GREGGS plc

4 August 2006

GREGGS plc
INTERIM RESULTS
FOR THE 24 WEEKS ENDED 17 JUNE 2006

"Our interim results reflect the combination of flat like-for-like sales and substantially increased costs, particularly for energy, that we highlighted in our last results announcement and at our AGM in May. These impacts have been mitigated by successful initiatives to reduce other costs. We are also seeking to drive turnover growth through new product launches, and are beginning trials of a number of other innovations to extend the reach and appeal of our brands."

- Sales up 3.1 per cent to £243.1 million; like-for-like sales level
- Energy costs up £2.4 million, an increase of 69 per cent
- Operating profit £11.4 million (2005: £14.2 million), down £2.8 million in line with the Board's expectations
- Pre-tax profit £12.5 million (2005: £15.6 million), a reduction of 20.0 per cent
- Diluted earnings per share 72.0 pence (2005: 87.1 pence), a reduction of 17.3 per cent
- Interim dividend increased 5.6 per cent to 38.0 pence per share (2005: 36.0 pence per share)
- £38.7 million returned to shareholders to date through share buyback programme; intending to continue programme
- Greggs Healthier Options range launched successfully at beginning of second half
- Bakers Oven divisions in North and Scotland to be restructured and integrated with Greggs brand

"Like-for-like sales in the first four weeks of the second half rose by 1.4 per cent. This improving trend was offset by a decline of 2.6 per cent in the two weeks to 29 July due to the exceptionally hot weather, leaving us only marginally ahead at this stage. The product, sales and cost initiatives that we are taking are helping to further strengthen confidence within the business and create a more positive platform for the second half, when we also face less demanding prior year comparatives.

Operating profit in the second half to date was showing an encouraging trend prior to the recent hot weather, despite the continued impact of higher energy costs. We expect our operating results in the second half to be closer to those of the comparable period of last year, subject to market and weather conditions.

I am confident that the Group is well placed to compete and prosper in the future, and to leverage the great fundamental strengths it enjoys in its brands, assets, products and people."

- Sir Michael Darrington, Managing Director

ENQUIRIES:

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MANAGING DIRECTOR'S INTERIM STATEMENT

Our interim results reflect the combination of flat like-for-like sales and substantially increased costs, particularly for energy, that we highlighted in our last results announcement and at our AGM in May. These impacts have been mitigated by successful initiatives to reduce other costs. We are also seeking to drive turnover growth through new product launches, and are beginning trials of a number of other innovations to extend the reach and appeal of our brands.

Results

In the first half (24 weeks to 17 June) total sales increased by 3.1 per cent to £243.1 million (2005: £235.9 million). Like-for-like sales for the period were level against a very strong trading period in 2005, when they grew by 5.2 per cent. Excluding price inflation, core volumes declined by 3.0 per cent. We attribute this to a general slowing of consumer expenditure, a growing consumer interest in healthier eating and a proliferation of competing takeaway formats. There was no significant weather effect on our trading in the first half of either year.

Operating profit was £2.8 million or 19.6 per cent lower than in the previous first half at £11.4 million (2005: £14.2 million). Energy costs increased by £2.4 million, or 69 per cent, with further pressure arising in transport and waste disposal. Ingredient prices remained largely stable and concentration on lowering overheads helped offset inflation in retail costs.

Interest receivable was reduced by 27.7 per cent to £1.1 million (2005: £1.5 million) as we returned surplus cash to shareholders through increased dividends and our continuing share buyback programme. Pre-tax profit was 20.0 per cent lower at £12.5 million (2005: £15.6 million), while diluted earnings per share were 72.0 pence (2005: 87.1 pence), a reduction of 17.3 per cent.

