30 July 2019

INTERIM RESULTS FOR THE 26 WEEKS ENDED 29 JUNE 2019

Greggs is a leading UK food-on-the-go retailer, with almost 2,000 retail outlets throughout the country

Exceptional trading performance

First half financial highlights

- Total sales up 14.7% to £546m
- Company-managed shop like-for-like sales* up 10.5%
- Underlying pre-tax profit margin of 7.5% (H1 2018: 5.4%) driven by strong sales growth and operational cost control
- Underlying pre-tax profit excluding property gains** and exceptional charge*** £40.6m (H1 2018: £25.7m)
- Reported pre-tax profit including property gains and exceptional charge £36.7m (H1 2018: £24.1m)
- Strong cash generation supporting investment programme and enhanced returns to shareholders
- Ordinary interim dividend per share up 11.2% to 11.9p in line with our policy of paying one third of the previous year's total dividend as an interim dividend
- Special dividend of 35.0p per share declared

* like-for-like sales in company-managed shops (excluding franchises) with a calendar year's trading history
** freehold property disposal profits of £0.1m in H1 2019 (H1 2018: £0.3m)
*** exceptional pre-tax charge of £4.0m in H1 2019 (H1 2018: £1.9m) in relation to previously-announced restructuring

Operational highlights

- Exceptionally strong trading built on the successful end to 2018, and helped by the popularity of the new vegan-friendly sausage roll
- Strong growth in customer visits as Greggs broadens its appeal for food-on-the-go
- Traditional bakery favourites selling well alongside growth in Fairtrade coffee, breakfast and new hot food options
- Shop opening programme progressing well:
  - 54 new shops opened, 23 closures; continue to expect around 100 net new shops for the year as a whole
  - 1,984 shops trading as at 29 June 2019
- Supply chain investment programme progressing well
- Extended trials in new channels including 'click & collect' and delivery

"Greggs has delivered an exceptional first half performance, building on the strong finish to 2018. We have continued to make strategic progress with our programmes of investment in infrastructure to support future growth and in developing the products and channels to market that will help achieve our ambition to be the customers' favourite for food-on-the-go.

"Given the strength of our year to date and the outlook, we have decided to increase investment in strategic initiatives in the second half of the year to help to deliver an even stronger customer proposition and further growth in the years ahead. Our expectations for underlying profits for the year as a whole remain unchanged."

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

ENQUIRIES:
Greggs plc
Roger Whiteside, Chief Executive
Richard Hutton, Finance Director
Tel: 020 7796 4133 on 30 July only
0191 281 7721 thereafter

Hudson Sandler
Wendy Baker / Hattie Dreyfus / Nick Moore
Tel: 020 7796 4133

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

High resolution images are available for the media to view and download from https://corporate.greggs.co.uk/media-centre/image-and-video-library

CHIEF EXECUTIVE'S REPORT

Greggs has delivered an exceptional first-half performance, building on the strong finish to 2018. Total sales for the 26 weeks to 29 June 2019 grew by 14.7 per cent to £546 million, with like-for-like sales in company-managed shops up by 10.5 per cent compared with the first half of 2018, when trading conditions were more challenging. We have continued to make strategic progress with our programmes of investment in infrastructure to support future growth and in developing the products and channels to market that will help achieve our ambition to be the customers' favourite for food-on-the-go.

Operational review

The very strong performance in the first half of 2019 was broadly-based. We saw excellent sales growth and at the same time delivered higher service standards and good operational cost control. Market conditions were also supportive, with high employment levels, growth in consumers' disposable incomes and more settled weather than was the case in the first half of 2018.

We came into 2019 with good sales momentum, which had built progressively through the second half of 2018. The launch of the now famous vegan-friendly sausage roll took this to another level, with initial demand significantly outstripping our expectations. The product has remained extremely popular with customers and is now one of our top sellers, demonstrating the demand for greater dietary choice in food-on-the-go.

Our award-winning marketing initiatives surrounding product launches and customer engagement are helping to drive increased customer visits, broadening our appeal for food-on-the-go at all times of the day.

Growth in customer visits has in turn driven strong sales across our traditional savoury products and sales of our traditional sweet products continue to benefit from the improved quality delivered by our investment in manufacturing centres of excellence.

