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Greggs PLC
03 March 2020

3 March 2020

PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

Greggs is a leading UK food-on-the-go retailer,
with 2,050 retail outlets throughout the country

SHARING A GREAT-TASTING, RECORD-BREAKING, AWARD-WINNING YEAR

2019 Financial highlights*

- Total sales up 13.5% to £1,167.9m (2018: £1,029.3m)
- Company-managed shop like-for-like sales** up 9.2% (2018: 2.9%)
- Pre-tax profit excluding exceptional items*** up 27.2% to £114.2m (2018: £89.8m)
- Pre-tax profit £108.3m (2018: £82.6m)
- Strong cash generation supporting capital investment programme, additional shareholder returns, and a record annual profit share and special payment for employees
- Total ordinary dividend per share up 25.8% to 44.9p (2018: 35.7p)
- Will consider capacity for special dividend at time of interim results

* 2019 figures reflect the adoption of IFRS16 (lease accounting) and are not directly comparable with 2018, which has not been restated
** like-for-like sales in Company-managed shops (excluding franchises) with a calendar year's trading history
*** exceptional pre-tax charge of £5.9m in 2019 (2018: £7.2m charge)

Strategic progress

- Exceptional performance founded on transformational changes made across multi-year strategic investment programme
- Product development driving quality, sustainability, variety and brand appeal
- 138 new shops opened, 41 closures (97 net openings); 2,050 shops trading at 28 December 2019
- Significant progress in delivery of supply chain investment programme, with benefits ahead of plan
- Commencing roll-out of delivery service in partnership with Just Eat
- Developing 'Next Generation Greggs' programme aimed at increasing customer loyalty, choice and access to Greggs across multiple channels

Current trading

- Very strong start to 2020 in January, but significant slowdown in February due to storms
- Company-managed shop like-for-like sales up by 7.5% in the nine weeks to 29 February 2020

"2019 was an exceptional year of progress for Greggs, during which we experienced a sustained increase in customer visits as increased awareness and appreciation of our brand gathered momentum. Our exceptional performance was founded on the changes that we have made across our multi-year strategic investment programme, which has delivered transformational change across the business and has now set us up for the next phase of growth.

"We made a very strong start to 2020 in January, but in February saw a significant slowdown in sales growth as a result of the storms that have affected the UK. There is some uncertainty in the outlook, particularly given the potential impact of Coronavirus. This aside we expect to make year-on-year

progress and will do so from a strong financial position, supporting our investment for further growth whilst also delivering good returns for all stakeholders."

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

ENQUIRIES:

Greggs plc	**Hudson Sandler**
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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

Greggs' exceptional performance in 2019 comes after a multi-year programme of change and improvement. More customers are recognising the benefits of this and are shopping with us in increasing numbers. Our colleagues have shown the resilience and versatility necessary to deliver transformational change across the business, and this has now set us up for the next phase of growth. We will embrace the opportunities this presents whilst continuing to run the business in a responsible manner, such that we deliver sustainable long-term growth for the benefit of all stakeholders.

Overview

Greggs delivered a record performance in 2019. We started the year with very strong growth in customer visits and sustained these higher customer numbers throughout the year, demonstrating that increased awareness of what Greggs has to offer has translated into customer loyalty. Cash generation has been very strong, allowing us to self-fund the significant investment programme that will enable further growth, whilst also increasing shareholder and other stakeholder returns. Given the crucial role that our colleagues have played in this success it is entirely appropriate that we have been able to reward them for an exceptional performance whilst still enhancing returns to shareholders.

Our people and values

Greggs' vertically-integrated operating model gives us the control and flexibility that are key to our commercial success. Our people produce great products, take care in transporting them, and deliver outstanding service in our shops and support operations. The culture of the business, and the willingness of our teams to work together to deliver an exceptional experience for customers, has always been at the heart of Greggs' success. The Board recognises this and takes great care to ensure that decisions it makes are consistent with the Company's long-term objectives and its values. The recent re-launch of the Company's 'Culture Statement', after extensive consultation with staff, is outlined in the governance section of the annual report. This is a good example of the importance we place on the cultural underpinnings of the business; a key element in being able to deliver our strategy.

