GREGGS

Always Fresh. Always Tasty.

4 March 2015

# PRELIMINARY RESULTS FOR THE 53 WEEKS ENDED 3 JANUARY 2015

***Greggs is the leading bakery food-on-the-go retailer in the UK, with 1,650 retail outlets throughout the country***

## A YEAR OF EXCEPTIONAL PROGRESS

### Financial highlights

- Total sales up 5.5% to £804.0m (2013: £762.4m)
- Own shop like-for-like sales* up 4.5% (2013: 0.8% decline)
- Property gains on disposal of £1.5m (2013: £1.3m)
- Pre-tax profit excluding exceptional items** up 41.1% to £58.3m (2013: £41.3m)
- Excellent returns on capital invested
- Continued strong cash generation, resuming buyback programme
- Dividend per share up 12.8% to 22.0p (2013: 19.5p)

* like-for-like sales in own shops (excluding franchises) with a full year's trading history
** before exceptional pre-tax charge of £8.5m (2013: exceptional pre-tax charge of £8.1m)

### Operational highlights

- Food-on-the-go focus delivering growth
- Upgraded coffee sales now c.£1 million per week
- Strong growth from 'Balanced Choice' range
- Growing customer participation in value deals
- Much improved market conditions
- 213 shop refits completed in the year
- 50 new shops opened, 71 closures
- 1,650 shops trading at 3 January
- Initial benefits of change programme delivered ahead of schedule

***"2014 was a year of significant change and an exceptional step up in performance for Greggs as we began to implement our new strategic plan centred on the growing food-on-the-go market. We have improved both our food offer and the shop experience for customers. Market conditions have been more favourable and like-for-like sales have grown throughout the year. This has resulted in record underlying profits for the financial year. Overall we are confident of delivering a further year of good growth and progress against our strategic plan in 2015."***

\- ***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 2014 Greggs made exceptional progress. The first steps in executing the strategy outlined in 2013 have surpassed expectations in favourable market conditions. Our focus on the food-on-the-go market has resulted in accelerated like-for-like sales growth which, combined with structural cost reductions, has improved the Group's financial performance markedly. There is more to do but we have started out very well on a journey designed to deliver a sustainable business model for long-term profitable growth.**

## Overview

In 2014 the management team, led by Roger Whiteside, began to implement the strategy outlined in 2013 to focus the business more on the growing food-on-the-go market. This strategic clarity, with a focus on customers and product innovation, has delivered encouraging initial results. With some help from an improving economy and benign weather conditions we have delivered a progressive improvement in like-for-like sales whilst also putting in place a number of initiatives to make our operations measurably simpler and more efficient.

The Chief Executive's review provides greater detail on the implementation of the strategic plan and the progress made against our key targets.

## The Board

There have been a number of changes to the Board during the year with the new team settling in well. Helena Ganczakowski joined the board as an independent Non-Executive Director on 2 January 2014, as did Peter McPhillips on 10 March 2014. Julie Baddeley and Iain Ferguson retired at the AGM on 1 May 2014 following which Sandra Turner was appointed as an independent Non-Executive Director. Sandra has assumed the roles of Remuneration Committee Chair and Senior Independent Director. In 2014 the Board's priority has been to ensure that the strategy outlined in 2013 progressed to plan. Further details of the Board's work can be found in the Governance and Committee sections of the Annual Report.

## Dividend and capital structure

The business continues to generate strong cash flow from which it funds capital investment and returns to shareholders. The Company is now in a position to return to a progressive dividend policy, with the Board targeting a dividend cover of around 2.0 times underlying earnings. The Board therefore intends to recommend at the AGM a final dividend of 16.0p per share (2013: 13.5p), giving a total dividend for the year of 22.0p, an increase of 12.8% (2013: 19.5p).

The Board is completing a review of the appropriate capital structure of the Group for the medium term and further plans will be provided at the time of the interim results. The Board intends to target a capital structure that:

- is both prudent and efficient;
- takes into account the expected performance of the business, the investment opportunities and other cash requirements of the Group; and
- allows the Group to run a net cash position throughout the year. Given the leasehold nature of the store portfolio, the Board does not currently believe that it is appropriate to take on debt in the near to medium term.

The Board has already identified that it has the capacity to return up to £10 million to shareholders in the first half of 2015 and will do so through a resumption of its share buyback programme.

## Our people and values

The organisational changes implemented in Greggs last year had a significant impact on our people. These changes were necessary for the long-term health of the business and the Board is satisfied that the management team carried out the implementation sensitively in line with our long-standing values of fairness, consideration and respect. My thanks to everyone who has worked for Greggs during the past year. Working in our shops, bakeries and support teams presents many challenges every day and I am grateful for the outstanding dedication and perseverance of all of our employees.

Greggs celebrated its 75 year anniversary last year and in that time has earned a widely-recognised reputation for its contribution to the communities in which it trades. We are particularly proud of our activities and continue to make good progress in the areas of social responsibility that are described in the Annual Report.