Breakfast-on-the-go remains the fastest-growing element of our trading day, with sales of our freshly-ground Fairtrade coffee now placing us third in the UK out-of-home coffee market. Our breakfast food offer is growing with fresh porridge and hot breakfast boxes becoming available in more shops as we roll out hot food cabinets.

With increasing demand for convenient meal solutions, we are continuing to develop our offer for later in the day. Our focaccia-style pizzas are growing in popularity, supported by our post-4pm pizza deal of a pizza slice and a drink for just £2. Hot food options are also being developed with the roll-out of hot food cabinets supporting growing sales of new lines alongside our existing hot sandwich range. Trials of extended late opening hours will follow in the autumn.

The current growth in customer numbers is a great opportunity for us to demonstrate to new and returning customers how significantly we have transformed the Greggs shop estate, creating an attractive food-on-the-go experience with relevant products, extended trading hours and more seating. In the first half of 2019 we opened 54 new shops (including 16 franchised units) and closed 23 shops, giving a total of 1,984 shops (of which 275 are franchise units) trading at 29 June 2019.

The emphasis on opening shops close to where customers are working or travelling is contributing to the ongoing rebalancing of the Greggs estate. 38 per cent of our shops now serve catchments wholly outside of traditional shopping locations and we anticipate that this proportion will continue to grow to more than 50 per cent in the longer term. We have just opened our fourth drive-through location in Newcastle upon Tyne and continue to work with partners to bring Greggs to other travel catchments such as railway stations, road and motorway services, and airports.

Our pipeline of new shop opportunities remains strong and we expect around 100 net openings in the year as a whole, of which around 40 are anticipated to be with franchise partners.

Strategic development

We are continuing to develop channels to market that will make Greggs even more accessible to customers. Our 'click & collect' pilot has now been extended to seven cities and we have extended our trial of delivery options to include Just Eat alongside our existing partnership with Deliveroo. These trials are providing valuable learning around the operational approach that must be adopted to ensure that customers receive a great service, however they shop with Greggs.

As previously communicated, in the second half of 2019 we plan to increase investment in strategic initiatives that will deliver further long-term benefits. Our current trading performance has demonstrated the Greggs brand's capacity for additional growth and the strong cash flows resulting from our current initiatives have given us the resources to invest in this potential. These investments, which will benefit growth in the years ahead, include further improvements to service levels in our shops and digital platforms, better availability of hot food options and further enhancements to our already-strong reputation as a responsible business.

Our supply chain investment programme continues to provide capacity for further growth whilst improving product quality and making the business more efficient. In the first half of 2019 we completed the commissioning of new manufacturing platforms for bread rolls in our Manchester and Enfield sites, doughnuts in Newcastle and cream cakes in Leeds. We also made substantial progress in the construction of our new distribution centre based at Amesbury in Wiltshire, which is due to be commissioned at the end of the year.

In the balance of 2019, we will extend the distribution capabilities of our site at Treforest in South Wales and commence works to increase both the production and frozen storage capabilities of our savoury pastry manufacturing site at Balliol Park in Newcastle upon Tyne. This latter investment is the first stage of a two-year project to provide automated warehousing for our current and future needs.

Our investment in new centralised systems moved closer to completion in the first half of 2019, with the successful deployment of SAP manufacturing to our Balliol Park production site, and good progress in the transition to a new integrated human resources and payroll platform.

Financial performance

Underlying pre-tax profit excluding property gains and exceptional charges was £40.6 million in the first half of 2019 (2018: £25.7 million), giving an underlying net margin of 7.4 per cent (2018: 5.4 per cent). The exceptionally strong like-for-like sales growth, against a weak comparative period in 2018, contributed strongly to net margin, particularly when combined with good control of operational costs. New shop growth also continues to deliver good returns in both our company-managed and franchised estates.

Non-exceptional freehold property disposals realised profits of £0.1 million in the period (2018: £0.3 million) and we incurred a net exceptional charge of £4.0 million (2018: £1.9 million) as a consequence of our investment programme to reshape our manufacturing and distribution operations for future growth. Exceptional costs for the full year are expected to be £6.0-7.0 million. Pre-tax profit including all property profits and exceptional charges was £36.7 million (2018: £24.1 million). Diluted earnings per share (including exceptional items) were 28.5 pence (2018: 18.6 pence); excluding the exceptional items adjusted diluted earnings per share were 31.7 pence (2018: 20.1 pence).

