
Raymond Reynolds	£258,531	£265,641	2.75%

Increases are in line with the base increase of the workforce. In addition in 2016 we awarded 13,500 of our hourly paid retail employees a five per cent pay award (2.25 per cent above the base increase) and 2,700 shop managers and assistant shop managers will receive a four per cent pay award (1.25 per cent above the base increase).

**Pension contribution**

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

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

**Annual bonus**

For 2016 the performance conditions will provide a strong link between bonus payments and our business strategy.

Bonus metrics		
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 2016 bonus the three strategic objectives, each relating to ten per cent of the bonus opportunity, will be:

- (i) customer transaction percentage growth;
- (ii) cost savings; and
- (iii) specific project delivery within our change programme regarding processes and systems with four elements measured independently, each element being worth 2.5 per cent.

Sliding scales will be set where possible.

## Directors' remuneration report continued

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.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive. Retrospective disclosure of the targets and performance against them will be made in next year's annual report on remuneration.

### 2016 PSP Award

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award)\*. Targets have been set for each metric which reflect the strategic plan and business outlook over the performance period. The EPS and ROCE ranges have been increased to ensure that they remain appropriately stretching in light of our business strategy and higher profitability outlook, without encouraging undue risk taking.

For the 2016 awards the target ranges will be as follows:

- The EPS performance condition will require average annual growth of RPI +two per cent to +eight per cent over three years from the 2015 financial year end.
- The ROCE condition will require 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 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 Executives 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) for a further two years.

\*EPS and ROCE are measured excluding exceptional items.

### Non-Executive Directors' fees

The Chairman's fee for 2016 is £159,263.

The Non-Executive Directors are paid an annual base fee which is currently £42,457 and additional responsibility fees of £6,299 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 £6,299 will be paid.

Details of the fees being paid to Non-Executive Directors in 2016 are set out below:

Ian Durant	£159,263	Chairman
Allison Kirkby	£48,756	Chair of the Audit Committee
Helena Ganczakowski	£42,457	Non-Executive Director
Peter McPhillips	£42,457	Non-Executive Director
Sandra Turner	£48,756	SID & Chair of the Remuneration Committee

**Remuneration payable for 2015 for each Executive Director (Audited)**

The following table presents the remuneration payable for 2015 (showing the equivalent figures for 2014) for the Executive Directors:

	Salary £	Pension contribution (including salary in lieu) £	Taxable benefits £	Annual incentives (including profit share) £	Long-term incentives <sup>*</sup> £	Total remuneration £
<b>Roger Whiteside</b>						
2015	507,188	114,118	12,397	594,043	1,357,891	2,585,637
2014	495,300	111,442	12,381	619,125	-	1,238,248
<b>Richard Hutton</b>						
2015	289,736	37,233	13,659	244,334	493,628	1,078,590
2014	282,944	52,508	11,491	254,650	141,043	742,636
<b>Raymond Reynolds</b>						
2015	258,530	31,804	13,949	218,019	440,465	962,767
2014	252,472	31,060	12,433	227,225	125,858	649,048

\* Pursuant to evolving best practice following the introduction in 2013 of the Remuneration Reporting Regulations, the basis on which the long-term incentive vesting values have been determined has been changed for 2015. The 2015 long-term incentive vesting values are based on the forecast value of the awards due to vest on 27 March 2016 (50 per cent of the award is based on EPS performance measured over the three financial years to 2 January 2016 and 50 per cent of the award is based on relative TSR measured over the three years to 27 March 2016). The EPS performance measured to 2 January 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 2015 long-term incentive value. Relative TSR performance (based on an assessment of performance measured to 2 January 2016) is forecast to exceed the maximum performance requirement and the 2015 long-term incentive value therefore assumes 100 per cent of this part of the award is due to vest. The share price for the purposes of valuing the award is the three-month average share price to 2 January 2016 (£11.99). This value will be trued up in the 2016 report to reflect the actual level of vesting and share price at the vesting date. The 2014 long-term incentive value has been restated and reflects the actual value of the awards that vested in April 2015.

**Fees payable for each Non-Executive Director (Audited)**

	Fees £
<b>Ian Durant</b>	
2015	155,000
2014	131,405
<b>Allison Kirkby</b>	
2015	47,361
2014	46,251
<b>Helena Ganczakowski<sup>1</sup></b>	
2015	41,231
2014	39,631
<b>Peter McPhillips<sup>2</sup></b>	
2015	41,231
2014	32,667
<b>Sandra Turner<sup>3</sup></b>	
2015	47,361
2014	30,834

1. Appointed 2 January 2014.

2. Appointed 10 March 2014.

3. Appointed 1 May 2014 and appointed SID and Chair of Remuneration Committee.

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.

## Directors' remuneration report continued

### Annual bonus payments to Executive Directors

The table below outlines the bonus payments to Executive Directors in respect of 2015.

Measure	Strategic objective		Weighting	Entry	Target	Stretch	Actual	% of maximum
<b>All Executive Directors</b>								
Profit (£)	Profit before tax (excluding exceptional items)	To deliver profit target	50%	£58.0m	£62.5m	£67.0m	£73.0m	50%
Sales (%)	Company-managed shop like-for-like sales	To deliver target increase	20%	1.5%	2.0%	2.5%	4.7%	20%
Strategic (%)	Refit return on investment	To deliver target percentage	10%	22.5%	25.0%	–	22.9%	3.7%
Strategic (£)	Operational efficiencies & saving from processes and systems change	To deliver target savings	20%	£10.7m	£11.7m	–	£12.1m	20%
<b>Total weighting based on balance scorecard</b>			<b>100%</b>					
Bonus achieved for 2015							As % of maximum	
Roger Whiteside							93.7%	
Richard Hutton							93.7%	
Raymond Reynolds							93.7%	

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 subject to a two-year holding period. The number of shares will be calculated by dividing 43.7 per cent of the net bonus by the closing market share value on the date of payment. Full details will be provided in the 2016 Directors' remuneration report.

### Vested PSP awards

The PSP award granted in 2012 measured EPS performance by reference to the three financial years to 3 January 2015 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 +1.3%	0%
Total shareholder return (50%)	TSR against a peer group of 24 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)	67th percentile	37.4%
<b>Total vesting</b>					<b>37.4%*</b>

\* Estimated last year at 25 per cent.

This PSP award vested on 2 April 2015.

The PSP award granted in 2013 measures 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.

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%

\* The percentage vesting under the TSR condition is based on an estimate and the value of the vested shares is based on the average share price during the three-month period from 1 October 2015 to 31 December 2015 of £11.99. This performance measure will be formally measured on the third anniversary of grant and the shares may then vest, subject to continued employment. The results of this final measurement will be disclosed in the 2016 Directors' remuneration report.

#### Legacy defined benefit pension scheme (Audited)

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

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement as at 3 January 2015 £	Accrued annual pension entitlement as at 2 January 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 3 January 2015 £	Cash equivalent transfer value as at 2 January 2016 £	Increase in the cash equivalent transfer value since 3 January 2015 £
Richard Hutton	307,293	278,220	–
Raymond Reynolds	1,442,044	1,340,108	–

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.

## Directors' remuneration report continued

### Performance Share Plan awards made during 2015

Executive	Type of award	Basis of award granted	Share price at date of grant (26 March 2015)	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	£10.350	44,103	£456,466	25%	Three financial years to 29 December 2018
Richard Hutton	£nil cost option	70% of salary	£10.350	19,595	£202,808	25%	
Raymond Reynolds	£nil cost option	70% of salary	£10.350	17,485	£180,970	25%	

### Executive Director share awards and share options (Audited)

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 2015 number	Granted number	Exercised number	Lapsed number	At 2 January 2016 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
<b>Roger Whiteside</b>	113,252	-	-	-	113,252	£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 20	Mar 25	PSP
	449	-	-	-	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	-	215	-	-	215	£8.18	Apr 15		Jun 18	Nov 18	SAYE
	203,892	44,318	-	-	248,210						
<b>Richard Hutton</b>	26,750	-	26,750 <sup>2</sup>	-	-	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	-	62,640 <sup>3</sup>	-	-	£3.56	Apr 09		Apr 12	Apr 19	Exec
	36,334	-	13,588 <sup>4</sup>	22,746	-	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	41,170	-	-	-	41,170	£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 20	Mar 25	PSP
	423	-	423 <sup>5</sup>	-	-	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	400	-	-	-	400	£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
	208,238	19,810	103,401	22,746	101,901						
<b>Raymond Reynolds</b>	26,750	-	26,750 <sup>2</sup>	-	-	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	-	-	-	62,640 <sup>1</sup>	£3.56	Apr 09		Apr 12	Apr 19	Exec
	32,421	-	-	20,296	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 20	Mar 25	PSP
	423	-	423 <sup>6</sup>	-	-	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	400	-	-	-	400	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	449	-	-	-	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	195,576	17,485	27,173	20,296	165,592						

1. Performance conditions have been achieved and the shares remain exercisable.
2. The market value on the date of exercise was £9,704 and the resultant gain on exercise was £150,709.
3. The market value on the date of exercise was £11,457 and the resultant gain on exercise was £494,668.
4. The market value on the date of exercise was £10,300 and the resultant gain on exercise was £139,956.
5. The market value on the date of exercise was £11,980 and the resultant gain on exercise was £3,088.
6. The market value on the date of exercise was £11,960 and the resultant gain on exercise was £3,079.