## Prospects

There is good momentum in the business and the near-term outlook for low cost inflation together with rising consumer disposable incomes remains favourable. Greggs has made a strong start with its new strategy but there is a significant programme of change ahead as we continue to implement our investment in products, shops, operations and systems to create the platform for long-term, sustainable, profitable growth. The Company has an exceptional brand, strong financial position, an experienced management team and a loyal and committed workforce. Building on the strong start I am confident that we can make further progress in the year ahead. The Chief Executive's review contains further details.

Ian Durant
Chairman
4 March 2015

# CHIEF EXECUTIVE'S REPORT

2014 was a year of significant change and an exceptional step up in performance for Greggs as we began to implement our new strategic plan centred on the growing food-on-the-go market. We made structural changes that are already delivering more effective and efficient operations and have improved both our food offer and the shop experience for customers. Market conditions have been more favourable with increased employment levels, growing disposable incomes, low input cost inflation and benign weather for most of the year. Like-for-like sales have grown throughout the year and were particularly strong in the second half. This, combined with structural cost reductions, has resulted in record underlying profits for the financial year.

## Financial performance

Total sales increased to £804.0 million, a rise of 5.5 per cent, and like-for-like sales grew by 4.5 per cent in the year. Excluding the impact of accounting for a 53rd week in 2014 our comparable total sales grew by 3.9 per cent, reflecting the impact of net shop closures in the year.

Operating profit before exceptional items grew by 40.0 per cent to £58.1 million and pre-tax profit before exceptional items grew by 41.1 per cent to £58.3 million. As previously announced, we had an exceptional charge of £8.5 million reflecting one-off costs resulting from structural changes in our supply chain and support areas. 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 improved during 2014 with continued recovery in the UK economy coupled with low inflation leading to rising real disposable consumer income. These general market conditions were helped by more benign weather conditions than the previous year when we suffered from snow in the winter and a heatwave in the summer. Our improved like-for-like sales performance has shown the Greggs brand can win in the highly competitive food-on-the-go market. We believe the overall market remains in growth with no sign of a slowdown in competitor new shop openings.

The Greggs brand occupies a strong position in the food-on-the-go market with a reputation for fresh and tasty products at good value and great customer service. Greggs ranks number one in the market for savoury and sweet bakery snacks, number two for sandwiches and first in the fast-growing breakfast segment. Greggs appeals to a broad customer base and with our improved offer, alongside growing consumer incomes, we are seeing increasing numbers of customer visits and growth in transaction values.

## 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 operation simpler and more efficient. The plan has four key pillars:

- Great-tasting fresh food
- A great shopping experience
- Simple and efficient operations
- 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 increased investment in shop refits
- Delivery of operational and supply chain efficiencies
- Achieving the planned benefits from our investment in processes and systems

In 2014 we exceeded targets in all of these areas:

- Strongest like for like sales growth since 2007
- Exceeded refit investment criteria by a third
- Completed organisational and supply chain restructuring ahead of schedule
- Exceeded process and systems investment benefit target by £1 million

## Delivering our plans

### 1. Great tasting fresh food

Greggs is a strong and trusted brand and we leverage our heritage in fresh bakery to compete successfully in the food-on-the-go market. The Greggs product offer is differentiated by the way that we freshly prepare food each day in our shops and so deliver an 'Always Fresh. Always Tasty.' experience that others find hard to match.

*Changes to product range*

We continue to make changes to our product range which have been successful in driving sales growth.

In February 2014 we launched our improved coffee blend which, in extensive nationwide blind tasting, four out of five customers judged to be as good as or better than their favourite coffee brand. Coffee sales were our fastest growing product category last year and our reputation for freshly-ground bean-to-cup coffee at exceptional value continues to grow with sales in the period leading up to Christmas reaching a new high of £1 million per week.

In the summer we completely overhauled and relaunched our entire sandwich range with improved recipes and enhanced packaging. This included the launch of our new sub-brand of 'Balanced Choice' products offering healthier choices with fewer than 400 calories. Sandwich sales surpassed our expectations following the relaunch. Sales of our 'Balanced Choice' lines reached circa £55 million for the year creating a strong platform for future development in this strategically important range.

Throughout the year we continued our program of improving recipes in our most popular lines in the traditional sweet and savoury ranges with positive customer reaction helping to support increased repeat sales. New flavours in traditional products have also been successful, such as our new steak and cheese roll, launched in November, which has quickly become a best seller.

Alongside this activity we successfully launched new products in food-on-the-go categories such as fresh soups and hot sandwiches which are aimed at creating new reasons to visit Greggs.

*Value*

Outstanding value for money remains a key attribute of the Greggs brand and we have continued to build our reputation for market-leading menu deals which drive growth and average transaction values. We maintained our £2 breakfast meal deal for the fifth year running, again driving double digit growth as this meal occasion continues to grow in importance to our food-on-the-go customers. We once again extended the range of sandwiches included in our £3 sandwich meal deal. We also introduced a new menu deal offering coffee and any sweet item for £2 and this is growing strongly in popularity.

Finally, although we are no longer focused on the take-home bakery market, we have successfully launched a range of outstanding value impulse packs selling to food-on-the-go customers for sharing at home or at work. Examples include our mini doughnut and mini yum-yum packs, both priced at £1.