These are the first results that the Company has published since the adoption of IFRS 16 (lease accounting). The balance sheet at 29 June 2019 recognises new 'right-of-use assets' of £276 million and new lease liabilities totalling £277 million. In the income statement rent costs have been replaced by a straight-line depreciation charge on each right-of-use asset and an interest charge that reduces over the lease term. As disclosed at the time of our preliminary results in March, we expect that the adoption of IFRS 16 will increase reported operating profit but reduce full-year profit before tax by £4.2 million in 2019, when compared with the previous method of accounting for leased assets. These interim results reflect approximately half of that expected profit impact. As a result of adoption of the 'modified approach' to transition the 2018 comparative results have not been restated.

Capital expenditure and financial position

Capital expenditure during the first half was £33.2 million (2018: £33.2 million) as we continued to invest in the transformation of our manufacturing and logistics capacity whilst also growing our company-managed estate. In light of our strong trading performance we have brought forward existing plans to reinvest in our Balliol Park manufacturing and logistics site. As a result of this, along with some further contingency planning ahead of the UK's possible exit from the European Union, we now expect total capital expenditure in 2019 to be in the range £90-100 million (2018: £73.0 million). This is purely a change in the phasing of investments and our medium-term outlook for capital expenditure remains unchanged.

The Company continues to generate strong cash flows and remains in a robust financial position. We ended the period with a cash balance of £85.9 million (30 June 2018: £43.5 million).

Dividends

In setting the interim ordinary dividend the Board applies a formula so that the interim payment is the equivalent of approximately one third of the total ordinary dividend for the previous year. On this basis the Board has declared an interim dividend of 11.9 pence per share (2018: 10.7 pence). The overall ordinary dividend for the year will be declared in line with our progressive dividend policy, which targets a full year ordinary dividend that is two times covered by underlying earnings.

Having taken into account the Company's investment requirements and the intention to maintain our progressive dividend policy, along with the current political and economic uncertainties facing the UK, the Board has concluded that around £35 million of the Company's cash position is surplus to requirements. In accordance with our policy on cash distribution the Board has therefore declared a special dividend of 35.0 pence per share.

The interim and special dividends will be paid on 3 October 2019 to those shareholders on the register at the close of business on 6 September 2019.

Outlook

Current trading remains strong, although we continue to expect that the rate of like-for-like growth will begin to normalise as we face stronger comparative numbers in the second half of the year. Commodity cost pressure has been modest in the first half of 2019 but we expect higher food input costs in the balance of the year, resulting in overall cost inflation being at the higher end of our expectations.

The negotiation of the UK's exit terms from the European Union continues to present significant uncertainties in the months ahead, with the potential impact that a disorderly exit might have on supply chains, tariffs, exchange rates and consumer demand. As disclosed at the time of our preliminary results in March, we are building stocks of key ingredients and equipment that could be affected by disruption to the flow of goods into the UK.

Given the strength of our year to date and the outlook, we have decided to increase investment in strategic initiatives in the second half of the year to help to deliver an even stronger customer proposition and further growth in the years ahead. These additional investments will offset the higher returns from our ongoing strong momentum, and therefore we maintain our previous expectations for underlying profits for the year as a whole. At the same time the strength of our financial position is allowing us to deliver enhanced returns for shareholders.