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 2 January 2016 was £13.14. The highest and lowest mid-market prices of ordinary shares during the financial year were £13.55 and £7.225 respectively.

#### **Directors' shareholding and share interests (Audited)**

The Company's share retention guidelines require the Chief Executive to build up a shareholding of 150 per cent and other Executive Directors to build up a shareholding of 100 per cent of their respective base salary in a five-year period. This can be achieved by holding vested shares via the PSP and/or deferred annual bonus.

Details of the shareholdings of each Executive Director as of 2 January 2016 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 2 January 2016	Beneficially owned at 3 January 2015	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	% shareholding guideline achieved at 2 January 2016
Roger Whiteside*	75,998	72,253	247,546	–	–	197%
Richard Hutton	77,923	55,787	100,837	–	–	353%
Raymond Reynolds	59,244	53,224	102,103	–	62,640	301%
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	500	–	–	–	–	n/a
Sandra Turner	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 are not subject to performance conditions other than continuity of employment and not having resigned or been given notice of termination when the respective award is due to vest. The first 30,000 shares vested unconditionally during the year. This award will be 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 2 January 2016. No payments for compensation or loss of office were paid to, or receivable by, any Director.

#### **External directorships**

There are none currently in place.

#### **Performance graph**

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last seven 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.

## Directors' remuneration report continued

### Remuneration outcomes for the Chief Executive over last seven years

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

Director	2009	2010	2011	2012	2013	2014	2015
Total remuneration (£'s)	£646,313	£767,397	£707,245	£635,030	£1,011,381	£1,238,248	£2,585,637
Bonus (% of max potential)	30%	56.6%	38.6%	18%	20%*	100%	93.7%
PSP/Options (% max potential)	n/a	n/a	0%	78.3%	n/a	n/a	100%

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

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

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

	% change from 2014 to 2015
<b>Chief Executive (£)</b>	
– salary	2.4%
– benefits	0.1%
– performance pay	215.3% <sup>1</sup>
<b>Average per employee (£)</b>	
– salary	2.87%
– benefits <sup>2</sup>	(4.9%)
– performance pay	436% <sup>3</sup>

1. The increase in performance pay is due to PSP vesting in 2015, while there was no vesting in 2014.
2. The average employee benefits figure is based on tax year 2013/14 for 2014 and tax year 2014/15 for 2015.
3. Bonus was extended to all graded management teams in 2013 (first payout in March 2015).

### Relative importance of spend on pay

The table below shows the expenditure and percentage change in the overall spend on staff costs compared to other key financial indicators.

	2015 £m	2014 £m	% change from 2014 to 2015
Staff costs	314.0	311.3	0.9%
Dividends	43.7	19.6	123%
Retained profit (excluding exceptional items)	57.6	44.3	30%
Tax (excluding exceptional items)	15.4	14.0	10%

### Composition of the Committee

The following Non-Executive Directors were members of the Committee during 2015:

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

**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 New Bridge Street (NBS) 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 £17,000.

**Approval by shareholders**

At last year's AGM, the Directors' remuneration report received the following votes from shareholders:

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	64,738,349	99.56%
Against	285,669	0.44%
<b>Total votes cast (excluding votes withheld)</b>	<b>65,024,018</b>	<b>100%</b>
Votes withheld	841,634	
<b>Total votes cast (including votes withheld)</b>	<b>65,865,652</b>	

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

At the AGM of the Company to be held on 10 May 2016, one resolution approving the annual statement and annual report on remuneration will be proposed as an ordinary resolution.

This report was approved by the Board on 1 March 2016.

Signed on behalf of the Board

**Sandra Turner**

**Chair of the Remuneration Committee**

1 March 2016

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

The Directors are responsible for preparing the annual report and accounts 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 report and accounts**

We confirm that to the best of our knowledge:

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

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

**Roger Whiteside**  
Chief Executive  
1 March 2016

**Richard Hutton**  
Finance Director

## Independent auditor's report to the members of Greggs plc only

### 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 2 January 2016 set out on pages 70 to 99. In our opinion:

- the accounts give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 2 January 2016 and of the Group's profit for the year then ended;
- the Group accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

#### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the accounts the risk of material misstatement that had the greatest effect on our audit was as follows:

Provisions (net charge in year £1.2 million, provision in balance sheet £5.6 million)

Refer to page 46 (Audit Committee report), pages 76 and 79 (accounting policy) and page 97 (financial disclosures).

##### The risk –

- The Group leases the majority of its shops and has almost 1,500 shop leases at the end of the year. It is therefore exposed to the risk of onerous leases and dilapidation costs.
- Where shops are closed prior to the end of the lease term or are not trading sufficiently well to recover the committed lease costs there is a risk that an element of the lease will be onerous. Determining the level of onerous lease provisions involves estimation of the length of time and cost at which lease arrangements can be exited and forecasting and discounting future cash flows, both of which are inherently uncertain.
- The level of dilapidation provision involves estimation of the costs anticipated to make good any alterations to properties as required by lease agreements.

##### Our response –

Our audit procedures in respect of property provisions included:

- In respect of onerous lease provisions recognised we critically assessed whether the provisions identified by the Directors met the criteria for recognition. We considered the completeness of provisions for all leases where the unavoidable costs of meeting the lease obligation may exceed the economic benefit expected to be received under the lease through the identification of shops closed during the year, poorly performing shops and those identified for provision in the prior year.
- For all onerous leases provided for, we tested the mathematical accuracy and challenged the reasonableness of the Group's model for calculating the provision, as well as agreeing key inputs such as lease term, break clauses and rental value to the relevant lease agreements.
- For 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 such as legal fees or dilapidation costs. We also considered the most recent expectation of the relevant local in-house property surveyor responsible for each shop, supported by third-party evidence including offers made, communications with third-party agents or contracts agreed to surrender or sublease properties. We considered the historical experience of the Group at exiting similar properties and the costs involved in doing so. 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.
- We challenged the Directors' assumptions relating to onerous lease provisions for shops still trading. This included consideration of the discounted cash flow forecasts on a shop-by-shop basis and assessing the cash flow forecasts against the historical performance of those shops and against the Group's budgets.
- For dilapidation provisions we critically assessed whether provisions identified by the Directors met the criteria for recognition. We also considered the completeness of provisions including the consideration of shops where there is indication of likely dilapidation exposure taking into account historical experience of the Group. We considered the historical experience of the Group in respect of likely level of dilapidation costs. 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 provisions made.
- We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions and the sensitivity to key assumptions involved.

We continued to perform procedures over the impairment of property, plant and equipment. However, following the improved performance of the Group, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

## **Independent auditor's report to the members of Greggs plc only** *continued*

### **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 £3.6 million (53 weeks ended 3 January 2015: £2.9 million), determined with reference to a benchmark of Group profit before tax of which it represents five per cent (53 weeks ended 3 January 2015: determined with reference to a benchmark of Group profit before tax normalised to exclude that year's exceptional charge as disclosed in Note 4, of £58.3 million, of which it represents five per cent).

We report to the Audit Committee any corrected or uncorrected misstatements identified exceeding £181,000 (53 weeks ended 3 January 2015: £145,000), 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. The audit was performed using the materiality levels set out above and covered 100 per cent (2014: 100 per cent) of total Group revenue, Group profit before tax and total Group assets.

### **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 for which the accounts are prepared is consistent with the accounts.