*2015 product initiatives*

We have a strong pipeline of further product developments planned for 2015. As an example, we have just launched our new fresh soups including Chorizo and Fire Roast Pepper and introduced our new meal deal offering coffee and any savoury snack for just £2. In the coming weeks we will be extending our breakfast offer and launching new options under our 'Balanced Choice' label.

## 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. For example, we have invested in increased labour hours to improve availability particularly at lunch time and continued with our program to increase trading hours where we see opportunity.

*Estate changes and refurbishments*

We opened 50 new shops (including 20 franchised units) in the year and closed 71, resulting in 1,650 shops trading at 3 January 2015. 85 per cent of our new shop locations were away from high streets such as in retail and industrial parks, motorway service stations and travel hubs. At the end of 2014 we had 45 franchised shops operating in travel and other convenience locations and continue to see this as a route to further growth.

We completed 213 shop refurbishments during the year. Returns were ahead of our expectations and we anticipate progressing with the estate improvement programme at a similar rate in the year ahead.

In 2015 we expect to open 80 - 100 new shops, including further development of our franchise partnerships, and close around 60 - 80 shops in the year. Our shop opening and closure programme is progressively improving the quality and performance of our estate whilst rebalancing it towards more sustainable long-term locations by increasing our presence in travel, leisure and work-centred catchments. We continue to believe in the opportunity for increased shop numbers, with our longer-term target being more than 2,000 in the UK, and expect to return to growth in net shop numbers in the second half.

*Greggs Rewards loyalty scheme*

We successfully launched our digital customer loyalty scheme 'Greggs Rewards' in February 2014 and were awarded 'Loyalty Programme of the Year' at the 2014 Retail System Awards. Participation continues to build as customers benefit from a more convenient method of paying and receive product rewards for shopping with us. We are beginning to learn more about customer behaviour from this database and expect to build on this in the years ahead to enable us to continue making improvements to the customer experience.

## 3. Simple and efficient operations

Alongside our improvements to products and customer service we made significant progress last year in our drive to make our supply and support functions simpler and more efficient. In our supply chain we consolidated our 79 in-store bakeries into our existing regional bakery network completing the program in October, well ahead of schedule. In support areas we reduced our regional structure from seven to four regions and reorganised several central support teams.

All of this involved substantial change across the organisation and I am proud of the professionalism and sensitivity our teams displayed in implementing these changes, upholding Greggs' long-standing values of fairness, consideration and respect.

The changes outlined above resulted in one-off redundancy costs and asset impairment charges amounting to £8.2 million in 2014. These have been classified as part of the exceptional charge of £8.5m in our financial statements. In 2014 the net benefit of the changes, excluding the one-off costs, was £2.9m. In 2015 we expect this benefit to annualise at around £6.0 million.

Looking ahead we will continue to reduce the structural costs in our business by focusing on making our operations simpler and more efficient. The opportunities to do so will increasingly overlap and merge with the benefits arising from our programme of investment in new systems and processes. In our supply chain the direction of change will continue to be towards consolidation in manufacturing where we are not capacity-constrained whilst growing logistics capacity to support shop expansion plans.

## 4. Improvement through change

*Investment in systems*

In 2014 we successfully implemented the first two elements of our major investment programme in the process and systems platforms that will enable us to compete more effectively in the fast-moving food-on-the-go market. These first steps related to workforce management and supplier relationship management. Both have delivered benefits in excess of our initial expectations and show potential for further improvements as we harness their full capabilities.

During 2014 we selected SAP as our core ERP software supplier and are now planning the implementation of modules designed to improve processes around shop ordering and customer contact. In total this is a significant multi-year change programme for the business, which we are carefully planning and executing. We have made a good start and are encouraged by the early results. We continue to expect the programme to make an annual net contribution of around £6.0 million once the key functionality is in place around four years from now.

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

The progress we have made this year is in no small part related to the significant amount of change that the business has undergone and I do not underestimate the impact that this has had in many areas. Change is a necessary part of any healthy business and we will continue to adapt to ensure that we remain competitive for the long term. I would like to thank all of our people for the role that they have played in returning the business to profitable growth.

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 £6.4 million as a result of our performance in 2014.

In 2014 our people once again made a difference to our local communities. Around £350,000 was raised in our shops and our bakeries for the Greggs Foundation and this, combined with donations from the Company, enabled the Greggs Foundation to distribute more than £1.5 million in support of a wide range of local community initiatives. These included the award-winning Greggs Breakfast Club programme, which provided over three million free wholesome breakfasts to children across 304 primary schools in 2014. Partnership work has been key to the growth of Breakfast Clubs and 115 clubs are now supported by partner organisations who share our ambition to improve the learning opportunities for children in disadvantaged areas.

This would not have been possible without the continued generosity of our customers, who also helped Greggs to raise over £1 million for the North of England Children's Cancer Research Fund, the BBC Children in Need appeal, Disasters Emergency Committee appeals and the Royal British Legion's Poppy appeal collectively in 2014.

