1 March 2016

PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 2 JANUARY 2016

Greggs is the leading bakery food-on-the-go retailer in the UK, with 1,700 retail outlets throughout the country

EXCELLENT OPERATIONAL AND FINANCIAL PERFORMANCE

2015 Financial highlights

- Total sales up 5.2% to £835.7m (excluding 53rd week in 2014)
- Company-managed shop like-for-like sales* up 4.7% (2014: 4.5%)
- Pre-tax profit excluding exceptional items** up 25.4% to £73.0 m (2014: £58.3m)
- Strong cash generation supported capital investment and £20m special dividend
- Total ordinary dividend per share up 30.0% to 28.6p (2014: 22.0p)

* like-for-like sales in Company-managed shops (excluding franchises) with a full year's trading history
** before exceptional pre-tax charge of £8.5m in 2014

Strategic progress

- Growth driven by our strategy to focus on the growing food-on-the-go market
- Further improvements to product range launched, including 'heat-to-eat' sandwich range and extended breakfast menu
- 'Balanced Choice' range of healthier options now accounts for 10% of total sales
- 202 shop refurbishments plus 20 café conversions
- 122 new shops opened, 74 closures; 1,698 shops trading at 2 January 2016
- Investment in systems to simplify processes and improve efficiency on track
- Planned £100m investment in manufacturing and distribution operations over the next five years

"In 2015 we delivered another excellent performance in the second year 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 the business change programme, consequently our estate is stronger and our products, value and service are all improving the experience for customers.

This year has started well and the consumer outlook remains positive with disposable incomes expected to grow further in 2016. 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."

\- ***Roger Whiteside, Chief Executive***

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An audio webcast of the analysts' presentation will be available to download later today at http://corporate.greggs.co.uk/

Chairman's statement

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 the 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 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%.

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

Chief Executive's report

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.

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% 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.

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.

<u>Keeping our people, communities and values at the heart of our business</u>

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% 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

Financial review

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.

	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

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

Greggs plc
Consolidated income statement
for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

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

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

Greggs plc
Consolidated balance sheet
at 2 January 2016 (2014: 3 January 2015)

	2015	2014
	£'000	£'000
ASSETS		
Non-current assets		
Intangible assets	**10,248**	4,721
Property, plant and equipment	**284,163**	262,719
Deferred tax asset	**3,830**	-
	298,241	267,440
Current assets		
Inventories	**15,444**	15,290
Trade and other receivables	**27,647**	26,091
Assets held for sale	**-**	6,500
Cash and cash equivalents	**42,915**	43,615
Other investments	**-**	10,000
	86,006	101,496
Total assets	**384,247**	368,936
LIABILITIES		
Current liabilities		
Trade and other payables	**(92,780)**	(89,954)
Current tax liabilities	**(9,580)**	(8,056)
Provisions	**(3,675)**	(4,109)
	(106,035)	(102,119)
Non-current liabilities		
Other payables	**(6,071)**	(6,555)
Defined benefit pension liability	**(3,910)**	(8,518)
Deferred tax liability	**-**	(2,539)
Long-term provisions	**(1,957)**	(2,502)
	(11,938)	(20,114)
Total liabilities	**(117,973)**	(122,233)
Net assets	**266,274**	246,703
	=======	=======
EQUITY		
Capital and reserves		
Issued capital	**2,023**	2,023
Share premium account	**13,533**	13,533
Capital redemption reserve	**416**	416
Retained earnings	**250,302**	230,731
Total equity attributable to equity holders of the Parent	**266,274**	246,703
	=======	=======

Greggs plc
Consolidated statement of changes in equity
for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2016)

53 weeks ended 3 January 2015

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

Greggs plc
Consolidated statement of changes in equity
for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2016)

52 weeks ended 2 January 2016

	Attributable to equity holders of the Company				
	Issued capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 4 January 2015	**2,023**	**13,533**	**416**	**230,731**	**246,703**
Total comprehensive income for the year					
Profit for the financial year	**-**	**-**	**-**	**57,600**	**57,600**
Other comprehensive income	**-**	**-**	**-**	**4,030**	**4,030**
Total comprehensive income for the year	**-**	**-**	**-**	**61,630**	**61,630**
Transactions with owners, recorded directly in equity					
Sale of own shares	**-**	**-**	**-**	**3,876**	**3,876**
Purchase of own shares	**-**	**-**	**-**	**(11,125)**	**(11,125)**
Share-based payment transactions	**-**	**-**	**-**	**3,662**	**3,662**
Dividends to equity holders	**-**	**-**	**-**	**(43,714)**	**(43,714)**
Tax items taken directly to reserves	**-**	**-**	**-**	**5,242**	**5,242**
Total transactions with owners	**-**	**-**	**-**	**(42,059)**	**(42,059)**
Balance at 2 January 2016	**2,023**	**13,533**	**416**	**250,302**	**266,274**
	=======	=======	=======	=======	=======

Greggs plc
Statement of cashflows
for the 52 weeks ended 2 January 2016 (2014: 53 weeks ended 3 January 2015)

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

Cash flow statement – cash generated from operations

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

1. Basis of preparation and accounting policies

The preliminary announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 2 January 2016 or 3 January 2015 but is derived from these accounts. Statutory accounts for the 53 weeks ended 3 January 2015 have been delivered to the registrar of companies, and those for the 52 weeks ended 2 January 2016 will be delivered in due course. The auditor has reported on those accounts; the audit reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The preliminary announcement has been prepared using the accounting policies published in the Group's accounts for the 53 weeks ended 3 January 2015, which are available on the Company's website www.greggs.co.uk, 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.