### **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 25, 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 2018; or
- the disclosures on page 76 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' statements 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 25 and 76, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 39 relating to the Company's compliance with the 11 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 66, 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](http://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](http://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  
1 March 2016

## Consolidated income statement

for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

	Note	2015 Total £'000	2014 Excluding exceptional items (Restated) £'000	2014 Exceptional items (see Note 4) £'000	2014 Total (Restated) £'000
<b>Revenue</b>	1	<b>835,749</b>	806,096	–	806,096
Cost of sales		<b>(305,116)</b>	(304,786)	(5,932)	(310,718)
<b>Gross profit</b>		<b>530,633</b>	501,310	(5,932)	495,378
Distribution and selling costs		<b>(412,426)</b>	(403,003)	(282)	(403,285)
Administrative expenses		<b>(45,094)</b>	(40,223)	(2,302)	(42,525)
<b>Operating profit</b>		<b>73,113</b>	58,084	(8,516)	49,568
Finance (expense)/income	6	<b>(85)</b>	175	–	175
<b>Profit before tax</b>	3-6	<b>73,028</b>	58,259	(8,516)	49,743
Income tax	8	<b>(15,428)</b>	(13,997)	1,810	(12,187)
<b>Profit for the financial year attributable to equity holders of the Parent</b>		<b>57,600</b>	44,262	(6,706)	37,556
<b>Basic earnings per share</b>	9	<b>57.3p</b>	44.0p	(6.6p)	37.4p
<b>Diluted earnings per share</b>	9	<b>55.8p</b>	43.4p	(6.6p)	36.8p

## Consolidated statement of comprehensive income

for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

	Note	2015 £'000	2014 £'000
<b>Profit for the financial year</b>		<b>57,600</b>	37,556
<b>Other comprehensive income</b>			
<i>Items that will not be recycled to profit and loss:</i>			
Re-measurements on defined benefit pension plans	21	<b>4,915</b>	(8,575)
Tax on re-measurements on defined benefit pension plans	8	<b>(885)</b>	1,715
<b>Other comprehensive income for the financial year, net of income tax</b>		<b>4,030</b>	(6,860)
<b>Total comprehensive income for the financial year</b>		<b>61,630</b>	30,696

**Balance sheets**

at 2 January 2016 (2014: 3 January 2015)

	Note	Group		Parent Company	
		2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	10	10,248	4,721	10,248	4,721
Property, plant and equipment	11	284,163	262,719	284,756	263,312
Investments	12	–	–	4,987	4,987
Deferred tax asset	13	3,830	–	4,305	–
		<b>298,241</b>	267,440	<b>304,296</b>	273,020
<b>Current assets</b>					
Inventories	14	15,444	15,290	15,444	15,290
Trade and other receivables	15	27,647	26,091	27,647	26,091
Assets held for sale	16	–	6,500	–	6,500
Cash and cash equivalents	17	42,915	43,615	42,915	43,615
Other investments	12	–	10,000	–	10,000
		<b>86,006</b>	101,496	<b>86,006</b>	101,496
<b>Total assets</b>		<b>384,247</b>	368,936	<b>390,302</b>	374,516
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	18	(92,780)	(89,954)	(100,587)	(97,761)
Current tax liability	19	(9,580)	(8,056)	(9,580)	(8,056)
Provisions	22	(3,675)	(4,109)	(3,675)	(4,109)
		<b>(106,035)</b>	(102,119)	<b>(113,842)</b>	(109,926)
<b>Non-current liabilities</b>					
Other payables	20	(6,071)	(6,555)	(6,071)	(6,555)
Defined benefit pension liability	21	(3,910)	(8,518)	(3,910)	(8,518)
Deferred tax liability	13	–	(2,539)	–	(2,012)
Long-term provisions	22	(1,957)	(2,502)	(1,957)	(2,502)
		<b>(11,938)</b>	(20,114)	<b>(11,938)</b>	(19,587)
<b>Total liabilities</b>		<b>(117,973)</b>	(122,233)	<b>(125,780)</b>	(129,513)
<b>Net assets</b>		<b>266,274</b>	246,703	<b>264,522</b>	245,003
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Issued capital	23	2,023	2,023	2,023	2,023
Share premium account		13,533	13,533	13,533	13,533
Capital redemption reserve	23	416	416	416	416
Retained earnings		250,302	230,731	248,550	229,031
<b>Total equity attributable to equity holders of the Parent</b>		<b>266,274</b>	246,703	<b>264,522</b>	245,003

The accounts on pages 70 to 99 were approved by the Board of Directors on 1 March 2016 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 2 January 2016 (2014: 53 weeks ended 3 January 2015)

### Group

53 weeks ended 3 January 2015

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 29 December 2013		2,023	13,533	416	220,205	236,177
<b>Total comprehensive income for the year</b>						
Profit for the financial year		-	-	-	37,556	37,556
Other comprehensive income		-	-	-	(6,860)	(6,860)
Total comprehensive income for the year		-	-	-	30,696	30,696
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		-	-	-	5,257	5,257
Purchase of own shares		-	-	-	(7,873)	(7,873)
Share-based payment transactions	21	-	-	-	529	529
Dividends to equity holders	23	-	-	-	(19,570)	(19,570)
Tax items taken directly to reserves	8	-	-	-	1,487	1,487
Total transactions with owners		-	-	-	(20,170)	(20,170)
<b>Balance at 3 January 2015</b>		<b>2,023</b>	<b>13,533</b>	<b>416</b>	<b>230,731</b>	<b>246,703</b>

### 52 weeks ended 2 January 2016

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 4 January 2015		2,023	13,533	416	230,731	246,703
<b>Total comprehensive income for the year</b>						
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
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		-	-	-	3,876	3,876
Purchase of own shares		-	-	-	(11,125)	(11,125)
Share-based payment transactions	21	-	-	-	3,662	3,662
Dividends to equity holders	23	-	-	-	(43,714)	(43,714)
Tax items taken directly to reserves	8	-	-	-	5,242	5,242
Total transactions with owners		-	-	-	(42,059)	(42,059)
<b>Balance at 2 January 2016</b>		<b>2,023</b>	<b>13,533</b>	<b>416</b>	<b>250,302</b>	<b>266,274</b>

**Statements of changes in equity** *continued*

for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

**Parent Company**

53 weeks ended 3 January 2015

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 29 December 2013		2,023	13,533	416	218,505	234,477
<b>Total comprehensive income for the year</b>						
Profit for the financial year	7	-	-	-	37,556	37,556
Other comprehensive income		-	-	-	(6,860)	(6,860)
Total comprehensive income for the year		-	-	-	30,696	30,696
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		-	-	-	5,257	5,257
Purchase of own shares		-	-	-	(7,873)	(7,873)
Share-based payment transactions	21	-	-	-	529	529
Dividends to equity holders	23	-	-	-	(19,570)	(19,570)
Tax items taken directly to reserves	8	-	-	-	1,487	1,487
Total transactions with owners		-	-	-	(20,170)	(20,170)
<b>Balance at 3 January 2015</b>		<b>2,023</b>	<b>13,533</b>	<b>416</b>	<b>229,031</b>	<b>245,003</b>

**52 weeks ended 2 January 2016**

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 4 January 2015		2,023	13,533	416	229,031	245,003
<b>Total comprehensive income for the year</b>						
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
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		-	-	-	3,876	3,876
Purchase of own shares		-	-	-	(11,125)	(11,125)
Share-based payment transactions	21	-	-	-	3,662	3,662
Dividends to equity holders	23	-	-	-	(43,714)	(43,714)
Tax items taken directly to reserves	8	-	-	-	5,242	5,242
Total transactions with owners		-	-	-	(42,059)	(42,059)
<b>Balance at 2 January 2016</b>		<b>2,023</b>	<b>13,533</b>	<b>416</b>	<b>248,550</b>	<b>264,522</b>