Behind the scenes at Greggs significant programmes of change have been delivered and continue to be undertaken. These have affected the roles of many of our people and I have huge admiration for the manner in which our 25,000 colleagues have dealt with this while, at the same time, delivering a record performance. I would like to record my personal thanks to them all on behalf of the Company and its shareholders.

The Board

In 2019 we welcomed Kate Ferry, CFO of TalkTalk, to the Board as a Non-Executive Director, succeeding Allison Kirkby as Audit Committee Chair. This was part of an ongoing succession plan for the Board that aims to deliver continuity and maintain a broad range of talents and experience that reflect the needs of the business. As part of this planning process, upon re-election as directors at the AGM, Helena Ganczakowski will take on the role of chairing the Remuneration Committee from Sandra Turner, who will continue to act as Senior

Independent Director, and Peter McPhillips will become our designated Non-Executive Director in relation to engagement with colleagues.

During the year the Board continued to oversee the major investments being made in our internal supply chain and core systems infrastructure, but increasingly turned its attention to the manner in which these platforms can be used to meet changing consumer needs in a digital age. Understanding these trends, and the consumer insights that explain the very strong growth in Company sales in the year, has been important as we shape future plans.

As you will see from the governance section of the annual report, the Board continues to make a significant effort to listen to the views of employees. This helps to ensure that Non-Executive Directors' contributions to Board discussions are well informed, supporting open and constructive dialogue with the management team.

Risk management continues to be an important area of focus for the Board. In 2019 the Board spent a significant amount of time examining the Company's approach to the management of allergens and its preparedness for the various scenarios relating to the UK's exit from the European Union.

Further details of the Board's work are included in the governance and committee sections of the annual report.

Dividend

Our dividend policy targets a progressive ordinary dividend, normally two times covered by earnings, with further surplus cash being returned to shareholders as appropriate. This was the case in 2019 when we were able to return £35.5 million of surplus cash by way of a special dividend. Our Finance Director, Richard Hutton, outlines the expected application of the distribution policy in more detail in the financial review.

In line with its progressive ordinary dividend policy, the Board intends to recommend at the Annual General Meeting a final dividend of 33.0 pence per share (2018: 25.0 pence), giving a total ordinary dividend for the year of 44.9 pence (2018: 35.7 pence), an increase of 25.8 per cent.

Looking ahead

Notwithstanding the tough conditions that continue to affect the UK retail sector, and uncertainties that remain in the global economy such as the potential impact of Coronavirus, Greggs has made a strong start to the new year, attracting more customer visits as consumers become increasingly aware of the breadth, quality and value of our offer. We have invested in the infrastructure to compete in the growing UK food-on-the-go market and see great opportunities ahead as we embrace new channels that will extend our reach.

The relationship between business and society has been a matter of public debate recently, and we recognise that Greggs has a part to play by approaching business in the responsible manner it has become known for. 'The Greggs Pledge' is our vision of how we will continue to play our part and ensure that customers can trust us to act responsibly on their behalf. This continues a long-standing record of running the business in the right way for the long term and, I believe, will maintain our competitiveness for the future as it has done in the past.

With a strong balance sheet and cash flow, a clear strategy, dedicated and motivated employees and positive trading momentum we are looking ahead at future challenges and opportunities with confidence.

Ian Durant

Chairman

3 March 2020

Chief Executive's report

2019 was an exceptional year of progress for Greggs, during which we experienced a sustained increase in customer visits as increased awareness and appreciation of our brand gathered momentum. Our exceptional performance was founded on the transformational changes that we have made across our multi-year strategic investment programme to focus on growth in the food-on-the-go market. Customer visits began to build during 2018 and then stepped up again, with the successful launch of our new vegan product lines in January 2019 receiving widespread media coverage. As a team we were particularly proud to see the progress made as Greggs received recognition in several industry awards, including 'Britain's Most Admired Company 2019' in the Management Today awards.

In 2019 we continued to make good progress with the remaining elements of our business transformation programme, whilst starting to invest in the new areas that will provide growth opportunities in the years ahead. The business remains highly cash-generative and has been able to self-fund investment whilst also making a special dividend payment to shareholders and a one-off £300 'thank you' to our colleagues in January 2020. In addition, I am delighted to announce another record annual profit share payment of £12.8 million, which will benefit all qualifying employees.