Dividend and the share buyback programme

The Group is strongly cash generative, which enables us to invest in the growth of our business as well as returning cash to investors. We have reviewed our capital structure and have concluded that shareholders would benefit from a more efficient, geared balance sheet. We have therefore decided to increase progressively our annual distribution through dividends while continuing to buy back shares, where we see it to be in the interests of our shareholders. In determining the level of dividends and buyback we will have due regard to the fixed costs (primarily rental costs) relating to our portfolio of predominantly leasehold properties.

With the above factors in mind, the Board has declared an increased interim dividend of 38.0 pence per share (2005: 36.0 pence), a rise of 5.6 per cent. Going forward, over the medium term we expect to reduce our dividend cover further, whilst maintaining a sustainable payout ratio. This reflects our consistent commitment to delivering shareholder value, reflected in our record of dividend increases for 21 consecutive years since Greggs' flotation in 1984.

During the first half of the financial year, the trustees of the Greggs Employee Benefit Trust (EBT) purchased 439,829 shares at a cost of £16.4 million for the future satisfaction of employee share options. Additionally, the Company purchased 751,482 of its ordinary shares for cancellation, at an average price of £37.21 and a total cost of £28.2 million. As a result, we ended the first half with net cash on the balance sheet of £25.5 million, and 11,443,869 shares in issue, including those held by the EBT.

Since the beginning of the second half the Company has spent a further £10.5 million purchasing for cancellation 264,997 ordinary shares at an average price of £39.56. In total, therefore, in the current year to date, the Company has acquired for cancellation 1,016,479 ordinary shares, at an average price of £37.83 and a total cost of £38.7 million.

It is our present intention to purchase the balance of 563,000 shares available under the current shareholder mandate and thereafter to renew our authority and to continue buying back shares provided that we consider it to be in the interests of our shareholders to do so.

Divisional performance

During the first half like-for-like sales under the Greggs brand showed a modest decline of 0.3 per cent, while those under the Bakers Oven brand improved by 0.8 per cent. This principally reflected a disappointing performance by the Greggs brand in the first quarter, since when it has shown an improving trend.

The Greggs divisions in the North of England and Scotland continued to perform more strongly than those in the South, and we are taking steps to improve the profitability of our southern divisions, focusing on sales growth initiatives underpinned by action on costs.

In Belgium, we are achieving good core volume growth and improved margins in line with our plans to move towards profitability. We have just opened our sixth Greggs shop, in a suburban location in Antwerp.

Bakers Oven made a reduced contribution overall, primarily because of continued underperformance in the North and Scotland.

Bakers Oven restructuring

In the light of the unsatisfactory performance of the Bakers Oven divisions in the North of England and Scotland over a number of years, we are today informing employees of our intention to integrate these divisions with the Greggs brand. Subject to full consultation with our employees and their representatives, we propose to transfer 49 of the 63 Bakers Oven shops in these two regions to the Greggs divisions in the North East, Yorkshire and Scotland, where the shops will be rebranded as Greggs, or to the successful Bakers Oven Midlands operation. Some 14 poorly performing shops will be closed and this, together with changes to supply arrangements, regrettably will result in the loss of around 200 jobs. We expect to incur closure costs of some £2.5 million, which will be shown in the full year accounts. The restructuring is expected to enhance annual profit by some £1.25 million from our next financial year.

We remain fully committed to strengthening Bakers Oven in the Midlands and South, where we are generating good returns on our investment.

Shops

We opened 22 new shops during the first half and closed six, giving us a net addition of 16 outlets to a total of 1,335 at 17 June. These comprised 1,114 units under the Greggs brand in the UK and five in Belgium, and 216 under the Bakers Oven brand. As a result of the additional closures of unprofitable Bakers Oven shops noted above, we now expect a net increase of some 20 shops during the current year, compared with our original target of 35. The rationalisation of Bakers Oven means that the potential for expansion of the brand is also clearly smaller than we anticipated when we set our target of expanding to a total of 1,700 shops in the UK by 2010. While we have no doubt that we shall be able to achieve this target in the longer term, and that there is ultimate scope for over 2,000 shops in the UK, we no longer believe that it is realistic to expect it to be achieved by the end of the current decade.