## Statements of cashflows

for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

	Note	Group		Parent Company	
		2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Operating activities</b>					
Cash generated from operations (see below)		119,637	108,552	119,637	108,552
Income tax paid		(15,916)	(11,462)	(15,916)	(11,462)
<b>Net cash inflow from operating activities</b>		<b>103,721</b>	<b>97,090</b>	<b>103,721</b>	<b>97,090</b>
<b>Investing activities</b>					
Acquisition of property, plant and equipment		(65,785)	(44,456)	(65,785)	(44,456)
Acquisition of intangible assets		(5,981)	(3,809)	(5,981)	(3,809)
Proceeds from sale of property, plant and equipment		8,086	2,231	8,086	2,231
Interest received	6	222	173	222	173
Redemption/(acquisition) of other investments	12	10,000	(7,000)	10,000	(7,000)
<b>Net cash outflow from investing activities</b>		<b>(53,458)</b>	<b>(52,861)</b>	<b>(53,458)</b>	<b>(52,861)</b>
<b>Financing activities</b>					
Sale of own shares		3,876	5,257	3,876	5,257
Purchase of own shares		(11,125)	(7,873)	(11,125)	(7,873)
Dividends paid	23	(43,714)	(19,570)	(43,714)	(19,570)
<b>Net cash outflow from financing activities</b>		<b>(50,963)</b>	<b>(22,186)</b>	<b>(50,963)</b>	<b>(22,186)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(700)</b>	<b>22,043</b>	<b>(700)</b>	<b>22,043</b>
Cash and cash equivalents at the start of the year	17	43,615	21,572	43,615	21,572
<b>Cash and cash equivalents at the end of the year</b>	17	<b>42,915</b>	<b>43,615</b>	<b>42,915</b>	<b>43,615</b>

### Cash flow statement – cash generated from operations

		2015 £'000	2014 £'000	2015 £'000	2014 £'000
Profit for the financial year		57,600	37,556	57,548	37,556
Amortisation	10	454	100	454	100
Depreciation	11	39,687	37,463	39,687	37,463
Impairment	11	66	414	66	414
Loss on sale of property, plant and equipment		2,952	3,576	2,952	3,576
Release of government grants		(484)	(473)	(484)	(473)
Share-based payment expenses	21	3,662	529	3,662	529
Finance expense/(income)	6	85	(175)	85	(175)
Income tax expense	8	15,428	12,187	15,480	12,187
(Increase)/decrease in inventories		(154)	115	(154)	115
Increase in receivables		(1,555)	(1,079)	(1,555)	(1,079)
Increase in payables		2,875	17,089	2,875	17,089
(Decrease)/increase in provisions		(979)	1,250	(979)	1,250
<b>Cash from operating activities</b>		<b>119,637</b>	<b>108,552</b>	<b>119,637</b>	<b>108,552</b>

## 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 1 March 2016.

#### (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 01 to 65. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 20 to 21. 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:

- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
- Annual Improvements to IFRSs – 2010-2012 Cycle
- Annual Improvements to IFRSs – 2011-2013 Cycle

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 the current year the Group has continued to expand its franchise operations. Certain of these arrangements include up-front payments from franchisees receivable in respect of the capital fit-out of the franchise operators' shops. Due to these up-front payments becoming material in the year, the Directors have reconsidered the application of IAS 18 to these specific transactions. They have now determined that the Group is acting as a principal in these transactions whilst previously these had been presented as if they were acting as agents. The prior-year figures have been restated for this change in presentation. For the 53 weeks ended 3 January 2015 both turnover and cost of sales have increased by £2,135,000. There is no impact on profit, balance sheet or cash flows for this change in presentation.

In addition, a review of income statement categorisations was carried out which identified two re-categorisations. Firstly it was determined that it was more appropriate for all wage costs associated with bakery and distribution centre despatch activities to be included in distribution and selling costs, rather than some being included in cost of sales. The net impact of this for the 53 weeks ended 3 January 2015 has been a decrease in cost of sales and a corresponding increase in distribution and selling costs of £7,294,000. Secondly, early settlement discounts should have been included in administrative costs rather than cost of sales. The net impact for the 53 weeks ended 3 January 2015 has been an increase in cost of sales and a decrease in administrative costs of £80,000. There is no impact on profit, balance sheet or cash flows arising from these changes in categorisation.

## **Notes to the consolidated accounts continued**

### **Significant accounting policies continued**

#### **(b) Basis of preparation continued**

##### **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 24 to 25 of the strategic report. In addition the financial review on pages 20 to 21 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 actual liability being dependent on future events such as trading conditions at a particular shop or the ability of the Group to exit from the lease commitment. 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 value-in-use calculations which include 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 value-in-use and recoverable value. Where it is concluded that the impairment has reduced a reversal of the impairment is recorded. The sensitivities for growth rate, discount rate and lease term have been considered and are deemed not significant. For instance, a two per cent change in the growth rate would result in a £43,000 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 2015 are given in Note 21.

#### **(c) Basis of consolidation**

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 2 January 2016. The comparative period is the 53 weeks ended 3 January 2015.

##### **(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 percent of the voting power of another entity. At the year end the Group has one associate which has not been consolidated on grounds of materiality (see note 12).

##### **(iii) Transactions eliminated on consolidation**

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

#### **(d) Exceptional items**

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

**(e) Foreign currency**

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

**(f) Intangible assets**

The Group's only intangible assets relate to software and the costs of its implementation which 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.

## Notes to the consolidated accounts *continued*

### Significant accounting policies *continued*

#### (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

##### (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.

#### (n) Employee share ownership plan

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

#### (o) Employee benefits

##### (i) Short-term employee benefits

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

##### (ii) Defined contribution plans

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

##### (iii) Defined benefit plans

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

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

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

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

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

(iv) Share-based payment transactions

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

(v) Termination benefits

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

**(p) Provisions**

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

(i) Restructuring

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

(ii) Onerous leases

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

(iii) Dilapidations

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. Any additional franchise fee income relating to franchise sales is recognised on an accruals basis in accordance with the substance of the relevant agreement. Capital fit-out costs are recharged to the franchisee and recognised when they are completed.

(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.

## Notes to the consolidated accounts continued

### Significant accounting policies continued

#### (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 income 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.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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:

- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 for accounting periods commencing on or after 1 January 2016.
- Equity Method in Separate Financial Statements – Amendments to IAS 27 for accounting periods commencing on or after 1 January 2016.
- Annual Improvements to IFRSs – 2012-2014 Cycle for accounting periods commencing on or after 1 January 2016.
- Disclosure Initiative – Amendments to IAS 1 for accounting periods commencing on or after 1 January 2016.

These standards and amendments will be adopted as they become effective and none of them is expected to have a significant impact 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 25. 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 £85,000 (2014: income of £175,000).

### Equity price risk

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

## Notes to the consolidated accounts continued

### 2. Financial risk management continued

#### Capital management

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

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

#### Financial instruments

##### Group and Parent Company

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

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

##### Financial assets and liabilities

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 2 January 2016 (2014: £nil).

##### Fair values

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

##### Interest rate, credit and foreign currency risk

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

### 3. Profit before tax

Profit before tax is stated after charging/(crediting):

	2015 £'000	2014 £'000
Amortisation of intangible assets	454	100
Depreciation on owned property, plant and equipment	39,687	37,463
Impairment of owned property, plant and equipment	66	414
Loss on disposal of fixed assets	2,952	3,576
Release of government grants	(484)	(473)
Payments under operating leases – property rents	46,173	48,451
Research and development expenditure	320	465
Auditor's remuneration:		
Audit of these accounts	140	140
Audit of pension schemes' accounts	7	7
Other services – tax compliance	21	21
Other services – tax advisory	12	25
All other services	12	5

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

#### 4. Exceptional items

	2015 £'000	2014 £'000
Cost of sales		
Closure of in-store bakeries – redundancy and disruption costs	–	3,190
– loss on disposal of assets	–	664
– dilapidations	–	2,078
	–	5,932
Distribution and selling		
Shop asset impairment reversal	–	(149)
Onerous leases	–	431
	–	282
Administrative expenses		
Restructuring of support functions	–	2,302
<b>Total exceptional items</b>	<b>–</b>	<b>8,516</b>

The judgements made in calculating the provisions which arose as prior year exceptional items have been revisited. No additional amounts have been charged or reversed in the current year in respect of these. There remains some uncertainty in relation to these provisions which will be re-assessed in future periods, with any movements being classified as exceptional.

##### Closure of in-store bakeries

The charge arose from the decision to consolidate the Company's in-store bakeries into its regional bakery network and comprised of redundancy costs, disruption costs arising on the transfer of production from stores to regional bakeries; asset write-offs and the costs of making good the shops (dilapidations) as bakery equipment is removed.

##### Shop impairment and onerous leases

The charges arose from the decision to focus on reshaping the Group's existing estate through closure and resite of shops and withdrawal from the Greggs moment brand.