As we approach the end of this transformational phase in our strategic roadmap we can look forward with confidence to the next stage in our journey as we build on this platform with the launch of our 'Next Generation Greggs' programme aimed at increasing customer loyalty, choice and access to Greggs across multiple channels at all times of day.

Financial performance

Total sales grew 13.5 per cent to £1,167.9 million in 2019. Within this, Company-managed shop like-for-like sales (defined in Note 9) grew by a record 9.2 per cent.

Despite significant increases in wage and pension costs the strong sales growth in 2019 converted to improved profitability, which has allowed us to accelerate investment in initiatives that will benefit future periods. Underlying pre-tax profit, excluding exceptional items, grew by 27.2 per cent to £114.2 million (2018: £89.8 million). Including exceptional items, pre-tax profit grew to £108.3 million.

Market background

Market conditions for general retail remain very challenging, with rising costs and fragile consumer confidence combining with a continued shift to online shopping, resulting in downward pressure on high street footfall. In contrast the food-on-the-go sector, estimated at £24 billion and increasing by 3.7% in 2019 (source: NPD Crest FY2019), is benefitting from high employment levels and growth in consumers' disposable incomes. This has supported continuing growth in customer demand for the convenience of 'food for now' rather than 'food for later'. Weather patterns in 2019 were also more consistent than had been the case in 2018.

Greggs continues to reach further into the food-on-the-go sector with more exposure to workplace and travel locations, and less dependence on shopping catchments. We have also continued to diversify and increase resilience by extending early trading for breakfast and broadening our appeal by developing our reputation across food and drink categories complementary to our traditional bakery range.

Our success in growing customer numbers over the past six years has been almost entirely driven by one channel to market - 'walk in' customers seeking food and drink from a conveniently located shop. We estimate that this single channel approach has enabled us to obtain circa five per cent share of the food-on-the-go market, leaving us with considerable scope for market share gain as we invest in increasing customer loyalty, choice and multichannel access to Greggs **wherever, whenever and however** consumers choose.

Delivering our strategy

Greggs draws on its heritage in fresh bakery to compete successfully in the food-on-the-go market. Our purpose is to **make good, freshly prepared food accessible to everyone** with the aim of becoming **the customers' favourite for food-on-the-go.** We are also committed to conducting our business in a responsible manner and, in doing so, **having a positive impact on people's lives.**

Our strategic roadmap describes our journey from a national bakery brand where the majority of shops were in high street locations to a leading food-on-the-go retailer operating across diversified locations and dayparts, with a modernised supply chain and technology infrastructure.

We have made great progress towards these aims. The reappraisal of Greggs as a food-on-the-go brand is reflected in consumer ratings, with strong increases in the rate of 'consideration', and 'purchase intent' over the last three years (source: YouGov BrandIndex). Alongside our market-leading position in traditional bakery we are now number one for sandwiches, number two for breakfast and lunch, and third in the UK out-of-home coffee market (source: NPD Crest, share of visits, FY2019). Whilst sausage rolls remain our signature product our appeal extends well beyond this, with a breadth of range offering hot and cold food and drink options for all times of the day.

The transformation programme that supports our future plans is nearing completion and will deliver the technological platform to manage a modern food-on-the-go business, along with capacity in our supply chain to support our medium-term growth plans. Having this platform puts us in a position to start to extend our service to customers looking for something more than our core 'grab-and-go' offer.

The next stage of this journey will see us continue to grow the size and quality of the shop estate to more than 2,500 shops whilst also adopting a multichannel approach to increase customer access to Greggs. Our strategic plan focuses on four pillars, which have not changed; however in this next stage the objective 'Developing new ways for customers to access our offer' becomes the key focus, with customer experience moving to the fore.

1. Best customer experience

Customer expectations are changing rapidly in the food-on-the-go market, with digital technology providing access to greater convenience and better service. In 2019 we trialled developments in digital loyalty, 'click and collect' options, home delivery and bespoke ordering. All of these extend our appeal beyond our core 'grab-and-go' service and overcome customer obstacles to choosing Greggs that will enable us to attract new visits and build market share.