We have continued our normal programme of investment in shop refurbishments to ensure the maintenance of high retail standards, completing 18 such refurbishments during the first half.

A number of trials of innovatory retail formats, locations and opening hours are under way across the business as we harness the creative potential of our divisions and encourage them to respond to new competitive challenges and explore additional growth opportunities.

Products

During the first half like-for-like sales of savouries were stable, while sandwich sales showed a slight decline. Sales of bread and rolls increased, continuing the positive trend established in the second half last year. Drinks sales were also up, while those of sweet lines were modestly reduced.

We remain committed to driving and further improving our range of excellent core products. However, we also recognise that growing consumer interest in healthier eating is a long term trend. We are responding to this with an evolutionary approach that does not risk compromising our commitment to selling tasty and enjoyable products at good value prices. Following extensive trials, we launched a new Greggs Healthier Options range early in the second half, comprising wraps, rolls and sandwiches that each contain less than 400 Kcalories, less than 10g fat, less than 4g saturated fat and less than 2g salt. The range also includes a new fruit salad pot. Early indications are that all these products have been well received by our customers.

Using the extensive product development resources at our Group Technical Centre in Newcastle upon Tyne, we are working towards a progressive broadening of the Healthier Options range, including its extension into the savouries and confectionery categories.

Investment

Capital expenditure during the first half was £13.5 million (2005: £13.4 million). The new distribution centre at Balliol Park in Newcastle is operating smoothly, while the second central savouries unit in the same location is complete and ready for commissioning. We have carefully reviewed all planned capital expenditure in the light of the trading climate. In addition to this, site problems have delayed the start of work on our new bakery at Cambuslang, Glasgow, to replace our Rutherglen plant. As a result, total capital investment for the year is now expected to be below £35 million, compared with our original budget of £40 million.

Balance sheet

At the end of the first half the Group had net cash balances of £25.5 million, compared with £69.6 million at the end of the previous first half and £65.6 million at our year end on 31 December 2005. The reduction of £40.1 million during this half reflects market purchases of ordinary shares by the Company and the Greggs Employee Benefit Trust at a combined total cost of £44.6 million.

People and the community

We remain committed to playing an active and positive role in the communities where we operate. There are now Greggs Breakfast Clubs operating in 125 primary schools in disadvantaged areas across the country. Our charitable initiatives are inevitably dependent on profit generation, and we are primarily focusing our support on existing partnerships at this time.

We are also seeking to fulfil our responsibilities to the wider environment through a range of initiatives designed to improve our performance in recycling and to minimise waste.

I am grateful to all our staff for their resilience and cheerfulness, and for the great efforts they have made to attract and retain customers in the more challenging trading environment we have experienced this year.

Outlook

Like-for-like sales in the first four weeks of the second half rose by 1.4 per cent. This improving trend was offset by a decline of 2.6 per cent in the two weeks to 29 July due to the exceptionally hot weather, leaving us only marginally ahead at this stage. The product, sales and cost initiatives that we are taking are helping to further strengthen confidence within the business and create a more positive platform for the second half, when we also face less demanding prior year comparatives. We are undertaking a wide range of innovative trials with the aim of driving future growth, and taking firm action to rationalise loss-making operations.

Operating profit in the second half to date was showing an encouraging trend prior to the recent hot weather, despite the continued impact of higher energy costs. We expect our operating results in the second half to be closer to those of the comparable period of last year, subject to market and weather conditions. Performance at the pre-tax profit level will reflect the reduction in interest receipts as a consequence of our reduced cash balances, and the closure costs of the intended Bakers Oven restructuring. Earnings per share will benefit from our continuing share buyback programme.

I am confident that the Group is well placed to compete and prosper in the future, and to leverage the great fundamental strengths it enjoys in its brands, assets, products and people.

