GREGGS plc

5 August 2005

GREGGS plc
INTERIM RESULTS
FOR THE 24 WEEKS ENDED 18 JUNE 2005

Greggs is the UK's leading retailer specialising in sandwiches, savouries and other bakery products, with a particular focus on takeaway food and catering. It has over 1,250 retail outlets throughout the UK, trading under the Greggs and Bakers Oven brands.

- **Record interim pre-tax profit of £15.6 million – up 15.1 per cent**
- **Building on thirteen consecutive years of profit, earnings and dividend growth**
- Earnings per share (diluted) up 14.9 per cent to 87.1 pence
- Interim dividend increased 20.0 per cent to 36.0 pence per share
- Like-for-like sales up 5.2 per cent despite tougher comparatives in final weeks
- Net 25 new shops opened: confident of at least 50 net openings this year
- Net cash balances increased to £69.6 million at end of first half
- Record £47 million capital expenditure programme proceeding to plan

"As expected, we have achieved a very satisfactory performance in our first half, despite the effect of increasingly demanding prior year comparatives and more volatile weather in its final weeks. Less favourable conditions this year are reflected in slower like-for-like sales growth of 3.0 per cent in the six weeks to 30 July. Improvement in the rate of growth will, in part, depend on resumption of more typical weather. Although profits in its first six weeks are below our budget and the level of last year, we believe that the Group is well equipped to make further progress in the second half. Our confidence in the long term prospects of the business is reflected in our accelerating shop opening programme and our record capital investment for the future."

- Sir Michael Darrington, Managing Director

ENQUIRIES:

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MANAGING DIRECTOR'S INTERIM STATEMENT

As expected, we have achieved a very satisfactory performance in our first half, despite the effect of increasingly demanding prior year comparatives and more volatile weather in its final weeks.

Results

Sales in the first half (24 weeks) increased by 9.1 per cent to £235.9 million (2004: £216.2 million), including like-for-like sales growth of 5.2 per cent. This comprised a 5.8 per cent uplift in weeks 1-19, as already reported at our AGM, and a slower increase of 2.9 per cent in weeks 20-24. We had anticipated that sales growth would slow as we entered a period of more testing comparatives, and this effect was exaggerated by the onset of very changeable weather. Over the first half as a whole, we assess the weather effect on our business as broadly neutral compared with 2004.

Operating profit increased by 8.7 per cent to £14.2 million (2004: £13.1 million), while pre-tax profit showed a more substantial increase of 15.1 per cent to £15.6 million (2004: £13.6 million). This reflected increased interest receivable of £1.4 million (2004: £0.5 million) on our higher cash balances. Earnings per share (diluted) rose by 14.9 per cent to 87.1 pence (2004: 75.8 pence).

Adoption of International Financial Reporting Standards ('IFRS')

The profit and earnings previously reported for the first half of 2004, and for our financial year to 1 January 2005, have been restated following our adoption of IFRS in place of the UK Generally Accepted Accounting Practices (UK GAAP) used previously. The principal effects on our historic accounts arise from differences in the treatment of defined benefit pension costs, share-based incentive schemes and the timing of recognition of dividends. These are explained in more detail in the separate document referred to in Note 1 on page 9. We do not anticipate that our earnings for the current year, as prepared under IFRS, will be materially different from those we would have reported under UK GAAP.

Dividend

We announced in our last annual report that dividends were likely to increase at a faster rate than earnings over the next few years, in the light of our consistently strong cash generation. Our intention is to move dividend cover to 2.5 times over the next year or so. In the light of this intention and partly to improve the balance between our interim and final dividends, the

Board has declared an increased interim dividend of 36.0 pence per share (2004: 30.0 pence) which is an increase of 20.0 per cent. We will consider our final dividend in the light of our stated intention and our earnings for the year as a whole.

Trading highlights

We achieved good sales growth across the business during the first half. Our like-for-like sales increase included core volume growth of 2.3 per cent, while selling price inflation rose to 2.9 per cent as we recovered cost increases particularly in wages, bakery energy and fuel. Ingredient costs overall were relatively stable, helped by the weakness of the US dollar, although there are signs that this benefit may reverse in the second half. In the final weeks of the period, we began to face comparison with the period of very strong like-for-like sales growth that began in May 2004 and continued through the second half of that year.