We have seen sufficiently encouraging results in these stand-alone trials to embark on a strategic programme of investment, which will bring these channels together on an integrated platform centred on our Greggs Rewards digital loyalty scheme. Whilst this is in development we have pressed ahead with the roll-out of our delivery service in an exclusive partnership with Just Eat, which will provide national coverage of major cities this year.

In the 'grab-and-go' channel fast and friendly service continues to be a key reason why customers choose Greggs. Great service is not an easy thing to deliver under pressure and our shop teams do an amazing job. Our investments in process and systems, together with the benefits of our best-practice programme 'The Greggs Way', are now being seen in speed of service, availability and shop productivity. Further gains are available in our shop operations as we benefit from process improvement and standardisation. New channels will require new solutions but the extent and variety of our estate will allow us to match shop to channel in order to best serve catchment areas - not all shops will be required to offer a service in all channels.

In addition to the development of these digital channels we have also pushed ahead with opportunities to grow demand for our existing offer by trading later into the evening. Once again this will not be appropriate for all shops but our trials have shown we can move forward in high customer traffic locations. Delivery roll-out will also provide further opportunities for shops to trade later.

Marketing has played a key role in driving brand consideration with our team receiving widespread recognition and winning Brand of the Year at the Marketing Week Masters awards for the success of our vegan product launch campaigns. We have invested in our insight and digital marketing capabilities to develop further the Greggs Rewards app and put customer data at the heart of our decision making and customer communication strategy.

Our shops

Relocating and upgrading our shop estate to be better suited to the food-on-the-go market has been a crucial part of our strategic transformation. We continue to see significant potential for further growth in shop numbers as we target catchments where Greggs is still not available, as well as optimising our existing estate footprint. Whilst our supply chain plans are designed to build capacity for 2,500 UK shops we see greater opportunity than this and are bringing forward our plans to invest in additional production capacity, particularly in savouries, to meet increased demand and prepare for the next phase of development of the business.

Convenience is the key consideration when customers choose where to shop for food-on-the-go. Being within easy reach for customers when they need us is a prerequisite and we are working hard to increase shop numbers in order to provide good access as well as introducing a delivery service from more of our locations. In 2019 we opened 138 new shops (including 45 franchise units) and closed 41, growing the estate to 2,050 shops trading as at 28 December 2019, 302 of which are franchised shops operated by partners in travel and other convenience locations. In August we celebrated the landmark opening of our 2,000th shop at South Shields interchange in South Tyneside.

We have a strong pipeline of new shop openings for 2020 and expect to add around 100 net new shops in the year, including around 40 with franchise partners. We will continue to focus on increasing our presence in travel, leisure and work-centred catchments. As recognition of our brand for food-on-the-go grows, new pipeline opportunities are opening up, allowing us to extend our reach further into locations such as drive-thru, railway stations, airports and major supermarkets. At the end of 2019, 41 per cent of our shop estate was located in travel, leisure and work-centred catchments and we expect this proportion will continue to rise as we expand and relocate our estate.

As we develop our reputation for coffee we are pursuing an additional growth opportunity in the provision of a fully-seated offer. We currently have 160 shops offering a food-led coffee shop experience with average sales in these units significantly ahead of the Group average. With falling costs of retail space we will be seeking to extend and relocate shops in appropriate locations to reach further into this part of the market.

The need to refurbish our shops continues to be relatively modest thanks to the substantial investments made to transform legacy bakery shops to our food-on-the-go format. We completed 57 refurbishments and franchise partners refurbished a further nine units. In the year ahead we expect to complete the transformation of 90 remaining bakery-format shops as we consider what level of investment is needed to meet demand in new channels before embarking on the next phase of shop refurbishment.

2. Great tasting freshly prepared food

Greggs' products are differentiated by the way that we freshly prepare food each day in our shops and offer outstanding value for good quality, great tasting food-on-the-go.

Making good, freshly prepared food accessible to everyone is embedded in our core purpose as a brand. Our outstanding value meal deals set us apart from the competition and have increased in popularity as awareness of them grows. Quality is the other essential ingredient, and over the years we have developed a market-leading reputation for bakery products adapted to food-on-the-go. We own our supply chain and our transformational investment programme is now delivering even better, more consistent quality products at outstanding value-for-money prices. At the same time, we are building a reputation in new areas that create more reasons to visit Greggs, meeting food-on-the-go needs at all times of the day.