Additional ways in which we help to make a difference to local communities include the development of a number of work inclusion programmes through which we have helped to promote the employability skills of 370 people, resulting in 87 people being offered paid employment. We have also continued our support for the Business in the Community's 'Business Connectors' scheme and are proud to have seconded eight Business Connectors so far.

We continued to make good progress in the remaining three key areas of our social responsibility agenda: 'creating a great place for our people to work', 'food our customers can trust' and 'reducing our impact on the world around us'.

2014 highlights include continuing to share 10 per cent of profits with our people, donating 512 volunteer days and providing 90 per cent of our management team with career development training. We have successfully grown sales of our 'Balanced Choice' products to circa £55 million, rolled out the provision of transparent nutritional information and published a Farm Animal Welfare Strategy and Ethical Sourcing Statement. We are also pleased to report that our continued focus on reducing waste to landfill has seen us surpass our target to recycle 90 per cent of waste from production sites – we now divert 100 per cent of waste from these sites.

## Outlook for 2015

2015 will be a year of further change for Greggs as we continue to move forward with our focus on the food-on-the-go market. Market conditions remain helpful and the outlook for the first half suggests that low inflation should continue to support disposable incomes.

The year has started strongly and like-for-like sales in the eight weeks to 28 February 2015 have grown by 6.3 per cent, partly reflecting the wet start to 2014. We expect that our initiatives will continue to deliver growth, although we are mindful that the sales comparatives become stronger through the year.

Costs were well controlled in 2014 and we go into 2015 with further benefits to come from our actions taken around making the business simpler and more efficient. Food input costs are likely to be deflationary for the first half of the year and we will continue to invest in improving the quality of our estate and in upgrading our processes and systems.

Overall we are confident of delivering a further year of good growth and progress against our strategic plan in 2015.

Roger Whiteside
Chief Executive
4 March 2015

## FINANCIAL REVIEW

**The significantly improved financial performance in 2014 reflects healthy like-for-like sales growth combined with strong returns on capital investment and progress in cost reduction. Cash generation remains strong, supporting investment in our programme of improvement and an increased dividend.**

### Sales

Total Group sales for the 53 weeks ended 3 January 2015 were £804.0 million (2013: £762.4 million), an increase of 5.5 per cent. Excluding the impact of the additional week in 2014 the growth in total Group sales compared with the same 52 weeks in 2013 was 3.9 per cent. Like-for-like sales grew by 4.5 per cent across the year as a whole and the second half performance was stronger at 5.6 per cent, following 3.2 per cent growth in the first half.

### Profit before exceptional items

Operating profit before exceptional items was £58.1 million (2013: £41.5 million), a 40.0 per cent increase. The result reflects good like-for-like sales growth, particularly in the second half of the year, strong returns on our investments in shop refurbishment and excellent cost control in our operations and as a result of structural changes.

After net finance income of £0.2 million (2013: £0.2 million charge) pre-tax profit before exceptional items was £58.3 million (2013: £41.3 million), an increase of 41.1 per cent. The impact of exceptional costs in the year is discussed below.

### Operating margin

Operating margin before exceptional items was 7.2 per cent (2013: 5.4 per cent).

Gross margin before exceptional items increased to 61.5 per cent (2013: 59.9 per cent) reflecting lower than expected input cost inflation and the operational gearing impact of strong like-for-like growth. The structural cost reduction resulting from the consolidation of in-store bakeries into our regional bakery network and the initial benefits of our investment in procurement technology also benefited gross margin and we expect to see further improvements in the year ahead.

We made good progress against our efficiency targets in shops and support areas and achieved savings of £6.5 million in 2014. Increasingly we are now focusing our efforts on achieving further efficiencies through the investment programme in processes and systems. Whilst this will result in higher costs in respect of technology we will see the benefits in our operational costs. As an example, in 2014 we invested in a leading workforce management solution to plan and manage the deployment of labour in our shops. This is resulting in better deployment of staff to meet demand with benefits for customer service and in greater efficiency.

In 2014 we recognised gains on the disposal of freehold properties totalling £1.5 million (2013: £1.3 million) largely as a result of the accelerated closure of under-performing shops. The net cost of accounting for a 53$^{rd}$ week in 2014 was £0.7m. On average this arises every five years and results in the higher operating costs and lower sales of New Year trading periods occurring twice in one financial year.

### Financing charges

There was net income from financing of £0.2 million in the year (2013: £0.2 million charge) reflecting the net cash position of the Group and the funding position of the defined benefit pension scheme.

In the year ahead we expect to incur a small financing charge relating to the net liability of the pension scheme at the end of the year as a result of the reduction in bond rates.

## Exceptional items

We incurred exceptional costs in 2014 as a result of the restructuring of our in-store bakeries and support operations. The cost of making these changes was £8.2 million and related to one-off redundancy costs and asset impairment charges. The net benefit to operating profit in 2014 was £2.9 million; this is expected to annualise to a net benefit of £6.0 million in 2015. The total exceptional charge of £8.5 million included additional costs relating to the closure of 'Greggs moment' coffee shops in 2013.

Pre-tax profit in 2014 including exceptional items was £49.7 million (2013: £33.2 million).