##### Restructuring of support functions

The charge related to the redundancy costs incurred in respect of restructuring within the support functions.

#### 5. Personnel expenses

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

	2015 Number	2014 Number
Management	713	698
Administration	454	386
Production	3,029	3,143
Shop	15,651	15,136
	<b>19,847</b>	<b>19,363</b>

The aggregate costs of these persons were as follows:

	Note	2015 £'000	2014 £'000
Wages and salaries		280,559	281,336
Compulsory social security contributions		19,485	19,578
Pension costs – defined contribution plans	21	10,302	9,901
Equity-settled transactions	21	3,662	529
		<b>314,008</b>	<b>311,344</b>

## Notes to the consolidated accounts continued

### 5. Personnel expenses continued

In addition to wages and salaries, the total amount accrued under the Group's employee profit sharing scheme is contained within the main cost categories as follows:

	2015 £'000	2014 £'000
Cost of sales	2,107	1,657
Distribution and selling costs	5,025	3,952
Administrative expenses	974	765
	<b>8,106</b>	<b>6,374</b>

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

	2015 £'000	2014 £'000
Salaries and fees	1,388	1,343
Taxable benefits	40	36
Annual bonus (including profit share)	1,056	1,101
Post-retirement benefits	183	195
Share-based payments	1,394	304
	<b>4,061</b>	<b>2,979</b>

The aggregate amount of gains made on exercise of share options by the Directors was £1,195,000 (2014: £1,000). The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme was two (2014: two).

### 6. Finance (expense)/income

	Note	2015 £'000	2014 £'000
Interest income on cash balances		198	183
Foreign exchange gain/(loss)		24	(10)
Net interest related to defined benefit obligation	21	(307)	2
		<b>(85)</b>	<b>175</b>

### 7. Profit attributable to Greggs plc

Of the Group profit for the year, £57,548,000 (2014: £37,556,000) 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

	Total 2015 £'000	Excluding exceptional items 2014 £'000	Exceptional items 2014 £'000	Total 2014 £'000
<b>Current tax</b>				
Current year	17,970	15,776	(1,534)	14,242
Adjustment for prior years	(530)	(229)	-	(229)
	<b>17,440</b>	<b>15,547</b>	<b>(1,534)</b>	<b>14,013</b>
<b>Deferred tax</b>				
Origination and reversal of temporary differences	(1,038)	(1,471)	(276)	(1,747)
Reduction in tax rate	(254)	-	-	-
Adjustment for prior years	(720)	(79)	-	(79)
	<b>(2,012)</b>	<b>(1,550)</b>	<b>(276)</b>	<b>(1,826)</b>
Total income tax expense in income statement	<b>15,428</b>	<b>13,997</b>	<b>(1,810)</b>	<b>12,187</b>

**Reconciliation of effective tax rate**

	2015	2015 £'000	2014	2014 £'000
Profit before tax		<b>73,028</b>		49,743
Income tax using the domestic corporation tax rate	<b>20.25%</b>	<b>14,788</b>	21.5%	10,695
Non-deductible expenses	<b>0.95%</b>	<b>698</b>	1.0%	521
Non-qualifying depreciation	<b>1.7%</b>	<b>1,263</b>	2.5%	1,245
Loss on disposal of non-qualifying assets	<b>0.1%</b>	<b>53</b>	0.1%	34
Impact of reduction in deferred tax rate	<b>(0.2%)</b>	<b>(124)</b>	-	-
Adjustment for prior years	<b>(1.7%)</b>	<b>(1,250)</b>	(0.6%)	(308)
Total income tax expense in income statement	<b>21.1%</b>	<b>15,428</b>	24.5%	12,187

**Reconciliation of effective tax rate (underlying excluding exceptional items)**

	2015	2015 £'000	2014	2014 £'000
Profit before tax		<b>73,028</b>		58,259
Income tax using the domestic corporation tax rate	<b>20.25%</b>	<b>14,788</b>	21.5%	12,526
Non-deductible expenses	<b>0.95%</b>	<b>698</b>	0.8%	500
Non-qualifying depreciation	<b>1.7%</b>	<b>1,263</b>	2.1%	1,245
Loss on disposal of non-qualifying assets	<b>0.1%</b>	<b>53</b>	0.1%	34
Impact of reduction in deferred tax rate	<b>(0.2%)</b>	<b>(124)</b>	-	-
Adjustment for prior years	<b>(1.7%)</b>	<b>(1,250)</b>	(0.5%)	(308)
Total income tax expense in income statement	<b>21.1%</b>	<b>15,428</b>	24.0%	13,997

On 26 October 2015 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 18 per cent with effect from 1 April 2020 were substantively enacted. 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 18 per cent.

**Tax recognised in other comprehensive income or directly in equity**

	2015 Current tax £'000	2015 Deferred tax £'000	2015 Total £'000	2014 Total £'000
Debit/(credit):				
Relating to equity-settled transactions	-	<b>(5,242)</b>	<b>(5,242)</b>	(1,487)
Relating to defined benefit plans – re-measurement gains/(losses)	-	<b>885</b>	<b>885</b>	(1,715)
	-	<b>(4,357)</b>	<b>(4,357)</b>	(3,202)

The deferred tax credit in the year relating to equity-settled transactions is in respect of share-based payments and arises primarily as a result of the increased 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 2 January 2016 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 52 weeks ended 2 January 2016 as calculated overleaf.

**Diluted earnings per share**

Diluted earnings per share for the 52 weeks ended 2 January 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 2 January 2016 as calculated overleaf.

## Notes to the consolidated accounts *continued*

### 9. Earnings per share *continued*

#### Profit attributable to ordinary shareholders

	Total 2015 £'000	Excluding exceptional items 2014 £'000	Exceptional items 2014 £'000	Total 2014 £'000
Profit for the financial year attributable to equity holders of the Parent	<b>57,600</b>	44,262	(6,706)	37,556
Basic earnings per share	<b>57.3p</b>	44.0p	(6.6p)	37.4p
Diluted earnings per share	<b>55.8p</b>	43.4p	(6.6p)	36.8p

#### Weighted average number of ordinary shares

	2015 Number	2014 Number
Issued ordinary shares at start of year	<b>101,155,901</b>	101,155,901
Effect of own shares held	<b>(551,314)</b>	(638,815)
<b>Weighted average number of ordinary shares during the year</b>	<b>100,604,587</b>	100,517,086
Effect of share options on issue	<b>2,616,364</b>	1,517,722
<b>Weighted average number of ordinary shares (diluted) during the year</b>	<b>103,220,951</b>	102,034,808

### 10. Intangible assets

#### Group and Parent Company

	Software £'000	Assets under development £'000	Total £'000
<b>Cost</b>			
Balance at 29 December 2013	1,715	–	1,715
Additions	817	2,992	3,809
Balance at 3 January 2015	2,532	2,992	5,524
<b>Balance at 4 January 2015</b>	<b>2,532</b>	<b>2,992</b>	<b>5,524</b>
Additions	–	5,981	5,981
<b>Balance at 2 January 2016</b>	<b>2,532</b>	<b>8,973</b>	<b>11,505</b>
<b>Amortisation</b>			
Balance at 29 December 2013	703	–	703
Amortisation charge for the year	100	–	100
Balance at 3 January 2015	803	–	803
<b>Balance at 4 January 2015</b>	<b>803</b>	<b>–</b>	<b>803</b>
Amortisation charge for the year	454	–	454
<b>Balance at 2 January 2016</b>	<b>1,257</b>	<b>–</b>	<b>1,257</b>
<b>Carrying amounts</b>			
At 29 December 2013	1,012	–	1,012
At 3 January 2015	1,729	2,992	4,721
<b>At 4 January 2015</b>	<b>1,729</b>	<b>2,992</b>	<b>4,721</b>
<b>At 2 January 2016</b>	<b>1,275</b>	<b>8,973</b>	<b>10,248</b>