Greggs brand UK. The nine Greggs divisions achieved overall like-for-like sales growth of 5.5 per cent during the first half, comprising a core volume increase of 2.3 per cent and selling price inflation of 3.2 per cent. We continued to benefit from our successful development and marketing of a national brand identity, and from growth in the takeaway food market. We have accelerated both the opening and refitting of shops in the new Greggs format, which is producing encouraging results.

Our longest-established divisions continued to build on their strong past performances, with Greggs of Scotland again delivering an outstanding result and Greggs of the North East also making excellent progress.

Bakers Oven brand. The four Bakers Oven divisions, with their seated catering facilities, were more affected than Greggs by the widely reported slowdown of overall consumer traffic on the high street. This was reflected in the brand's lower rate of like-for-like sales growth of 3.9 per cent. This comprised a core volume increase of 2.0 per cent and selling price inflation of 1.9 per cent – a lower rate than at Greggs as we continued our successful initiatives to enhance the brand's value credentials, particularly in sandwiches.

Greggs Continental Europe. Our four shops in Belgium are achieving encouraging like-for-like sales growth from a relatively low base, as we continue our work to refine and develop our offer. We expect to open a further 3-4 units in Belgium over the next 12 months.

Product profile

Once again we achieved our strongest growth in takeaway food, with savouries in particular making excellent progress. Sandwiches and sweet lines also performed well, while the proportion of our sales derived from the traditional bakery categories of bread and rolls continued to decline. The 'Lifestyle Choice' range of healthier-eating sandwiches has been further developed, with a number of new lines currently being trialled, and we are also continuing to trial lower-fat variants of savoury lines. We are applying our substantial technical and product development resources to assist in the reduction of salt and fat in our products, while providing consumers with the taste and choice they desire.

Retail profile

We opened 30 new shops during the first half and closed 5, giving us a net addition of 25 outlets to a total of 1,288 at 18 June. This comprised 1,071 units under the Greggs brand in the UK, a net addition of 26 since the year end; 213 Bakers Ovens, a net reduction of 1; and four Greggs shops in Belgium. Since the end of the half we have added a further net 13 shops and are therefore confident that we will open at least a net 50 over the year as a whole, compared with our previously stated target of 45. A total of 18 shops were refitted during the period, in line with our plans, as we accelerated the roll-out of the new Greggs shop format.

Investment and finance

Capital expenditure increased to £13.4 million (2004: £11.3 million), principally as a result of the increased number of shop openings and refits. Work is well underway on our second central savouries unit at Balliol Park, Newcastle upon Tyne, where the main structural work has already been completed. We expect total capital expenditure for the year to be around £47 million, almost double the level in 2004.

As a result of our strong operating cash flow, net cash on the balance sheet was substantially higher than in June 2004 at £69.6 million (2004: £46.7 million). This compared with £62.6 million at our year end on 1 January 2005.

People and the community

We have maintained our focus on attracting and retaining good people by paying competitive salaries, improving working conditions and doing our utmost to ensure that work is an enjoyable experience. During the half year we created an additional 300 jobs through our continued expansion. We have long been committed to encouraging employee share ownership, and I am pleased to report that our sixth SAYE Share Plan matured successfully during the period, providing substantial benefits to more than 1,500 staff.

The Greggs Breakfast Clubs have continued to develop successfully and now operate in more than 100 primary schools. The scheme involves us working in partnership with parents and other school volunteers to provide a wholesome free breakfast to pupils. We welcome the Government's interest in extending the provision of facilities at the beginning and end of the school day and believe that our approach, with its proven results, can make a valuable contribution to communities in disadvantaged areas.

Outlook

The opening weeks of the second half in 2004 were a period of exceptionally strong growth, aided by ideal weather. Less favourable conditions this year are reflected in slower like-for-like sales growth of 3.0 per cent in the six weeks to 30 July. Improvement in the rate of growth will, in part, depend on resumption of more typical weather.

We have always anticipated that our growth rate in the second half would be lower than in the first as a result of more demanding sales comparatives. In addition, as we have previously noted, we face a substantial increase in shop energy costs following the end of a long-term supply contract, together with continuing pressure on wage and fuel costs.

Although profits in its first six weeks are below our budget and the level of last year, we believe that the Group is well equipped to make further progress in the second half. Our confidence in the long term prospects of the business is reflected in our accelerating shop opening programme and our record capital investment for the future.