## Taxation

Excluding the impact of exceptional items the Group's underlying tax charge was 24.0 per cent (2013: 25.0 per cent). The overall tax rate for the year including exceptional items was 24.5 per cent (2013: 27.0 per cent). The effective rate reflected the lowering of the headline rate of corporation tax from 23 per cent to 21 per cent in April 2014; deferred tax liabilities were revalued in 2013 following enactment of the reduction in that year.

We expect the effective rate for 2015 to be 23.0 per cent, falling to 22.75 per cent for 2016.

## Earnings per share

Diluted earnings per share before exceptional items were 43.4 pence (2013: 30.6 pence), an increase of 41.8 per cent. Basic earnings per share before exceptional items were 44.0 pence (2013: 30.8 pence). Earnings per share including exceptional items were 36.8 pence diluted (2013: 23.9 pence) and 37.4 pence basic (2013: 24.1 pence).

## Dividend

The Board recommends a final dividend of 16.0 pence per share (2013: 13.5 pence). Together with the interim dividend of 6.0 pence (2013: 6.0 pence) paid in October 2014, this makes a total for the year of 22.0 pence (2013: 19.5 pence). This is covered 2.0 times by diluted earnings per share before exceptional items in line with our progressive dividend policy.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 8 May 2015 to shareholders on the register on 10 April 2015.

## Capital expenditure

We invested a total of £48.9 million (2013: £47.6 million) of capital expenditure in the business during 2014. This included expenditure on 213 shop refurbishments and the opening of 30 new shops (excluding franchises). We also invested £3.9m in our programme of process and systems improvement. This was some £2.0m less than we had anticipated as we deferred certain elements which will now be acquired in 2015. Investment in our supply chain continued to be focused on efficiency activity and the replacement of end-of-life assets. Depreciation and amortisation (excluding impairment charges) in the year was £38.0 million (2013: £33.4 million).

Following the success of our 2014 capital investment programme (see below) we plan capital expenditure of around £65.0 million in 2015. As in 2014, we will prioritise investment in our core estate and on the upgrading of our process and systems platform. We plan to refurbish 200 to 220 shops in 2015 and expect to invest in 60 - 70 new shops.

## 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 a cash return on invested capital of 25 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 were good, meeting our return target after one year and with the expectation that we will see further improvement in the year ahead. The performance of new shops improved significantly in the year, partly due to progress in the performance of prior year openings and partly due to a better than normal start from our 2014 acquisitions. In the year ahead we aim to increase the rate of openings but will continue to be selective and keep the focus on achieving strong investment returns.

Excluding exceptional costs we delivered an overall return on capital employed (ROCE) for 2014 of 22.4 per cent (2013: 16.4 per cent excluding exceptional costs). The stronger ROCE reflects the improved operating performance in the year as well as good capital investment returns.

## Cash flow and balance sheet

The net cash inflow from operating activities in the year was £97.1 million (2013: £69.3 million). At the end of the year the Group had net cash and cash equivalents of £43.6 million (2013: £21.6 million) and a short term cash deposit of £10.0 million (2013: £3.0 million). The cash and creditor positions reflect the £6.4 million profit share commitment that will be paid out in March 2015. In previous years this was paid in the financial year itself.

The Board continues to be mindful of the appropriate capital structure of the Group, bearing in mind the leverage inherent in the Group’s predominantly leasehold shop estate and of working capital requirements. In the first half of 2015 we intend to return up to £10 million to shareholders through share buybacks and, as the Chairman has said, we will give a further update on the Group's capital structure with the interim results.

Richard Hutton
Finance Director
4 March 2015

**Greggs plc**
**Consolidated income statement**
**for the 53 weeks ended 3 January 2015** (2013: 52 weeks ended 28 December 2013)

| | Note | **2014 Excluding exceptional items** | **2014 Exceptional items (see Note 3)** | **2014 Total** | 2013 Excluding exceptional items | 2013 Exceptional items (see Note 3) | 2013 Total |
|---|---|---|---|---|---|---|---|
| | | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| **Revenue** | 2 | **803,961** | **-** | **803,961** | 762,379 | - | 762,379 |
| Cost of sales | | **(309,865)** | **(5,932)** | **(315,797)** | (305,914) | (1,684) | (307,598) |
| **Gross profit** | | **494,096** | **(5,932)** | **488,164** | 456,465 | (1,684) | 454,781 |
| Distribution and selling costs | | **(395,709)** | **(282)** | **(395,991)** | (378,047) | (6,453) | (384,500) |
| Administrative expenses | | **(40,303)** | **(2,302)** | **(42,605)** | (36,923) | - | (36,923) |
| **Operating profit** | | **58,084** | **(8,516)** | **49,568** | 41,495 | (8,137) | 33,358 |
| Finance income / (expense) | | **175** | **-** | **175** | (206) | - | (206) |
| **Profit before tax** | | **58,259** | **(8,516)** | **49,743** | 41,289 | (8,137) | 33,152 |
| Income tax | 4 | **(13,997)** | **1,810** | **(12,187)** | (10,346) | 1,383 | (8,963) |
| **Profit for the financial year attributable to equity holders of the Parent** | | **44,262** | **(6,706)** | **37,556** | 30,943 | (6,754) | 24,189 |
| **Basic earnings per share** | 5 | **44.0p** | **(6.6p)** | **37.4p** | 30.8p | (6.7p) | 24.1p |
| **Diluted earnings per share** | 5 | **43.4p** | **(6.6p)** | **36.8p** | 30.6p | (6.7p) | 23.9p |