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

## 11. Property, plant and equipment Group

	Note	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
<b>Cost</b>						
Balance at 29 December 2013		135,031	120,152	249,194	–	504,377
Additions		429	10,121	34,278	278	45,106
Disposals		(612)	(6,654)	(32,748)	–	(40,014)
Transfer to assets held for sale		(6,885)	–	–	–	(6,885)
Balance at 3 January 2015		127,963	123,619	250,724	278	502,584
<b>Balance at 4 January 2015</b>		<b>127,963</b>	<b>123,619</b>	<b>250,724</b>	<b>278</b>	<b>502,584</b>
<b>Additions</b>		<b>70</b>	<b>9,265</b>	<b>45,510</b>	<b>10,890</b>	<b>65,735</b>
<b>Disposals</b>		<b>(1,034)</b>	<b>(3,120)</b>	<b>(28,527)</b>	<b>–</b>	<b>(32,681)</b>
<b>Balance at 2 January 2016</b>		<b>126,999</b>	<b>129,764</b>	<b>267,707</b>	<b>11,168</b>	<b>535,638</b>
<b>Depreciation</b>						
Balance at 29 December 2013		31,936	74,701	129,943	–	236,580
Depreciation charge for the year		2,838	10,529	24,096	–	37,463
Ordinary impairment charge for the year		–	–	974	–	974
Ordinary impairment release for the year		–	–	(411)	–	(411)
Exceptional impairment release for the year	4	–	–	(149)	–	(149)
Disposals		(297)	(5,468)	(28,442)	–	(34,207)
Transfer to assets held for sale		(385)	–	–	–	(385)
Balance at 3 January 2015		34,092	79,762	126,011	–	239,865
<b>Balance at 4 January 2015</b>		<b>34,092</b>	<b>79,762</b>	<b>126,011</b>	<b>–</b>	<b>239,865</b>
<b>Depreciation charge for the year</b>		<b>2,772</b>	<b>10,544</b>	<b>26,371</b>	<b>–</b>	<b>39,687</b>
<b>Impairment charge for the year</b>		<b>–</b>	<b>133</b>	<b>537</b>	<b>–</b>	<b>670</b>
<b>Impairment release for the year</b>		<b>–</b>	<b>–</b>	<b>(604)</b>	<b>–</b>	<b>(604)</b>
<b>Disposals</b>		<b>(845)</b>	<b>(2,789)</b>	<b>(24,509)</b>	<b>–</b>	<b>(28,143)</b>
<b>Balance at 2 January 2016</b>		<b>36,019</b>	<b>87,650</b>	<b>127,806</b>	<b>–</b>	<b>251,475</b>
<b>Carrying amounts</b>						
At 29 December 2013		103,095	45,451	119,251	–	267,797
At 3 January 2015		93,871	43,857	124,713	278	262,719
<b>At 4 January 2015</b>		<b>93,871</b>	<b>43,857</b>	<b>124,713</b>	<b>278</b>	<b>262,719</b>
<b>At 2 January 2016</b>		<b>90,980</b>	<b>42,114</b>	<b>139,901</b>	<b>11,168</b>	<b>284,163</b>

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 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.

Included within disposals for the prior year were fixtures and fittings with a net book value of £849,000 which related to the closure of the in-store bakeries. The loss on disposal of these assets was £664,000 and formed part of the exceptional charge detailed in Note 4.

## Notes to the consolidated accounts continued

### 11. Property, plant and equipment continued Parent Company

	Note	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
<b>Cost</b>						
Balance at 29 December 2013		135,541	120,685	249,682	–	505,908
Additions		429	10,121	34,278	278	45,106
Disposals		(612)	(6,654)	(32,748)	–	(40,014)
Transfer to assets held for sale		(6,885)	–	–	–	(6,885)
Balance at 3 January 2015		128,473	124,152	251,212	278	504,115
<b>Balance at 4 January 2015</b>		<b>128,473</b>	<b>124,152</b>	<b>251,212</b>	<b>278</b>	<b>504,115</b>
<b>Additions</b>		<b>70</b>	<b>9,265</b>	<b>45,510</b>	<b>10,890</b>	<b>65,735</b>
<b>Disposals</b>		<b>(1,034)</b>	<b>(3,120)</b>	<b>(28,527)</b>	<b>–</b>	<b>(32,681)</b>
<b>Balance at 2 January 2016</b>		<b>127,509</b>	<b>130,297</b>	<b>268,195</b>	<b>11,168</b>	<b>537,169</b>
<b>Depreciation</b>						
Balance at 29 December 2013		32,213	74,971	130,334	–	237,518
Depreciation charge for the year		2,838	10,529	24,096	–	37,463
Ordinary impairment charge for the year		–	–	974	–	974
Ordinary impairment release for the year		–	–	(411)	–	(411)
Exceptional impairment release for the year	4	–	–	(149)	–	(149)
Disposals		(297)	(5,468)	(28,442)	–	(34,207)
Transfer to assets held for sale		(385)	–	–	–	(385)
Balance at 3 January 2015		34,369	80,032	126,402	–	240,803
<b>Balance at 4 January 2015</b>		<b>34,369</b>	<b>80,032</b>	<b>126,402</b>	<b>–</b>	<b>240,803</b>
<b>Depreciation charge for the year</b>		<b>2,772</b>	<b>10,544</b>	<b>26,371</b>	<b>–</b>	<b>39,687</b>
<b>Impairment charge for the year</b>		<b>–</b>	<b>133</b>	<b>537</b>	<b>–</b>	<b>670</b>
<b>Impairment release for the year</b>		<b>–</b>	<b>–</b>	<b>(604)</b>	<b>–</b>	<b>(604)</b>
<b>Disposals</b>		<b>(845)</b>	<b>(2,789)</b>	<b>(24,509)</b>	<b>–</b>	<b>(28,143)</b>
<b>Balance at 2 January 2016</b>		<b>36,296</b>	<b>87,920</b>	<b>128,197</b>	<b>–</b>	<b>252,413</b>
<b>Carrying amounts</b>						
At 29 December 2013		103,328	45,714	119,348	–	268,390
At 3 January 2015		94,104	44,120	124,810	278	263,312
<b>At 4 January 2015</b>		<b>94,104</b>	<b>44,120</b>	<b>124,810</b>	<b>278</b>	<b>263,312</b>
<b>At 2 January 2016</b>		<b>91,213</b>	<b>42,377</b>	<b>139,998</b>	<b>11,168</b>	<b>284,756</b>

#### Land and buildings

The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Freehold property	90,780	93,808	91,013	94,041
Long leasehold property	3	1	3	1
Short leasehold property	197	62	197	62
	<b>90,980</b>	<b>93,871</b>	<b>91,213</b>	<b>94,104</b>

**12. Investments**  
**Non-current investments**  
 Parent Company

	Shares in subsidiary undertakings £'000
<b>Cost</b>	
Balance at 29 December 2013, 3 January 2015 and 2 January 2016	<b>5,828</b>
<b>Impairment</b>	
Balance at 29 December 2013, 3 January 2015 and 2 January 2016	<b>841</b>
<b>Carrying amount</b>	
Balance at 29 December 2013, 3 January 2015, 4 January 2015 and 2 January 2016	<b>4,987</b>

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

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

\* Held indirectly.

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.

**Current investments**

	Group and Parent Company	
	2015 £'000	2014 £'000
Fixed-term deposit	–	10,000

This represents cash placed on deposit that had a maturity of between three and six months at the date of inception. The fair value of the deposit is the same as its book value.

## Notes to the consolidated accounts continued

### 13. Deferred tax assets and liabilities

#### Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Property, plant and equipment	-	-	(5,080)	(7,054)	(5,080)	(7,054)
Employee benefits	8,878	4,034	-	-	8,878	4,034
Short-term temporary differences	32	481	-	-	32	481
<b>Tax assets/(liabilities)</b>	<b>8,910</b>	<b>4,515</b>	<b>(5,080)</b>	<b>(7,054)</b>	<b>3,830</b>	<b>(2,539)</b>

The movements in temporary differences during the year ended 3 January 2015 were as follows:

	Balance at 29 December 2013 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 3 January 2015 £'000
Property, plant and equipment	(8,608)	1,554	-	(7,054)
Employee benefits	809	82	3,143	4,034
Short-term temporary differences	291	190	-	481
	(7,508)	1,826	3,143	(2,539)

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

#### Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Property, plant and equipment	-	-	(4,605)	(6,527)	(4,605)	(6,527)
Employee benefits	8,878	4,034	-	-	8,878	4,034
Short-term temporary differences	32	481	-	-	32	481
<b>Tax assets/(liabilities)</b>	<b>8,910</b>	<b>4,515</b>	<b>(4,605)</b>	<b>(6,527)</b>	<b>4,305</b>	<b>(2,012)</b>

The movements in temporary differences during the year ended 3 January 2015 were as follows:

	Balance at 29 December 2013 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 3 January 2015 £'000
Property, plant and equipment	(8,081)	1,554	-	(6,527)
Employee benefits	809	82	3,143	4,034
Short-term temporary differences	291	190	-	481
	(6,981)	1,826	3,143	(2,012)

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 deferred tax asset, which principally arises in respect of employee benefits is expected to reverse within 12 months. As the Company anticipates having sufficient taxable profits to utilise these deductions it is considered appropriate to recognise the deferred tax asset.