Sir Michael Darrington
Managing Director

Consolidated income statement
For the 24 weeks ended 18 June 2005

	24 weeks ended 18 June 2005 £'000	24 weeks ended 12 June 2004 £'000	53 weeks ended 1 January 2005 £'000
Revenue	**235,868**	**216,202**	**504,186**
Cost of sales	(91,130)	(83,467)	(192,860)
Gross profit	**144,738**	**132,735**	**311,326**
Distribution and selling costs	(110,881)	(101,334)	(228,510)
Administrative expenses	(19,645)	(18,330)	(37,053)
Operating profit before financing	**14,212**	**13,071**	**45,763**
Finance income	1,474	667	2,003
Finance expenses	(73)	(173)	(15)
Profit before tax	**15,613**	**13,565**	**47,751**
Income tax	(5,028)	(4,457)	(15,474)
Profit for the period	**10,585**	**9,108**	**32,277**
Basic earnings per share	87.9p	76.8p	270.5p
Diluted earnings per share	87.1p	75.8p	267.7p

Consolidated statement of recognised income and expense
For the 24 weeks ended 18 June 2005

	24 weeks ended 18 June 2005 £'000	24 weeks ended 12 June 2004 £'000	53 weeks ended 1 January 2005 £'000
Actuarial losses on defined benefit plans	(724)	(409)	(903)
Tax on items taken directly to equity	217	123	271
Net expense recognised directly in equity	(507)	(286)	(632)
Profit for the period	10,585	9,108	32,277
Total recognised income and expense for the period	10,078	8,822	31,645

Consolidated balance sheet
As at 18 June 2005

	18 June 2005 £'000	12 June 2004 £'000	1 January 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	166,575	162,716	163,832
Deferred tax assets	4,115	3,577	3,486
	170,690	166,293	167,318
Current assets			
Inventory	7,342	6,641	7,283
Trade and other receivables	17,751	14,166	13,949
Cash and cash equivalents	69,619	46,666	62,601
	94,712	67,473	83,833
Total assets	**265,402**	**233,766**	**251,151**
LIABILITIES			
Current liabilities			
Trade and other payables	(69,596)	(64,711)	(59,204)
Current tax liabilities	(5,780)	(4,343)	(7,685)
	(75,376)	(69,054)	(66,889)
Non-current liabilities			
Defined benefit pension liability	(12,010)	(11,707)	(11,052)
Other payables	(103)	(110)	(105)
Deferred tax liability	(16,356)	(15,817)	(15,949)
	(28,469)	(27,634)	(27,106)
Total liabilities	**(103,845)**	**(96,688)**	**(93,995)**
Net assets	**161,557**	**137,078**	**157,156**
EQUITY			
Capital and reserves attributable to equity holders			
Issued capital	2,432	2,426	2,428
Share premium account	12,618	11,981	12,217
Retained earnings	146,507	122,671	142,511
Total equity attributable to shareholders	**161,557**	**137,078**	**157,156**

Consolidated statement of cash flows
For the 24 weeks ended 18 June 2005

	24 weeks ended 18 June 2005 £'000	24 weeks ended 12 June 2004 £'000	53 weeks ended 1 January 2005 £'000
Cash flows from operating activities			
Profit for the period	10,585	9,108	32,277
Depreciation	9,584	9,367	21,003
Loss on sale of property, plant and equipment	238	183	358
Release of government grants	(4)	(4)	(7)
Share based payment expenses	144	57	124
Finance income	(1,474)	(667)	(2,003)
Finance expenses	73	173	15
Income tax expense	5,028	4,457	15,474
(Increase)/decrease in inventory	(59)	485	(157)
Increase in debtors	(3,807)	(1,129)	(912)
Increase in creditors	10,094	9,797	4,287
Movement in pension liability	254	(49)	(1,198)
Cash from operating activities	30,656	31,778	69,261
Interest paid	(73)	(173)	(15)
Income tax paid	(6,596)	(6,950)	(14,150)
Net cash inflow from operating activities	**23,987**	**24,655**	**55,096**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(13,433)	(11,258)	(25,090)
Proceeds from sale of property, plant and equipment	1,141	443	1,348
Interest received	1,474	667	2,003
Net cash outflow from investing activities	**(10,818)**	**(10,148)**	**(21,739)**
Cash flows from financing activities			
Proceeds from issue of share capital	405	448	686
Sale of own shares	3,517	2,753	3,200
Purchase of own shares	(2,163)	(941)	(941)
Dividends paid	(7,910)	(6,459)	(10,059)
Net cash outflow from financing activities	**(6,151)**	**(4,199)**	**(7,114)**
Net increase in cash and cash equivalents	**7,018**	**10,308**	**26,243**
Cash and cash equivalents at the start of the period	62,601	36,358	36,358
Cash and cash equivalents at the end of the period	**69,619**	**46,666**	**62,601**