Roger Whiteside
Chief Executive
30 July 2019

Greggs plc
Consolidated income statement
For the 26 weeks ended 29 June 2019

	26 weeks ended 29 June 2019			26 weeks ended 30 June 2018			52 weeks ended 29 December 2018		
	Excluding exceptional items	**Exceptional items (see Note 5)**	**Total**	Excluding exceptional items	Exceptional items (see Note 5)	Total	Excluding exceptional items	Exceptional items (see Note 5)	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	**546,332**	**-**	**546,332**	476,323	-	476,323	1,029,347	-	1,029,347
Cost of sales	**(189,702)**	**(4,044)**	**(193,746)**	(176,165)	(1,681)	(177,846)	(373,487)	(5,947)	(379,434)
Gross profit	**356,630**	**(4,044)**	**352,586**	300,158	(1,681)	298,477	655,860	(5,947)	649,913
Distribution and selling costs	**(275,170)**	**-**	**(275,170)**	(248,996)	(188)	(249,184)	(513,161)	416	(512,745)
Administrative expenses	**(37,521)**	**-**	**(37,521)**	(25,214)	-	(25,214)	(52,856)	(1,682)	(54,538)
Operating profit	**43,939**	**(4,044)**	**39,895**	25,948	(1,869)	24,079	89,843	(7,213)	82,630
Finance expense	**(3,197)**	-	**(3,197)**	(15)	-	(15)	(12)	-	(12)
Profit before tax	**40,742**	**(4,044)**	**36,698**	25,933	(1,869)	24,064	89,831	(7,213)	82,618
Income tax	**(8,297)**	**763**	**(7,534)**	(5,428)	349	(5,079)	(18,201)	1,322	(16,879)
Profit for the period attributable to equity holders of the parent	**32,445**	**(3,281)**	**29,164**	20,505	(1,520)	18,985	71,630	(5,891)	65,739
Basic earnings per share	**32.2p**	**(3.3p)**	**28.9p**	20.4p	(1.5p)	18.9p	71.1p	(5.9p)	65.2p
Diluted earnings per share	**31.7p**	**(3.2p)**	**28.5p**	20.1p	(1.5p)	18.6p	70.3p	(5.8p)	64.5p

Greggs plc
Consolidated statement of comprehensive income
For the 26 weeks ended 29 June 2019

	26 weeks ended 29 June 2019 £'000	26 weeks ended 30 June 2018 £'000	52 weeks ended 29 December 2018 £'000
Profit for the period	**29,164**	18,985	65,739
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Re-measurements on defined benefit pension plans	**(2,880)**	11,159	966
Tax re-measurements on defined benefit pension plans	**490**	(1,897)	(164)
Other comprehensive income for the period, net of income tax	**(2,390)**	9,262	802
Total comprehensive income for the period	**26,774**	28,247	66,541

Greggs plc
Consolidated balance sheet
as at 29 June 2019

	29 June 2019	30 June 2018	29 December 2018
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Intangible assets	**16,941**	16,370	16,886
Property, plant and equipment	**331,857**	321,470	330,472
Right-of-use assets	**275,667**	-	-
Deferred tax asset	**3,942**	-	191
Defined benefit pension surplus	**-**	3,559	-
	628,407	341,399	347,549
Current assets			
Inventories	**22,663**	18,447	20,792
Trade and other receivables	**23,035**	31,238	31,581
Cash and cash equivalents	**85,904**	43,466	88,197
	131,602	93,151	140,570
Total assets	**760,009**	434,550	488,119
LIABILITIES			
Current liabilities			
Trade and other payables	**(114,185)**	(104,740)	(126,377)
Current tax liability	**(9,452)**	(6,717)	(10,059)
Lease liabilities	**(47,408)**	-	-
Provisions	**(7,153)**	(9,691)	(8,659)
	(178,198)	(121,148)	(145,095)
Non-current liabilities			
Other payables	**(4,418)**	(4,891)	(4,655)
Deferred tax liability	**-**	(1,313)	-
Defined benefit pension liability	**(11,413)**	-	(8,416)
Lease liabilities	**(229,626)**	-	-
Long-term provisions	**(826)**	(2,806)	(735)
	(246,283)	(9,010)	(13,806)
Total liabilities	**(424,481)**	(130,158)	(158,901)
Net assets	**335,528**	304,392	329,218
EQUITY			
Capital and reserves			
Issued capital	**2,023**	2,023	2,023
Share premium account	**13,533**	13,533	13,533
Capital redemption reserve	**416**	416	416
Retained earnings	**319,556**	288,420	313,246
Total equity attributable to equity holders of the Parent	**335,528**	304,392	329,218

Greggs plc
Consolidated statement of changes in equity
For the 26 weeks ended 29 June 2019