Sir Michael Darrington
Managing Director
4 August 2006

Consolidated income statement
For the 24 weeks ended 17 June 2006

	24 weeks ended 17 June 2006 £'000	24 weeks ended 18 June 2005 £'000	52 weeks ended 31 December 2005 £'000
Revenue	**243,135**	**235,868**	**533,435**
Cost of sales	(94,058)	(91,620)	(203,346)
Gross profit	**149,077**	**144,248**	**330,089**
Distribution and selling costs	(120,241)	(111,983)	(247,188)
Administrative expenses	(17,405)	(18,053)	(35,758)
Operating profit	**11,431**	**14,212**	**47,143**
Finance income	1,065	1,474	3,106
Finance expenses	(3)	(73)	(90)
Profit before tax	**12,493**	**15,613**	**50,159**
Income tax	(3,998)	(5,028)	(16,085)
Profit for the period attributable to equity holders of the parent	**8,495**	**10,585**	**34,074**
Basic earnings per share	72.4p	87.9p	282.1p
Diluted earning per share	72.0p	87.1p	278.9p

Consolidated statement of recognised income and expense
For the 24 weeks ended 17 June 2006

	24 weeks ended 17 June 2006 £'000	24 weeks ended 18 June 2005 £'000	52 weeks ended 31 December 2005 £'000
Actuarial gains / (losses) on defined benefit pension plans	1,323	(724)	(2,345)
Tax on items taken directly to equity	(397)	217	704
Net expense recognised directly in equity	926	(507)	(1,641)
Profit for the period	8,495	10,585	34,074
Total recognised income and expense for the period attributable to equity holders of the parent	9,421	10,078	32,433

Consolidated balance sheet
As at 17 June 2006

	17 June 2006 £'000	18 June 2005 £'000	31 December 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	183,289	166,575	180,826
Current assets			
Inventories	7,913	7,342	7,713
Trade and other receivables	22,085	19,032	15,861
Cash and cash equivalents	25,496	69,619	65,602
	55,494	95,993	89,176
Total assets	**238,783**	**262,568**	**270,002**
LIABILITIES			
Current liabilities			
Trade and other payables	(72,231)	(70,877)	(58,686)
Current tax liabilities	(4,794)	(5,780)	(8,086)
	(77,025)	(76,657)	(66,772)
Non-current liabilities			
Defined benefit pension liability	(8,911)	(12,010)	(9,730)
Other payables	(98)	(103)	(98)
Deferred tax liability	(12,713)	(12,241)	(11,927)
	(21,722)	(24,354)	(21,755)
Total liabilities	**(98,747)**	**(101,011)**	**(88,527)**
Net assets	**140,036**	**161,557**	**181,475**
EQUITY			
Capital and reserves			
Issued capital	2,289	2,432	2,439
Share premium account	13,471	12,618	13,440
Capital redemption reserve	150	-	-
Retained earnings	124,126	146,507	165,596
Total equity attributable to equity holders of the parent	**140,036**	**161,557**	**181,475**