#### 14. Inventories

	Group and Parent Company	
	2015 £'000	2014 £'000
Raw materials and consumables	12,213	11,833
Work in progress	3,231	3,457
	15,444	15,290

#### 15. Trade and other receivables

	Group and Parent Company	
	2015 £'000	2014 £'000
Trade receivables	9,496	7,311
Other receivables	4,513	6,512
Prepayments	13,638	12,268
	27,647	26,091

At 2 January 2016 trade receivables are shown net of an allowance for bad debts of £31,000 (2014: £41,000) 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	
	2015 £'000	2014 £'000
Not past due date	6,089	5,398
Past due 1-30 days	3,283	1,765
Past due 31-90 days	80	148
Past due over 90 days	44	–
	9,496	7,311

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. Assets held for sale

The asset held for sale at 3 January 2015 was land at Southall which had been identified as no longer required for supply chain expansion. An offer for the site was received in 2014 and negotiations to finalise the sale were ongoing. The sale of the site was completed during 2015.

#### 17. Cash and cash equivalents

	Group and Parent Company	
	2015 £'000	2014 £'000
Cash and cash equivalents	42,915	43,615

## Notes to the consolidated accounts continued

### 18. Trade and other payables

	Group		Parent Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade payables	42,405	40,865	42,405	40,865
Amounts owed to subsidiary undertakings	–	–	7,807	7,807
Other taxes and social security	5,912	5,767	5,912	5,767
Other payables	27,085	24,753	27,085	24,753
Accruals and deferred income	16,910	18,101	16,910	18,101
Deferred government grants	468	468	468	468
	<b>92,780</b>	<b>89,954</b>	<b>100,587</b>	<b>97,761</b>

### 19. Current tax liability

The current tax liability of £9,580,000 in the Group and the Parent Company (2014: Group and Parent Company £8,056,000) represents the estimated amount of income taxes payable in respect of current and prior years.

### 20. Non-current liabilities – other payables

	Group and Parent Company	
	2015 £'000	2014 £'000
Deferred government grants	6,071	6,555

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

### 21. Employee benefits

#### Defined benefit plan

##### Scheme background

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

The scheme is administered by a separate Board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 6 April 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 former employees and current pensioners. Broadly, 60 per cent of the liabilities are attributable to former employees and 40 per cent 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	
	2015 £'000	2014 £'000
Defined benefit obligation	(102,918)	(106,201)
Fair value of plan assets	99,008	97,683
Net defined benefit liability	<b>(3,910)</b>	<b>(8,518)</b>

### Liability for defined benefit obligation

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

	Group and Parent Company	
	2015 £'000	2014 £'000
Opening defined benefit obligation	106,201	95,597
Interest cost	3,751	4,142
Re-measurement (gains)/losses:		
– changes in demographic assumptions	1,384	–
– changes in financial assumptions	(2,519)	10,610
– experience	(1,854)	(882)
Benefits paid	(4,045)	(3,266)
	<b>102,918</b>	<b>106,201</b>

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

	Group and Parent Company	
	2015 £'000	2014 £'000
Opening fair value of plan assets	97,683	95,652
Net interest on plan assets	3,444	4,144
Re-measurement gains	1,926	1,153
Benefits paid	(4,045)	(3,266)
Closing fair value of plan assets	<b>99,008</b>	<b>97,683</b>

The costs (charged)/credited in the income statement are as follows:

	Group	
	2015 £'000	2014 £'000
Interest (expense)/income on net defined benefit liability	(307)	2

The amounts recognised in other comprehensive income are as follows:

	Group	
	2015 £'000	2014 £'000
Re-measurement gains/(losses) on defined benefit pension plans	4,915	(8,575)

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 £21,219,000 (2014: net losses of £26,134,000).

The fair value of the plan assets is as follows:

	Group and Parent Company	
	2015 £'000	2014 £'000
Equities – UK	40,320	39,432
– overseas	32,381	30,878
Bonds – corporate	16,547	16,765
– government	3,405	3,512
Absolute return funds	6,125	–
Property	–	2,592
Cash and cash equivalents/other	230	4,504
	<b>99,008</b>	<b>97,683</b>

## Notes to the consolidated accounts continued

### 21. Employee benefits continued

#### Defined benefit plan continued

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2015	2014
Discount rate	3.85%	3.6%
Future salary increases	n/a	n/a
Future pension increases	1.7% – 2.45%	1.6% – 2.4%

#### 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 (2014: 22.1 years) if they are male and 24.4 years (2014: 24.4 years) if they are female. Members currently aged 45 are expected to live for a further 24.3 years (2014: 23.4 years) from age 65 if they are male and for a further 26.4 years (2014: 25.9 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 £2m
Inflation	0.1% decrease	Reduction of £1.4m
Mortality rates	1 year increase	Increase of £3.1m

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

The Group expects to contribute £nil to its defined benefit plan in 2016.

#### Defined contribution plan

The Company also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £10,302,000 (2014: £9,901,000) 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
Savings Related Share Option Scheme 12	April 2011	All employees	453p	697,609	Three years' service	3.5 years
Executive Share Option Scheme 15	August 2011	Senior employees	482p	707,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 3	March 2012	Senior executives	£nil	248,922	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
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 compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 14	April 2013	All employees	414p	699,989	Three years' service	3.5 years
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 compound growth of 1-4% over RPI over those three years and average annual ROCE of 15.5-17% over those three years	10 years
Executive Share Option Scheme 17	April 2014	Senior employees	500p	598,225	Three years' service and EPS growth of 1-4% over RPI on average over those three years	10 years
Savings Related Share Option Scheme 15	April 2014	All employees	465p	696,344	Three years' service	3.5 years
Executive Share Option Scheme 18	March 2015	Senior employees	1022p	298,045	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Executive Share Option Scheme 18a	May 2015	Senior employee	1056p	3,285	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Performance Share Plan 6	March 2015	Senior executives	£nil	146,174	Three years' service, EPS annual compound growth of 1-7% over RPI over those three years and average annual ROCE of 19-21.5% over those three years	10 years
Savings Related Share Option Scheme 16	April 2015	All employees	818p	391,979	Three years' service	3.5 years

## Notes to the consolidated accounts continued

### 21. Employee benefits continued

#### Share-based payments – Group and Parent Company continued

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

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	369p	4,333,526	382p	5,155,631
Lapsed during the year	291p	(257,187)	406p	(1,151,544)
Exercised during the year	401p	(882,263)	404p	(1,264,132)
Granted during the year	749p	839,483	391p	1,593,571
Outstanding at the end of the year	446p	4,033,559	369p	4,333,526
Exercisable at the end of the year	365p	331,380	384p	640,812

The options outstanding at 2 January 2016 have an exercise price in the range of £nil to £10.56 and have a weighted average contractual life of 5.2 years. The options exercised during the year had a weighted average market value of £11.38 (2014: £5.33).