26 weeks ended 30 June 2018

	Issued capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Total comprehensive income for the period					
Balance at 31 December 2017	2,023	13,533	416	283,391	299,363
Profit for the period	-	-	-	18,985	18,985
Other comprehensive income	-	-	-	9,262	9,262
Total comprehensive income for the period	-	-	-	28,247	28,247
Transactions with owners, recorded directly in equity					
Sale of own shares	-	-	-	4,068	4,068
Purchase of own shares	-	-	-	(5,288)	(5,288)
Share-based transactions	-	-	-	936	936
Dividends to equity holders	-	-	-	(22,262)	(22,262)
Tax items taken directly to reserves	-	-	-	(672)	(672)
Total transactions with owners	-	-	-	(23,218)	(23,218)
Balance at 30 June 2018	2,023	13,533	416	288,420	304,392

52 weeks ended 29 December 2018

	Issued capital	Share premium	Capital redemption reserve	Retained earnings	**Total**
	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2017	2,023	13,533	416	283,391	299,363
Total comprehensive income for the period					
Profit for the financial year	-	-	-	65,739	65,739
Other comprehensive income	-	-	-	802	802
Total comprehensive income for the year	-	-	-	66,541	66,541
Transactions with owners, recorded directly in equity					
Sale of own shares	-	-	-	5,270	5,270
Purchase of own shares	-	-	-	(9,945)	(9,945)
Share-based transactions	-	-	-	2,018	2,018
Dividends to equity holders	-	-	-	(33,086)	(33,086)
Tax items taken directly to reserves	-	-	-	(943)	(943)
Total transactions with owners	-	-	-	(36,686)	(36,686)
Balance at 29 December 2018	2,023	13,533	416	313,246	329,218

26 weeks ended 29 June 2019

	Issued capital	Share premium	Capital redemption reserve	Retained earnings	**Total**
	£'000	£'000	£'000	£'000	**£'000**
Balance at 30 December 2018	2,023	13,533	416	313,246	**329,218**
Total comprehensive income for the period					
Profit for the period	-	-	-	29,164	**29,164**
Other comprehensive income	-	-	-	(2,390)	**(2,390)**
Total comprehensive income for the period	-	-	-	26,774	**26,774**
Transactions with owners, recorded directly in equity					
Sale of own shares	-	-	-	4,515	**4,515**
Purchase of own shares	-	-	-	(6,824)	**(6,824)**
Share-based transactions	-	-	-	4,613	**4,613**
Dividends to equity holders	-	-	-	(24,833)	**(24,833)**
Tax items taken directly to reserves	-	-	-	2,065	**2,065**
Total transactions with owners	-	-	-	(20,464)	**(20,464)**
Balance at 29 June 2019	2,023	13,533	416	319,556	**335,528**

Greggs plc
Consolidated statement of cash flows
For the 26 weeks ended 29 June 2019

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
	£'000	£'000	£'000
Cash flows from operating activities			
Cash generated from operations (see page 12)	**101,847**	46,515	152,222
Income tax paid	**(9,337)**	(7,550)	(16,050)
Interest paid on lease liabilities	**(3,292)**	-	-
Net cash inflow from operating activities	**89,218**	38,965	136,172
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(37,705)**	(24,105)	(61,437)
Acquisition of intangible assets	**(1,823)**	(3,139)	(5,188)
Proceeds from sale of property, plant and equipment	**554**	645	1,726
Interest received	**212**	79	182
Net cash outflow from investing activities	**(38,762)**	(26,520)	(64,717)
Cash flows from financing activities			
Sale of own shares	**4,515**	4,068	5,270
Purchase of own shares	**(6,824)**	(5,288)	(9,945)
Dividends paid	**(24,833)**	(22,262)	(33,086)
Repayment of principal of lease liabilities	**(25,607)**	-	-
Net cash outflow from financing activities	**(52,749)**	(23,482)	(37,761)
Net (decrease) / increase in cash and cash equivalents	**(2,293)**	(11,037)	33,694
Cash and cash equivalents at the start of the period	**88,197**	54,503	54,503
Cash and cash equivalents at the end of the period	**85,904**	43,466	88,197

Greggs plc
Consolidated statement of cash flows (continued)
For the 26 weeks ended 29 June 2019