## Consolidated statement of comprehensive income
**for the 53 weeks ended 3 January 2015** (2013: 52 weeks ended 28 December 2013)

| | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Profit for the financial year** | **37,556** | 24,189 |
| **Other comprehensive income** | | |
| *Items that will not be recycled to profit and loss:* | | |
| Re-measurement (losses) / gains on defined benefit pension plans | **(8,575)** | 4,293 |
| Tax on re-measurement (losses) / gains on defined benefit pension plans | **1,715** | (859) |
| **Other comprehensive income for the financial year, net of income tax** | **(6,860)** | 3,434 |
| **Total comprehensive income for the financial year** | **30,696** | 27,623 |
| | **=======** | ======= |

**Greggs plc**
**Consolidated balance sheet**
**at 3 January 2015** (2013: 28 December 2013)

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | **4,721** | 1,012 |
| Property, plant and equipment | **262,719** | 267,797 |
| Defined benefit pension asset | **-** | 55 |
| | **267,440** | 268,864 |
| **Current assets** | | |
| Inventories | **15,290** | 15,405 |
| Trade and other receivables | **26,091** | 25,012 |
| Assets held for sale | **6,500** | - |
| Cash and cash equivalents | **43,615** | 21,572 |
| Other investments | **10,000** | 3,000 |
| | **101,496** | 64,989 |
| **Total assets** | **368,936** | 333,853 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | **(89,954)** | (72,203) |
| Current tax liabilities | **(8,056)** | (5,564) |
| Provisions | **(4,109)** | (2,949) |
| | **(102,119)** | (80,716) |
| **Non-current liabilities** | | |
| Other payables | **(6,555)** | (7,040) |
| Defined benefit pension liability | **(8,518)** | - |
| Deferred tax liability | **(2,539)** | (7,508) |
| Long-term provisions | **(2,502)** | (2,412) |
| | **(20,114)** | (16,960) |
| **Total liabilities** | **(122,233)** | (97,676) |
| **Net assets** | **246,703** | 236,177 |
| | **=======** | ======= |
| **EQUITY** | | |
| **Capital and reserves** | | |
| Issued capital | **2,023** | 2,023 |
| Share premium account | **13,533** | 13,533 |
| Capital redemption reserve | **416** | 416 |
| Retained earnings | **230,731** | 220,205 |
| **Total equity attributable to equity holders of the Parent** | **246,703** | 236,177 |
| | **=======** | ======= |

**Greggs plc**
**Group statement of changes in equity**
**for the 53 weeks ended 3 January 2015** (2013: 52 weeks ended 28 December 2013)

**52 weeks ended 28 December 2013**

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Issued capital | Share premium | Capital redemption reserve | Retained earnings | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 30 December 2012 | 2,023 | 13,533 | 416 | 210,818 | 226,790 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the financial year | - | - | - | 24,189 | 24,189 |
| Other comprehensive income | - | - | - | 3,434 | 3,434 |
| Total comprehensive income for the year | - | - | - | 27,623 | 27,623 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Sale of own shares | - | - | - | 860 | 860 |
| Share-based payment transactions | - | - | - | 592 | 592 |
| Dividends to equity holders | - | - | - | (19,582) | (19,582) |
| Tax items taken directly to reserves | - | - | - | (106) | (106) |
| Total transactions with owners | - | - | - | (18,236) | (18,236) |
| Balance at 28 December 2013 | 2,023 | 13,533 | 416 | 220,205 | 236,177 |
| | ======= | ======= | ======= | ======= | ======= |

**Greggs plc**
**Group statement of changes in equity**
**for the 53 weeks ended 3 January 2015** (2013: 52 weeks ended 28 December 2013) continued

**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
# Group statement of cashflows
# for the 53 weeks ended 3 January 2015 (2013: 52 weeks ended 28 December 2013)

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| **Operating activities** | | |
| Cash generated from operations (see below) | **108,552** | 82,493 |
| Income tax paid | **(11,462)** | (13,157) |
| **Net cash inflow from operating activities** | **97,090** | 69,336 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(44,456)** | (47,808) |
| Acquisition of intangible assets | **(3,809)** | (785) |
| Proceeds from sale of property, plant and equipment | **2,231** | 3,194 |
| Interest received / (paid) | **173** | (24) |
| Acquisition of other investments | **(7,000)** | (3,000) |
| **Net cash outflow from investing activities** | **(52,861)** | (48,423) |
| **Financing activities** | | |
| Sale of own shares | **5,257** | 860 |
| Purchase of own shares | **(7,873)** | - |
| Dividends paid | **(19,570)** | (19,582) |
| **Net cash outflow from financing activities** | **(22,186)** | (18,722) |
| **Net increase in cash and cash equivalents** | **22,043** | 2,191 |
| Cash and cash equivalents at the start of the year | **21,572** | 19,381 |
| **Cash and cash equivalents at the end of the year** | **43,615** | 21,572 |