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.

2. 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.

3. 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
Administration expenses		
Restructuring of support functions	**-**	2,302
Total exceptional items	**-**	8,516

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.

3 Exceptional items *(continued)*

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.

4. Taxation

Recognised in the income statement

	Total	Excluding exceptional items	Exceptional items	Total
	2015	2014	2014	2014
	£'000	£'000	£'000	£'000
Current tax expense				
Current year	**17,970**	15,776	(1,534)	14,242
Adjustment for prior years	**(530)**	(229)	-	(229)
	17,440	15,547	(1,534)	14,013
Deferred tax credit				
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)
	(2,012)	(1,550)	(276)	(1,826)
Total income tax expense in income statement	**15,428**	13,997	(1,810)	12,187

5. 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 below.

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 below.

5. Earnings per share *(continued)*

Profit attributable to ordinary shareholders

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

Weighted average number of ordinary shares

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

6. 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	**16.0p**	-
2015 interim dividend	**7.4p**	-
2015 special dividend	**20.0p**	
	43.4p	19.5p
	=======	=======

6. Dividends *(continued)*

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	2014
	£'000	£'000
2013 final dividend	**-**	13,530
2014 interim dividend	**-**	6,040
2014 final dividend	**16,090**	-
2015 interim dividend	**7,463**	-
2015 special dividend	**20,161**	
	43,714	19,570

7. Related parties

The Group has a related party relationship with its subsidiaries, associates and its Directors and executive officers.

There have been no related party transactions in the year which have materially affected the financial position or performance of the Group. There have been no related party transactions in the year which have materially affected the financial position or performance of the Group.

8. Events after the reporting period

As noted in the Chief Executive's report on pages 9-10 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 costs arising from this plan has been recognised in these accounts in accordance with IAS 10.

9. Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency and liquidity. These risks are described below, together with a brief description of mitigating activity.
Greggs is exposed to a wider range of risks than those listed. However, these are the risks which are considered to be the most important to the business' future development, performance or position. The risks identified are those to which the Board considers there is a disproportionate exposure, relative to the food-on-the-go sector. The impact of these risks occurring has been considered in developing the scenarios tested as part of the financial viability statement.

The risks are not set out in any particular order.

9 Principal risks and uncertainties (*continued*)

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Business change Greggs is implementing a strategic plan to transform the business from a decentralised traditional bakery to a centralised modern food-on-the-go brand. This involves a major programme of business change involving restructuring, new systems, increased capital investment and a major overhaul of every aspect of the business. Progress may not be in line with plans, disruption could occur and financial returns may fall short of expectation.	The project delivery is overseen by the Operating Board, under the guidance of a project sponsor, providing robust governance. Regular updates are provided to the Board, to monitor progress against clearly defined timelines and financial forecasts.	No change
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.	Procedures are in place throughout our operations to ensure that food safety is maintained. These procedures are supported by robust audit processes, both internally, and by regulatory bodies.	No change
Food scare Greggs may suffer from a loss of customer confidence due to a major food scare beyond its control. Dependent upon the nature of this, it may have a disproportionate impact on Greggs.	The majority of products for sale in our shops have been manufactured by our staff in our bakeries. Checks are carried out to confirm the integrity of our products and ingredients as part of routine processes.	No change
Loss of production Some of our products are produced in one location and distributed nationwide. Any disruption to supply would have a significant impact on our customers.	Contingency plans are in place for our supply sites, and these are regularly tested. Our property insurers carry out annual site inspections, which help to protect our facilities from loss. We have alternative supply sources for key products, and these are periodically tested.	No change
Market pressures Changing shopping habits driven by the convenience of new customer channels and locations may have a greater impact on Greggs due to our historical bias to shops located in high streets.	Greggs operates a leasehold shop estate with typically 5 year break provisions, allowing us to change locations in line with customer traffic trends. In addition, new shops are predominantly opened in non-shopping locations to offer our services to customers who are away from home for reasons other than shopping.	Improving
Consumer trends Increasing customer concern with health and nutrition may affect demand for some of our traditional bakery product ranges.	We have a proactive programme to improve the nutritional qualities of our traditional products where possible without impacting taste. In addition we are extending range choice to include healthier options branded \`Balanced Choice\` which is growing rapidly.	No change