Cash flow statement – cash generated from operations

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
	£'000	£'000	£'000
Profit for the period	**29,164**	18,985	65,739
Amortisation	**1,768**	1,506	3,039
Depreciation – property, plant and equipment	**28,514**	26,093	52,867
Depreciation – right-of-use assets	**25,580**	-	-
Impairment / (reversal of impairment)	**366**	(59)	367
Loss on sale of property, plant and equipment	**585**	1,055	1,602
Release of government grants	**(236)**	(236)	(472)
Share-based payment expenses	**4,613**	936	2,018
Finance expense	**3,197**	15	12
Income tax expense	**7,534**	5,079	16,879
(Increase) / decrease in inventories	**(1,871)**	241	(2,104)
(Increase) / decrease in receivables	**(653)**	2,127	1,784
Increase / (decrease) in payables	**4,701**	(8,290)	12,849
Decrease in provisions	**(1,415)**	(937)	(4,040)
Increase in pension liability	**-**	-	1,682
Cash from operating activities	**101,847**	46,515	152,222

Notes

1. Basis of preparation

The condensed accounts have been prepared for the 26 weeks ended 29 June 2019. Comparative figures are presented for the 26 weeks ended 30 June 2018. These condensed accounts have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all the information required for full annual accounts, and should be read in conjunction with the Group accounts for the 52 weeks ended 29 December 2018.

These condensed accounts are unaudited and were approved by the Board of Directors on 30 July 2019.

The comparative figures for the 52 weeks ended 29 December 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditors was (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 Group continues to have strong operational cashflows and the Directors are of the view that the Group has sufficient funds available to meet its foreseeable working capital requirements. The Directors have concluded therefore that the going concern basis remains appropriate.

In preparing these condensed accounts, management have made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

This is the first set of accounts in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual report, except for the new significant judgements related to lessee accounting under IFRS 16, which are described in Note 2.

2. Accounting policies

The accounting policies applied by the Group in these condensed accounts are the same as those applied by the Group in its consolidated accounts for the 52 weeks ended 29 December 2018 other than as disclosed below.

The changes in accounting policies referred to below are expected to be reflected in the Group's consolidated accounts as at and for the 52 weeks ending 28 December 2019.

The Group has initially adopted IFRS 16 *Leases* from 30 December 2018. A number of other new standards were effective from 30 December 2018 but they do not have a material effect on the Group's accounts.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified transition approach, whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 30 December 2018. Accordingly the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations.

2.1. Changes to accounting policies

Details of the changes in accounting policies arising from the implementation of IFRS16 are as follows:

a. Lease recognition

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contact is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 30 December 2018.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value ('low-value assets').

For leases of properties in which the Group is a lessee, it has applied the practical expedient permitted by IFRS16 and will account for each lease component and any associated non-lease components as a single lease component.

b. Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to and reviewed regularly for impairment. Depreciation on right-of-use assets is included in selling and distribution costs in the consolidated income statement.

c. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or rate. Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally the Group uses its incremental borrowing rate as the discount rate. As it has no external borrowings judgement is required to determine an approximation, calculated based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium.

After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the consolidated income statement.

d. Short-term leases and leases of low-value items

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of less than 12 months and leases of low-value assets. Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

e. Significant judgement in determining the lease term of property leases

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of 10 or 15 years. In England, the majority of its property leases are protected by the Landlord and Tenant Act 1954 ("LTA") which affords protection to the lessee at the end of an existing lease term.

Judgement is required in respect of those property leases where the current lease term has expired but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be reasonably certain and the lease is protected by the LTA it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. Where renewal is not considered to be certain the leases are included with a lease term which reflects the anticipated notice period under relevant legislation. The lease will be revalued when it is renewed to take account of the new terms.

2.2. Impact of IFRS 16 on financial statements

The Group leases many assets including properties, cars and other equipment.

As a lessee, the Group previously classified leases as operating leases or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, except for short-term leases and leases of low-value assets.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured in accordance with the policy set out at 2.2.c above using the Group's incremental borrowing rate as at 30 December 2018 which ranged from 2.25% to 2.78%. Right-of-use assets were measured at an amount equal to the corresponding lease liability, adjusted for any prepaid or accrued lease payments.

a. Balance sheet

The impact on the balance sheet on transition is summarised below:

	30 December 2018 £'000
Right-of-use assets	266,385
Lease liabilities	(267,844)
Prepayments	(9,199)
Accruals	10,658

The table below shows a reconciliation from the total operating lease commitment as disclosed at 30 December 2018 to the total lease liabilities recognised in the accounts immediately after transition:

	30 December 2018 £'000
Operating lease commitment at 29 December 2018 as disclosed in the Group's accounts	164,746
Discounted using the incremental borrowing rate at 30 December 2018	(30,093)
Recognition exemption for leases of low-value assets / short-term leases	(122)
Payments due for periods beyond break clauses	92,521
Renewal assumptions for expired leases where renewal is assumed	40,792
Total lease liabilities recognised on 30 December 2018	267,844

The Group presents right-of-use assets separately in the consolidated balance sheet. The carrying amounts of right-of-use assets are as below:

	Property £'000	**Plant and equipment £'000**	**Total £'000**
Balance at 30 December 2018	262,210	4,175	266,385
Balance at 29 June 2019	271,773	3,894	275,667

The Group presents lease liabilities separately in the consolidated balance sheet.

b. Income statement

The Group has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the period, rather than rental charges. During the 26 weeks ended 29 June 2019, the Group recognised £25,580,000 of depreciation charges and £3,292,000 of interest costs in respect of these leases.

c. Reserves

As the group has chosen to implement IFRS 16 using the modified transition approach, whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments there is no impact on reserves at the date of transition.

d. Cash flow statement

Whilst the implementation of IFRS16 is an accounting change only and does not impact cash flows it has necessitated some re-categorisation within the cash flow statement between operating and financing activities.

3. Principal risks and uncertainties

The Directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance in the remaining 26 weeks of the financial year remain substantially the same as those stated on page 38-39 of our Annual Report and Accounts for the 52 weeks ended 29 December 2018, which is available on our website corporate.greggs.co.uk.

4. Operating segment

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.

The Board regularly reviews the revenues and trading profit of each segment separately but receives information on overheads, assets and liabilities on an aggregated basis consistent with the Group accounts. Details of the revenue and trading profit are shown below:

	26 weeks ended 29 June 2019			26 weeks ended 30 June 2018			52 weeks ended 29 December 2018		
	Retail company-managed shops	**Other**	**Total**	Retail company-managed shops	Other	Total	Retail company-managed shops	Other	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	**503,088**	**43,244**	**546,332**	440,825	35,498	467,323	949,250	80,097	1,029,347
Trading profit*	**110,859**	**9,187**	**120,046**	54,458	5,595	60,053	151,211	14,355	165,566
Overheads including profit share			**(76,107)**			(34,105)			(75,723)
Operating profit before exceptional items			**43,939**			25,948			89,843
Finance (expense) / income			**(3,197)**			(15)			(12)
Profit before tax (excluding exceptional items)			**40,742**			25,933			89,831
Exceptional items (see note 5)			**(4,044)**			(1,869)			(7,213)
Profit before tax			**36,698**			24,064			82,618

* Trading profit is defined as gross profit less supply chain costs and retail costs and before central overheads

5. Exceptional items

		26 weeks ended 29 June 2019	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
		£'000	£'000	£'000
Cost of sales				
Supply chain restructuring	- redundancy	**401**	34	(174)
	- depreciation and asset write-off	**259**	426	709
	- transfer of operations	**3,229**	1,091	4,931
	- property related	**155**	130	481
		4,044	1,681	5,947
Distribution and selling				
Supply chain restructuring	- transfer of operations	**-**	188	-
Prior year items	- property related	**-**	-	(416)
Administrative expenses				
Pension scheme	- guaranteed minimum pension equalisation	**-**	-	1,682
Total exceptional items		**4,044**	1,869	7,213

Supply chain restructuring

This charge arises from the decisions, announced in 2016 and 2017, to invest in and reshape the Company's supply chain in order to support future growth. In 2019 and 2018 the costs related to accelerated depreciation and the expenses incurred as a result of transferring manufacturing processes between sites, including additional running costs.

Prior year items

These related to the movement on costs treated as exceptional in prior years and arise from the settlement of various property transactions.