Bakery food-on-the-go

Bakery food-on-the-go remains at the core of our offer and we have seen strong growth in this area as we attract new customers and increase visit frequency. Our mission here is to make these products the best they can be from a quality and nutritional perspective, whilst recognising they must retain their essential taste characteristics. Innovation in these categories, such as the development of vegan versions of our best sellers, has attracted new customers and driven broader brand consideration.

Complementary categories

As our reputation as a food-on-the-go brand grows, customers are increasingly willing to consider us for other food and drink categories which broaden our appeal throughout the day. Even though they remain our signature item Greggs is now so much more than just sausage rolls. Last year we became the number one brand for sandwiches-on-the-go and number three for coffee (source: NPD Crest, share of visits, FY2019). The combination of these strengths contributes to our position as the number two brand for both breakfast and lunch (source: NPD Crest).

Product innovation

Product development plays a key role in driving quality, sustainability, menu variety and brand appeal. Our programme of investment to centralise bakery production enables us to move more quickly to improve quality and reformulate products to achieve sustainability objectives. An example of this in 2019 was our success in reducing the sugar content of our sweet bakery range by 20 per cent, one year ahead of the Public Health England target date.

The development of vegan options for customers has been our most successful product initiative in recent years.

Customers are increasingly seeking alternatives to meat and dairy, and we see further opportunities to provide them with vegan-friendly versions of our best-selling lines such as our vegan steak bake and vegan doughnut that were launched in January 2020.

Further opportunities exist to grow our offer in coffee and hot drinks as customers increasingly expect the breadth of range offered by our competitors. We are about to begin the next phase of investment in coffee machines which will increase our capability in these areas.

Hot food is another key area of opportunity and we have invested in the roll-out of hot food cabinets, extending our offer to 500 locations. Hot and cold menu balance is a key attribute of a resilient food-on-the-go model and enables us to broaden our appeal at all times of day by adding to our existing hot sandwich range and extending meal deal options.

Healthy eating options also have a key role to play in our strategy. We have examined the market and determined that demand for healthy eating food will not support a national chain of food-on-the-go shops offering only these types of product. Nevertheless, we want to encourage customers to eat more healthily and we know that convenient access is the key component in their decision-making for food-on-the-go. We have, therefore, committed to offering healthy food-on-the-go options through our 'Balanced Choice' range, alongside our traditional offer, so that our customers have convenient access and full information to be able to make balanced dietary choices on the go.

Customer food allergies are both a critical area of risk concern and an opportunity to provide better choice and service. Greggs joined others in recommending to Government that food-on-the-go providers should provide full labelling on shop-produced sandwiches to make it easier for customers to make informed choices. This will require significant changes to our in-shop sandwich-making processes and we are preparing to trial our proposed solution in the first half of 2020. At the same time growth in demand for products such as gluten-free and vegan will require operational changes throughout our supply chain and shop activities but will make it easier for the growing number of customers making these choices to shop with Greggs.

3. Competitive supply chain

2019 was another year of major change and significant progress in our investment programme to support shop growth by increasing logistics capacity and consolidating our manufacturing operations. Once complete, in 2021, this will provide capacity for around 2,500 shops and is already delivering improvements to product quality and competitiveness.

The larger elements of this programme delivered in 2019 were:

- The opening of our new distribution centre at Amesbury in Wiltshire.
- Development of our doughnut manufacturing platform at our Gosforth Park bakery in Newcastle upon Tyne to include topping and filling of products.
- Successful commissioning of an automated roll plant at our Enfield bakery.
- Creation of a vegan-friendly production facility for doughnuts at our Treforest bakery.

In the year ahead we will embark on the final stage of the investment plan, the conversion of our Birmingham site to become a dedicated distribution centre.

As we approach completion of our supply chain transformation programme new investment opportunities are opening up to unlock further efficiencies in our new centralised supply chain structure. The first of these is the construction of an automated frozen distribution facility at our Balliol Park distribution centre in Newcastle, which will increase productivity and reduce our reliance on third-party providers. As our warehousing operations become less dependent on in-time production further efficiency gains become obtainable in our picking and logistics operation, reducing space requirements and opening up shop delivery windows.