Consolidated statement of changes in equity
As at 18 June 2005

	Attributable to equity shareholders			
	Share capital £'000	Share premium £'000	Retained earnings £'000	**Total £'000**
At 2 January 2005	2,428	12,217	142,511	**157,156**
Shares issued in the period	4	401	-	**405**
Total recognised income and expense	-	-	10,078	**10,078**
Purchase of own shares	-	-	(2,163)	**(2,163)**
Sale of own shares	-	-	3,517	**3,517**
Share based payments	-	-	144	**144**
Equity dividends	-	-	(7,922)	**(7,922)**
Tax on items taken directly to equity	-	-	342	**342**
At 18 June 2005	**2,432**	**12,618**	**146,507**	**161,557**

Notes

1. Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of Greggs plc, for the 52 weeks ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards adopted for use in the EU ("IFRSs").

Greggs plc adopted IFRSs with effect from 2 January 2005. Our transition date is 28 December 2003 being the start date of the earliest period for which we present full comparative information in our 2005 Annual Report and Accounts.

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the 52 weeks ending 31 December 2005.

In particular, the directors have assumed that the following IFRS issued by the International Accounting Standards Board and IFRIC Interpretations issued by the International Financial Reporting Interpretations Committee will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS financial statements for the 52 weeks ending 31 December 2005:

- Amendment to IAS 19, *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosure*

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the 52 weeks ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the 52 weeks ending 31 December 2005.

The preparation of this financial information resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous Generally Accepted Accounting Practice (GAAP). The revised accounting policies have been applied consistently to all periods presented in this financial information.

IFRS 1 mandates that most IFRSs are applied fully retrospectively, meaning that the opening balance sheet at 28 December 2003 is restated as if those accounting policies had always been applied. There are certain limited exemptions to this requirement.

A detailed review of the changes in our accounting policies and reconciliations of our financial statements from UK GAAP to IFRS at key dates has today been published to the London Stock Exchange and is available on our website at www.greggs.plc.uk.

2. Accounting policies

The accounting policies that the Group intends to apply for the 52 weeks ending 31 December 2005 are set out in the document referred to in note 1. The adoption by the Group of IAS 32 and IAS 39 prospectively from 2 January 2005 has had no impact on the accounting policies due to the nature of any financial instruments used.

3. Status of financial information

The comparative figures for the 53 weeks ended 1 January 2005 are not the company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The interim information for the 24 weeks ended 18 June 2005 and 12 June 2004 has not been audited or reviewed by the auditors. In relation to the financial statements for the 53 weeks ended 1 January 2005, this has been extracted from a restatement of the financial information taken from the company's statutory accounts for that financial year and the auditors have issued a special purpose audit report on that financial information. This audit report can be found along with the detailed review referred to in note 1.

4. Dividends

The following dividends were declared and paid by the Group:

	24 weeks ended 18 June 2005	24 weeks ended 12 June 2004	53 weeks ended 1 January 2005
Dividend paid per ordinary share (pence per share)	66.0p	54.5p	84.5p
Total dividend paid (£000s)	7,922	6,457	10,059

For the 24 weeks ended 18 June 2005 a dividend of 36p per ordinary share (24 weeks ended 12 June 2004: 30.0p, 53 weeks ended 1 January 2005: 66.0p) is proposed amounting to £4,357,000 (24 weeks ended 12 June 2004: £3,640,000, 53 weeks ended 1 January 2005: £7,922,000).

5. Defined benefit pension scheme

The valuation of the defined benefit pension scheme for the purposes of IAS19 as at 1 January 2005 has been updated as at 18 June 2005 and the movements have been reflected in this interim statement.

6. Interim report

The interim report is being posted to all shareholders and copies are available on application to the Company Secretary, Greggs plc, Fernwood House, Clayton Road, Jesmond, Newcastle upon Tyne, NE2 1TL.