Consolidated statement of cash flows
For the 24 weeks ended 17 June 2006

	24 weeks ended 17 June 2006 £'000	24 weeks ended 18 June 2005 £'000	52 weeks ended 31 December 2005 £'000
Cash flows from operating activities			
Profit for the period	8,495	10,585	34,074
Depreciation	10,674	9,584	22,038
(Profit) / loss on sale of property, plant and equipment	(103)	238	484
Release of government grants	(4)	(4)	(7)
Share based payment expenses	265	144	557
Finance income	(1,065)	(1,474)	(3,106)
Finance expenses	3	73	90
Income tax expense	3,998	5,028	16,085
Increase in inventories	(200)	(59)	(430)
Increase in debtors	(6,224)	(5,088)	(1,912)
Increase / (decrease) in creditors	13,549	11,375	(517)
Movement in pension liability	504	254	333
Cash from operating activities	29,892	30,656	67,689
Interest paid	(3)	(73)	(90)
Income tax paid	(6,901)	(6,596)	(14,625)
Net cash inflow from operating activities	**22,988**	**23,987**	**52,974**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(13,545)	(13,433)	(41,687)
Proceeds from sale of property, plant and equipment	511	1,141	2,171
Interest received	1,065	1,474	3,106
Net cash outflow from investing activities	**(11,969)**	**(10,818)**	**(36,410)**
Cash flows from financing activities			
Proceeds from issue of share capital	31	405	1,234
Sale of own shares from Employee Benefit Trust (EBT)	1,443	3,517	3,695
Purchase of own shares into EBT	(16,437)	(2,163)	(2,173)
Purchase of own shares for cancellation	(28,183)	-	-
Dividends paid	(7,979)	(7,910)	(12,319)
Defined benefit pension scheme special contribution	-	-	(4,000)
Net cash outflow from financing activities	**(51,125)**	**(6,151)**	**(13,563)**
Net (decrease) / increase in cash and cash equivalents	**(40,106)**	**7,018**	**3,001**
Cash and cash equivalents at the start of the period	65,602	62,601	62,601
Cash and cash equivalents at the end of the period	**25,496**	**69,619**	**65,602**

Notes

1. Basis of preparation

The interim financial information has been prepared on the basis of the accounting policies adopted in the Company's statutory accounts for the 52 weeks ended 31 December 2005, as revised for the implementation of specified new or amended endorsed standards or interpretations.

2. Status of financial information

The interim information for the 24 weeks ended 17 June 2006 and 18 June 2005 has not been audited or reviewed by the auditors.

The comparative figures for the 52 weeks ended 31 December 2005 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

3. Dividends

The following dividends were declared and payable by the Group:

	24 weeks ended 17 June 2006	**24 weeks ended 18 June 2005**	**52 weeks ended 31 December 2005**
Dividend paid per ordinary share (pence per share)	70.0p	66.0p	102.0p
Total dividend payable (£'000s)	8,036	7,959	12,319

For the 24 weeks ended 17 June 2006 a dividend of 38.0p per ordinary share (24 weeks ended 18 June 2005: 36.0p, 52 weeks ended 31 December 2005: 70.0p) is proposed amounting to £4,085,000 (24 weeks ended 18 June 2005: £4,360,000, 52 weeks ended 31 December 2005: £12,396,000).

4. Share capital and reserves

Reconciliation of movement in capital and reserves attributable to equity shareholders

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	**Total £'000**
At 1 January 2006	2,439	13,440	-	165,596	**181,475**
Shares issued in the period	-	31	-	-	**31**
Total recognized income and expense	-	-	-	9,421	**9,421**
Purchase of own shares into EBT	-	-	-	(16,437)	**(16,437)**
Sale of own shares from EBT	-	-	-	1,443	**1,443**
Purchase of own shares for cancellation	(150)	-	150	(28,183)	**(28,183)**
Share based payments	-	-	-	265	**265**
Equity dividends	-	-	-	(7,979)	**(7,979)**
At 17 June 2006	**2,289**	**13,471**	**150**	**124,126**	**140,036**

The number of ordinary shares in issue at 17 June 2006 was 11,443,869 (18 June 2005: 12,159,627, 31 December 2005: 12,193,957). The weighted average number of ordinary shares outstanding during the period was 11,733,251 (18 June 2005: 12,038,042, 31 December 2005: 12,080,526).

5. Defined benefit pension scheme

The valuation of the defined benefit pension scheme for the purposes of IAS19 as at 31 December 2005 has been updated as at 17 June 2006 and the movements have been reflected in this interim statement.

6. Interim report

The interim report is being posted to all shareholders and copies are available on application to the Company Secretary, Greggs plc, Fernwood House, Clayton Road, Jesmond, Newcastle upon Tyne, NE2 1TL. It will also be available on the Company's website, www.greggs.plc.uk.