**Cash flow statement – cash generated from operations**

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| Profit for the financial year | **37,556** | 24,189 |
| Amortisation | **100** | 161 |
| Depreciation | **37,463** | 33,225 |
| Impairment | **414** | 5,252 |
| Loss on sale of property, plant and equipment | **3,576** | 1,390 |
| Release of government grants | **(473)** | (470) |
| Share-based payment expenses | **529** | 592 |
| Finance (income) / expense | **(175)** | 206 |
| Income tax expense | **12,187** | 8,963 |
| Decrease in inventories | **115** | 2,253 |
| (Increase) /decrease in receivables | **(1,079)** | 1,905 |
| Increase in payables | **17,089** | 1,220 |
| Increase in provisions | **1,250** | 3,607 |
| **Cash from operating activities** | **108,552** | 82,493 |

## 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 3 January 2015 or 28 December 2013 but is derived from these accounts. Statutory accounts for the 52 weeks ended 28 December 2013 have been delivered to the registrar of companies, and those for the 53 weeks ended 3 January 2015 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 52 weeks ended 28 December 2013, 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:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Transition guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
- Recoverable amount disclosures for non-financial assets – Amendments to IAS 36

The adoption of the above has not had a significant impact on the Group's profit for the year or equity.

## 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. The information which is reviewed by the Board for the purposes of assessing financial performance and allocating resources comprises the income statement for the Company as a whole.

The Group has identified one operating segment – food-on-the-go retailing which includes the sale of products through our own shops and franchised operations. The Group conducts a small amount of wholesale business but this is not significant in the context of IFRS 8 and it is not anticipated that this will become a 'Reportable Segment'.

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

| | **2014** **£'000** | 2013 £'000 |
|---|---|---|
| Cost of sales | | |
| Supply sites - asset impairment | **-** | 1,221 |
| - loss on disposal of assets | **-** | 463 |
| Closure of in-store bakeries – redundancy and disruption costs | **3,190** | - |
| – loss on disposal of assets | **664** | - |
| – dilapidations | **2,078** | - |
| | **5,932** | 1,684 |
| Distribution and selling | | |
| Shop asset impairment (reversal) / charge | **(149)** | 1,790 |
| Loss on disposal of assets | **-** | 1,529 |
| Onerous leases | **431** | 3,134 |
| | **282** | 6,453 |
| Administration expenses | | |
| Restructuring of support functions | **2,302** | - |
| Total exceptional items | **8,516** | 8,137 |
| | **=======** | ======= |

*Supply sites*

The impairment arose following the decision that additional capacity in the supply chain was not required in the medium term.

*Closure of in-store bakeries*

The charge arises from the decision to consolidate the Group's in-store bakeries into its regional bakery network and comprises of redundancy costs, 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 relates to the redundancy costs incurred in respect of restructuring within the support functions.

## 4. Taxation

**Recognised in the income statement**

| | **2014 Excluding exceptional items £'000** | **2014 Exceptional items £'000** | **2014 Total £'000** | 2013 Excluding exceptional items £'000 | 2013 Exceptional items £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| **Current tax expense** | | | | | | |
| Current year | **15,776** | **(1,534)** | **14,242** | 12,463 | (670) | 11,793 |
| Adjustment for prior years | **(229)** | **-** | **(229)** | (170) | - | (170) |
| | **15,547** | **(1,534)** | **14,013** | 12,293 | (670) | 11,623 |
| **Deferred tax (credit) / expense** | | | | | | |
| Origination and reversal of temporary differences | **(1,471)** | **(276)** | **(1,747)** | (886) | (713) | (1,599) |
| Reduction in tax rate | **-** | **-** | **-** | (1,200) | - | (1,200) |
| Adjustment for prior years | **(79)** | **-** | **(79)** | 139 | - | 139 |
| | **(1,550)** | **(276)** | **(1,826)** | (1,947) | (713) | (2,660) |
| Total income tax expense in income statement | **13,997** | **(1,810)** | **12,187** | 10,346 | (1,383) | 8,963 |
| | **=======** | **=======** | **=======** | ======= | ======= | ======= |

## 5. Earnings per share

### Basic earnings per share

Basic earnings per share for the 53 weeks ended 3 January 2015 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 53 weeks ended 3 January 2015 as calculated below.

### Diluted earnings per share

Diluted earnings per share for the 53 weeks ended 3 January 2015 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 53 weeks ended 3 January 2015 as calculated below.