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:

	2015				2014			
	Performance Share Plan 6 March 2015	Executive Share Option Scheme 18 March 2015	Executive Share Option Scheme 18a March 2015	Savings Related Share Option Scheme 16 April 2015	Performance Share Plan 5 March 2014	Recruitment share award February 2014	Executive Share Option Scheme 17 April 2014	Savings Related Share Option Scheme 15 April 2014
Fair value at grant date	971p	140p	145p	230p	443p	499p	48p	68p
Share price	1035p	1022p	1056p	818p	498p	499p	500p	517p
Exercise price	nil	1022p	1056p	1023p	nil	nil	500p	465p
Expected volatility	23.9%	23.9%	23.8%	23.9%	20.6%	–	20.6%	20.7%
Option life	3 years	3 years	3 years	3 years	3 years	2 years	3 years	3 years
Expected dividend yield	2.13%	2.15%	2.08%	2.15%	3.92%	–	3.92%	3.92%
Risk-free rate	0.69%	0.64%	0.69%	0.76%	1.07%	–	1.07%	1.07%

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:

	2015 £'000	2014 £'000
Share options granted in 2011	–	(453)
Share options granted in 2012	91	(38)
Share options granted in 2013	1,573	524
Share options granted in 2014	1,321	496
Share options granted in 2015	677	–
Total expense recognised as employee costs	3,662	529

## 22. Provisions

	Group and Parent Company					
	2015 Dilapidations £'000	2015 Onerous leases £'000	2015 Total £'000	2014 Dilapidations £'000	2014 Onerous leases £'000	2014 Total £'000
Balance at start of year	3,456	3,155	6,611	1,689	3,672	5,361
Additional provision in the year	1,422	581	2,003	3,330	1,232	4,562
Utilised in year	(1,135)	(1,059)	(2,194)	(1,249)	(1,369)	(2,618)
Provisions reversed during the year	(400)	(388)	(788)	(314)	(380)	(694)
Balance at end of year	3,343	2,289	5,632	3,456	3,155	6,611
Included in current liabilities	2,632	1,043	3,675	2,474	1,635	4,109
Included in non-current liabilities	711	1,246	1,957	982	1,520	2,502
	3,343	2,289	5,632	3,456	3,155	6,611

Provisions relate to onerous leases, dilapidations and other commitments associated with properties. Included within the provision is £704,000 in respect of possible recourse on leases which have been conditionally assigned.

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. The majority of this provision is expected to be utilised within four years such that the impact of discounting would not be material.

The Group provides for property dilapidations, where appropriate, based on estimated costs of the dilapidation repairs. £2,078,000 of the additional provision made in the prior year in respect of dilapidations was exceptional and relates to the dilapidation costs arising from the removal of in-store bakeries from shops as described in Note 4. £555,000 of this is expected to be utilised after more than one year. The remainder of the dilapidations provision is expected to be utilised within one year.

The provisions reversed or utilised during the year do not contain any items that were included as exceptional costs in the prior year.

## 23. Capital and reserves

### Share capital

	Ordinary shares	
	2015 Number	2014 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 £13,998,000 (2014: £6,750,000) 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 857,882 shares (2014: 805,034 shares) with a market value at 2 January 2016 of £11,273,000 (2014: £5,841,000) which have not vested unconditionally in employees. During the year the Trust purchased 940,687 shares for an aggregate consideration of £11,125,000 and sold 887,839 shares for an aggregate consideration of £3,876,000.

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.

## Notes to the consolidated accounts continued

### 23. Capital and reserves continued

#### Dividends

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

	2015 Per share pence	2014 Per share pence
2013 final dividend	–	13.5p
2014 interim dividend	–	6.0p
2014 final dividend	<b>16.0p</b>	–
2015 interim dividend	<b>7.4p</b>	–
2015 special dividend	<b>20.0p</b>	–
	<b>43.4p</b>	19.5p

The proposed final dividend in respect of 2015 amounts to 21.2 pence per share (£21,264,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2015 £'000	2014 £'000
2013 final dividend	–	13,530
2014 interim dividend	–	6,040
2014 final dividend	<b>16,090</b>	–
2015 interim dividend	<b>7,463</b>	–
2015 special dividend	<b>20,161</b>	–
	<b>43,714</b>	19,570

### 24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015 Property £'000	2015 Equipment £'000	2015 Total £'000	2014 Property £'000	2014 Equipment £'000	2014 Total £'000
Less than one year	<b>36,136</b>	<b>1,928</b>	<b>38,064</b>	36,887	2,031	38,918
Between one and five years	<b>73,881</b>	<b>2,588</b>	<b>76,469</b>	73,630	3,048	76,678
More than five years	<b>13,443</b>	–	<b>13,443</b>	12,210	247	12,457
	<b>123,460</b>	<b>4,516</b>	<b>127,976</b>	122,727	5,326	128,053

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.

**25. Capital commitments**

During the year ended 2 January 2016, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £2,010,000 (2014: £6,454,000). These commitments are expected to be settled in the following financial year.

**26. Related parties****Identity of related parties**

The Group has a related party relationship with its subsidiaries (see Note 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 (2014: £nil).

**Trading transactions with subsidiaries – Parent Company**

	Amounts owed to related parties		Amounts owed by related parties	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Dormant subsidiaries	<b>7,807</b>	7,807	-	-

The Greggs Foundation is also a related party and during the year the Company made a donation to the Greggs Foundation of £700,000 (2014: £520,000).

**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)	
	2015 (or date of cessation if earlier)	2014 (or date of appointment if later)	2015 (or date of cessation if earlier)	2014 (or date of appointment if later)
Roger Whiteside	<b>75,998</b>	72,253	-	-
Richard Hutton	<b>77,923</b>	55,787	<b>400,000</b>	600,000
Raymond Reynolds	<b>59,244</b>	53,224	-	-
Ian Durant (Non-Executive)	<b>11,700</b>	11,700	-	-
Allison Kirkby (Non-Executive)	<b>1,600</b>	1,600	-	-
Helena Ganczakowski (Non-Executive)	<b>1,000</b>	1,000	-	-
Peter McPhillips (Non-Executive)	<b>500</b>	-	-	-
Sandra Turner (Non-Executive)	<b>1,000</b>	-	-	-

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration report on pages 49 to 65. Summary information on remuneration of key management personnel is included in Note 5.

There have been no changes since 2 January 2016 in the Directors' interests noted above.

**27. Events after the reporting period**

As noted in the Chief Executive's report on page 19 the Group has completed a detailed review of its manufacturing and distribution operations. As a result of this, subsequent to the year end, the Board has agreed a proposal to invest substantially to reshape its supply chain over the next five years, which includes the proposed closure of three bakery sites. Alongside an increased level of capital expenditure the proposals would lead to one-off costs of around £7 million in 2016, of which £6 million would be a cash cost. No liability for costs arising from this plan has been recognised in these accounts in accordance with IAS 10.

## Ten-year history

	2006	2007	2008	2009 <sup>1</sup>	2010 <sup>1</sup>	2011	2012 (as restated) <sup>2</sup>	2013	2014 (as restated) <sup>3,4</sup>	2015 <sup>1</sup>
Turnover (£'m)	550.8	586.3	628.2	658.2	662.3	701.1	734.5	762.4	806.1	835.7
Total sales growth (%)	3.3%	6.4%	7.1%	4.8%	0.6%	5.8%	4.8%	3.8%	5.7%	3.7%
Company-managed shop like-for-like sales growth (%)	0.5%	5.3%	4.4%	0.8%	0.2%	1.4%	(2.7%)	(0.8%)	4.5%	4.7%
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	42.2	47.7	44.3	48.4	52.4	53.0	51.3	41.5	58.1	73.1
EBIT margin excluding exceptional items (%)	7.7%	8.1%	7.1%	7.4%	7.9%	7.6%	7.0%	5.4%	7.2%	8.7%
Exceptional (charge)/credit (£'m)	(3.5)	2.2	4.3	-	-	7.4	1.4	(8.1)	(8.5)	-
Profit on ordinary activities including exceptional items and before tax (£'m)	40.2	51.1	49.5	48.8	52.5	60.5	52.4	33.2	49.7	73.0
Diluted earnings per share excluding exceptional items (pence) <sup>4</sup>	26.2	32.0	30.6	34.0	37.3	38.8	38.3	30.6	43.4	55.8
Dividend per share (pence) <sup>2</sup>	11.6	14.0	14.9	16.6	18.2	19.3	19.5	19.5	22.0	48.6 <sup>5</sup>
Total shareholder return (%)	(5%)	12%	(22%)	29%	11%	13%	(6%)	1%	70%	87.1%
Capital expenditure (£'m)	30.0	42.3	40.8	30.3	45.6	59.1	46.9	47.6	48.9	71.7
Return on capital employed	23.1%	29.6%	26.2%	25.9%	25.9%	24.4%	21.3%	16.4%	22.4%	26.8%
Number of shops in operation at year end	1,336	1,368	1,409	1,419	1,487	1,571	1,671	1,671	1,650	1,698

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.

## **Financial calendar**

### **Announcement of results and dividends**

Half year	Early August
Full year	Early March

### **Dividends**

Interim	Mid-October
Final	20 May 2016

Annual report posted to shareholders	Late March
Annual General Meeting	10 May 2016

## **Secretary and advisers**

### **Secretary**

Jonathan D Jowett, LL.M. Solicitor

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