2010 Preliminary Results for the 52 weeks ended 1st January 2011

March 2011
Highlights - 2010

• Record pre-tax profit: up 7.7% to £52.5m
• 52 week turnover up 2.1%
• Like-for-like sales up 0.2%
• Operating margin up 50bps to 7.9%
• Diluted EPS up 9.7% to 37.3p
• Record shop openings: 68 net new
• Record number of refits: 130
• Dividend increased to 18.2p
Richard Hutton
Finance Director
# Group sales and profits

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>£662.3</td>
<td>£658.2</td>
<td>0.6%*</td>
</tr>
<tr>
<td>Gross margin %</td>
<td>61.9%</td>
<td>61.7%</td>
<td></td>
</tr>
<tr>
<td>Distribution &amp; selling %</td>
<td>48.6%</td>
<td>48.9%</td>
<td></td>
</tr>
<tr>
<td>Admin %</td>
<td>5.4%</td>
<td>5.4%</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>52.4</td>
<td>48.4</td>
<td>8.1%</td>
</tr>
<tr>
<td>Operating margin %</td>
<td>7.9%</td>
<td>7.4%</td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>0.1</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>52.5</td>
<td>48.8</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

*Total sales growth on a comparable 52 week basis 2.1%
Strong margin progress

- Operating margin increase to 7.9%:
  - Supply chain savings as strategy implemented
  - Improved labour scheduling
  - Better buying
  - Reduction in waste
  - Realising benefits of 2009 restructuring
- Margin in 2009 subdued by 0.2% due to 53rd week impact
## 2009 plan: supply chain efficiencies

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2011 £m</th>
<th>2012 £m</th>
<th>2013 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakery closure</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Modernisation of older sites</td>
<td>-</td>
<td>0.5</td>
<td>1.5</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Drag from new investment</td>
<td>-</td>
<td>-</td>
<td>(0.5)</td>
<td>(1.0)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Greater site productivity (more shops per bakery)</td>
<td>0.5</td>
<td>2.0</td>
<td>3.5</td>
<td>5.5</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.5</strong></td>
<td><strong>2.5</strong></td>
<td><strong>5.5</strong></td>
<td><strong>7.0</strong></td>
<td><strong>10.0</strong></td>
</tr>
</tbody>
</table>
Supply chain savings ahead of plan

£1.4m efficiency in 2010

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The home of fresh baking™
## Earnings and taxation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diluted earnings per share</td>
<td>37.3p</td>
<td>34.0p</td>
<td>9.7%</td>
</tr>
<tr>
<td>Tax charge</td>
<td>27.8%</td>
<td>29.5%</td>
<td></td>
</tr>
</tbody>
</table>

- Positive settlement of outstanding capital allowance claims and revaluation of deferred tax liability to 27 per cent
- Now expect circa 28% tax charge in 2011, reducing to circa 26% by 2013 if further reductions in corporation tax rate enacted
- Share buyback contribution to earnings growth +1%
## Capital expenditure £m

<table>
<thead>
<tr>
<th></th>
<th>E 2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>New shops &amp; resites</td>
<td>12.7</td>
<td>11.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Shops refits &amp; equipment</td>
<td>16.7</td>
<td>13.8</td>
<td>12.1</td>
</tr>
<tr>
<td>Supply chain capacity</td>
<td>18.1</td>
<td>7.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>12.5</td>
<td>12.0</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total capital expenditure</strong></td>
<td><strong>60.0</strong></td>
<td><strong>45.6</strong></td>
<td><strong>30.3</strong></td>
</tr>
</tbody>
</table>

*Number of gross new shops opened c.100 93 49*
New shop returns

- Target ROC >20% by third year
- Ensures return on both retail and supply chain capital
- Maturity in 2-3 years, depending on brand awareness
- Marketing support in early months to establish sales
- Fast (2 year) cash payback on marginal basis
Shop refit returns

- Target ROC on average 12.5%
- Refit capital drives both maintenance & growth requirements
- 3 models:
  - New concept c.£120k
  - Traditional refit c.£60k
  - Mini upgrade c.£10k
- 135 refits completed in 2010
- Incremental growth targets set to deliver ROC
- 2011 focus on new concept & mini upgrades
Cash flow and balance sheet

- Continued strong cash generation supporting investment for growth and shareholder returns
- Net cash at year end £23.8m (2009: £34.6m)
- £12.9m return in 2010 via share buybacks (total cash returned in 2010 including dividend £29.9m)
- Cash position now appropriate given growth plans and inherent gearing.
26th year of dividend growth

Dividend per share

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16.6p</td>
<td>18.2p</td>
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</table>

Dividend cover

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.0x</td>
<td>2.0x</td>
</tr>
</tbody>
</table>

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Financial outlook 2011

- Rising cost pressure within all major ingredient and energy areas
- Work to unlock further efficiencies under way
- Extra bank holidays vs. 2010 will impact first half results
- Potential one-off charge of c.£1m in H2 relating to closure of Gosforth bakery
Summary

• Record profit in 2010
• Solid margin improvement
• Benefits from centralisation starting to accrue
• Increased cost control in a low growth environment
• Close monitoring of capital to ensure healthy returns
Ken McMeikan
Chief Executive
Delivering Growth – our 5 year plan

- Accelerated expansion & renewal of shops
- Increasing supply chain efficiencies
- Centrally run business delivering cost benefits
- Dedicated teams to identify further cost savings
- Growth financed from on-going cash generation
- Maintaining strong reputation for value
- A successful 1st year
Accelerated growth and renewal

• New structures enabling acceleration
• Increasing availability of more attractive sites
• 30% of new shops where customers work and travel in 2010
• Concept design expanding beyond London
Growth opportunity across the UK

- 600+ new shops
- 68 net delivered in 2010
- c. 80 net planned for 2011

○ denotes potential locations
Supply chain efficiencies in 2010

• Further progress in harmonising bakery operations, including:
  – Consolidation of manufacturing
  – Automation
  – Pick by light usage
  – Transport initiatives
Benefits of centralisation

• More agile and responsive business
• Economies of scale
• Better buying
• Improved central manpower planning
• Speed of decision making
• National promotions
• Reduction in waste
• Operational consistency
Further planned changes

• Three major change programmes:
  – Ranging
  – Format development
  – Customer experience
• 14 key cross functional projects identified for 2011
  – 9 projects focused on top line sales
  – 5 projects to deliver efficiency savings
• Dedicated project leaders
We have a strong value reputation

Value & quality breakfast offer

Investment in promotions

Exceptional value coffee vs. competitors

14.6m cups sold up 28% in 2010
Marketing activity

• In 2010, focused on brand building through ‘Home of Fresh Baking’ campaign
• In 2011, focus on tactical campaigns:
  – radio
  – newspaper
  – social media
  – local shop marketing
Outlook for 2011

• A challenging year ahead
• Sales growth from further new shop openings and refits
• Planning for marginally positive like-for-like sales
• Cost inflation rising higher than anticipated
• Tight cost control essential
• Value will remain important for UK consumer
• Well positioned to deal with the challenging environment
Questions