Guaranteed minimum pension equalisation

The charge arose from the recognition of a past service cost in respect of the equalisation of guaranteed minimum pension (GMP) benefits following the High Court judgement handed down in the Lloyds Banking Group case towards the end of 2018. The judgement ruled that Lloyds' defined benefit pension schemes should equalise benefits for men and women in relation to GMP benefits.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. It is expected that there will be follow-on court hearings to further clarify the application of GMP equalisation in practice and the original judgement may be appealed. As the outcome of future court hearings cannot be reliably predicted, it is not practical to quantify the extent of the estimation uncertainty but the best estimate reflects the information currently available. The Directors are not aware of any developments that would impact on the amount that has been recognised in respect of pension equalisation but continue to monitor any further clarifications or court hearings arising from the Lloyds case and consider the impact on pension liabilities accordingly.

6. Defined benefit pension scheme

The valuation of the defined benefit pension scheme for the purposes of IAS 19 (Revised) as at 29 December 2018 has been updated as at 29 June 2019 and the movements have been reflected in these condensed accounts.

7. Taxation

The taxation charge for the 26 weeks ended 29 June 2019 and 30 June 2018 is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period.

8. Earnings per share

	26 weeks ended 29 June 2019			26 weeks ended 30 June 2018			52 weeks ended 29 December 2018		
	Excluding exceptional items	**Exceptional items (see note 5)**	**Total**	Excluding exceptional items	Exceptional items (see note 5)	Total	Excluding exceptional items	Exceptional items (see note 5)	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Profit for the period attributable to equity holders of the parent	**32,445**	**(3,281)**	**29,164**	20,505	(1,520)	18,985	71,630	(5,891)	65,739
Basic earnings per share	**32.2p**	**(3.3p)**	**28.9p**	20.4p	(1.5p)	18.9p	71.1p	(5.9p)	65.2p
Diluted earnings per share	**31.7p**	**(3.2p)**	**28.5p**	20.1p	(1.5p)	18.6p	70.3p	(5.8p)	64.5p

Weighted average number of ordinary shares

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
	Number	Number	Number
Issued ordinary shares at start of period	**101,155,901**	101,155,901	101,155,901
Effect of own shares held	**(396,150)**	(430,546)	(462,731)
Weighted average number of ordinary shares during the period	**100,759,751**	100,725,355	100,693,170
Effect of share options on issue	**1,525,627**	1,244,842	1,161,042
Weighted average number of ordinary shares (diluted) during the period	**102,285,378**	101,970,197	101,854,212
Issued ordinary shares at end of period	**101,155,901**	101,155,901	101,155,901

9. Dividends

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

Dividend declared	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
	Pence per share	Pence per share	Pence per share
2017 final dividend	**-**	22.0p	22.0p
2018 interim dividend	**-**	-	10.7p
2018 final dividend	**25.0p**	-	-
	25.0p	22.0p	32.7p

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018	52 weeks ended 29 December 2018
	£'000	£'000	£'000
Total dividend payable			
2017 final dividend	**-**	22,262	22,262
2018 interim dividend	**-**	-	10,824
2018 final dividend	**24,833**	-	-
Total dividend paid in period	**24,833**	22,262	33,086
Dividend proposed at period end and not included as a liability in the accounts			
2018 interim dividend (10.7p per share)	**-**	10,824	-
2018 final dividend (25.0 p per share)	**-**	-	24,833
2019 interim dividend 11.9p per share)	**12,008**	-	-
	12,008	10,824	24,833

10. Related party transactions

There have been no related party transactions in the first 26 weeks of the current financial year which have materially affected the financial position or performance of the Group.

Related parties are consistent with those disclosed in the Group's Annual Report and Accounts for the 52 weeks ended 29 December 2018 other than the changes in Directors referred to in note 12 below.

11. Half year report

The condensed accounts were approved by the Board of Directors on 30 July 2019. They will be available on the Company's website, corporate.greggs.co.uk

12. Statement of Directors' responsibilities

The Directors named below confirm on behalf of the Board of Directors that to the best of their knowledge:

- the condensed set of accounts has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of accounts; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and

(b) DTR4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the financial year and that have materially affected the financial position or performance of the Group during the period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Greggs plc are listed in the Annual Report and Accounts for the 52 weeks ended 29 December 2018. Since the approval of the Annual Report and Accounts, Allison Kirkby resigned as a Director on 21 May 2019 and Kate Ferry was appointed to the Board on 1 June 2019.

For and on behalf of the Board of Directors

Roger Whiteside Richard Hutton