### Profit attributable to ordinary shareholders

| | **2014 Excluding exceptional items** | **2014 Exceptional items** | **2014 Total** | 2013 Excluding exceptional items | 2013 Exceptional items | 2013 Total |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Profit for the financial year attributable to equity holders of the Parent | **44,262** | **(6,706)** | **37,556** | 30,943 | (6,754) | 24,189 |
| | **=======** | **=======** | **=======** | ======= | ======= | ====== |
| Basic earnings per share | **44.0p** | **(6.6p)** | **37.4p** | 30.8p | (6.7p) | 24.1p |
| Diluted earnings per share | **43.4p** | **(6.6p)** | **36.8p** | 30.6p | (6.7p) | 23.9p |

### Weighted average number of ordinary shares

| | **2014 Number** | 2013 Number |
|---|---|---|
| Issued ordinary shares at start of year | **101,155,901** | 101,155,901 |
| Effect of own shares held | **(638,815)** | (762,222) |
| **Weighted average number of ordinary shares during the year** | **100,517,086** | 100,393,679 |
| Effect of share options on issue | **1,517,722** | 912,387 |
| **Weighted average number of ordinary shares (diluted) during the year** | **102,034,808** | 101,306,066 |
| | **=========** | ========= |

## 6. Dividends

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

| | **2014 Per share pence** | 2013 Per share pence |
|---|---|---|
| 2012 final dividend | **-** | 13.5p |
| 2013 interim dividend | **-** | 6.0p |
| 2013 final dividend | **13.5p** | - |
| 2014 interim dividend | **6.0p** | - |
| | **19.5p** | 19.5p |

The proposed final dividend in respect of 2014 amounts to 16.0 pence per share (£16,056,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| 2012 final dividend | **-** | 13,555 |
| 2013 interim dividend | **-** | 6,027 |
| 2013 final dividend | **13,530** | - |
| 2014 interim dividend | **6,040** | - |
| | **19,570** | 19,582 |

## 7. Related parties

The Group has a related party relationship with its subsidiaries 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.

## 8. Principal risks and uncertainties

Corporate governance guidance requires the disclosure of principal risks and uncertainties. A principal risk is defined as "a risk or combination of risks which can seriously affect the performance, future prospects or reputation of the entity". This would include risks which would threaten the business' viability.
Greggs is exposed to a wider range of risks than those listed here. However, these are considered to be the most important to the future development, performance or position of the business. The risks listed are not set out in any particular order, although they are grouped into five themes.

| *Business strategy & change* | |
|---|---|
| **Area of principal risk or uncertainty** | **Mitigating actions and controls** |
| **Change programme**<br>The business has embarked on a long term project to improve operational efficiency, requiring significant capital investment. Progress may not be in line with expectations, or budgets may not be met. | 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.<br><br>Risk rating: No change |
| **Information security**<br>Greggs obtains significant quantities of customer data through its loyalty scheme, which needs to be handled in a secure manner. More general “cyber” issues are also an area of risk. | A cross functional working group determines priorities for improving the business approach to Information Security. Where appropriate, the Company is investing in training and technology to strengthen controls.<br><br>Risk rating: No change |

| *Brand & reputation* | |
|---|---|
| **Area of principal risk or uncertainty** | **Mitigating actions and controls** |
| **Product quality and safety**<br>As a food-on-the-go retailer and manufacturer, good food safety is clearly imperative to maintain consumer confidence in our products. We need to ensure that our ingredients are in line with specification, and are used correctly. | Procedures are in place in our bakeries, logistics operations and shops to ensure that food safety is maintained. These procedures are supported by robust audit processes, both internally and by regulatory bodies.<br><br>Risk rating: No change |
| **Food scare**<br>Greggs may suffer from a loss of customer confidence due to a major food scare beyond its control. | 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 ingredients as part of routine processes.<br><br>Risk rating: No change |

| *Supply chain* | |
|---|---|
| **Area of principal risk or uncertainty** | **Mitigating actions and controls** |
| **Loss of production**<br>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. Annual site inspections by our property insurers help us to ensure that our facilities are protected against loss. Alternative sources of supply have been identified for key products, and regular testing ensures an ability to provide product to a suitable quality within the required timeframe.<br><br>Risk rating: No change |

| *External pressures* | |
|---|---|
| **Area of principal risk or uncertainty** | **Mitigating actions and controls** |
| **Economic outlook / market pressures**<br>Continued economic uncertainty, combined with a decline in high street footfall, results in a challenging trading environment for the business in the short term. | Our products are competitively priced, to offer the consumer value for money. We continue to focus on refitting existing stores, rather than opening new ones. New store locations are generally away from high streets, to reflect the changes in shopping habits.<br><br>Risk rating: Improving |
| **Market saturation**<br>In the longer term, the food-on-the-go market may become saturated due to the entry of new players and the expansion of existing competitors. | Our value proposition combined with our quality products puts us in a strong position in the market place. Monitoring of marketing data and segmental analysis allows us to target our activity.<br><br>Risk rating: New |
| *Healthy eating* | |
| **Area of principal risk or uncertainty** | **Mitigating actions and controls** |
| **Consumer trends**<br>Greggs may lose customer share due to changing customer trends and health concerns reducing the popularity of some of our products. | We have introduced a “Balanced Choice” range within our sandwiches to provide our customers with increased choice. Lines such as our soup, porridge and salads provide other alternatives. Sales of products within this range have been growing well.<br><br>Risk rating: Improving |