Our original planning horizon had targeted supply chain capacity for 2,500 shops; however the recent step-up in sales of our savoury products will require us to bring forward our longer-term plans to increase capacity in our Balliol Park manufacturing facility. This work will begin in 2020 with the introduction of further automation on existing production lines whilst we plan for the construction of an additional line, which will occupy the space made available once we replace the existing cold store.

Given the scale of change in 2019 I must take this opportunity again to praise our supply chain teams who have worked tirelessly to effect all of this whilst maintaining full supplies to meet our strongly increasing sales. Their efforts were justly recognised in February when they were named `Bakery Manufacturing Company of the Year' at the Food Manufacturing Excellence Awards.

4. First class support teams

Our investment programme to modernise our core business processes and IT systems is now close to completion, with SAP deployment now in place in most areas of the business. The remaining challenge is to complete the roll-out of SAP to a number of our logistics and manufacturing sites, which will complete in 2021 alongside the conversion of our Birmingham bakery.

In 2019 we made great progress with the migration of the majority of our payroll processes to SAP and the introduction of self-service functionality for our people to manage aspects of their own data. The SAP solution for supply chain was introduced successfully at our new Amesbury distribution site and at our Balliol Park manufacturing and distribution site in Newcastle upon Tyne.

In the second half of the year we increased investment to develop our digital capabilities in preparation for the next phase of our strategic journey - 'Next Generation Greggs' - developing Greggs Rewards as our customer hub for a multi-channel offer.

Greggs and sustainability

Greggs has a long-standing tradition and reputation as a socially responsible business and we have always sought to conduct our business in a way that has **a positive impact on people's lives**. We are proud of our record but we also recognise that customers are increasingly aware of the impact of economic activity on society and the environment and are becoming more demanding when making consumption choices. We recognise that more needs to be done to make business more sustainable and that we must play our part and show leadership in areas that really matter to our customers. To that end we have engaged with our employees to agree how we can raise our ambitions, to move faster and reach further with our own sustainability goals aligned to those identified by the United Nations. The result of this engagement exercise is '**The Greggs Pledge'** programme, which will be set out in our first ever Sustainability Report to be published this year.

Meanwhile, we have not stood still during 2019, making good progress across our existing sustainability objectives.

We aim to use energy efficiently and minimise waste

Customer concern over the environmental impact of the economy has grown, with the threat posed by global warming ever present in the media. Plastic in particular has become a key focus and we have responded by reducing the use of single-use plastic by 350 tonnes in 2019. We have done so by replacing plastic bags with paper bags, plastic cutlery with sustainable wooden cutlery, plastic packaging with cardboard packaging, plastic gift cards with paper-based cards and plastic lifting sheets with reusable tongs. Not all these alternatives perform as well as the plastic version, but we ask our customers to tolerate some inconvenience for the sake of the environment.

Coffee cups also remain a target for further reduction and improved recycling. Our reusable cup, which offers customers a 20 pence discount on any hot drink, is increasingly popular and we are working with industry peers to develop sector-wide improvements in the way we manage coffee cup usage and disposal.

We were also proud to partner with Refill UK, becoming their largest partner to provide free drinking water for the increasing number of customers refilling their own bottles.

Most of our customers take their purchases away with them and a minority do not dispose of their waste packaging responsibly so we aim to play our part by supporting national environmental initiatives, including Keep Britain Tidy's Great British Spring Clean for the third year running.

We, like others, recognise the urgency needed to address climate change. We continue to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies and our Environmental Management System is certificated to ISO 14001:2015. We continue to trial technologies and initiatives aimed at reducing our carbon footprint in a bid to target a carbon-neutral impact, and achieved a 17 per cent reduction in intensity in 2019. In addition, we now procure the majority of our electricity requirements from renewable schemes, helping us to achieve an overall reduction in intensity of 63 per cent.

We encourage healthier food-on-the-go choices

Obesity is another growing crisis in society that we are determined to play our part in addressing. In a world where our customers lead increasingly busy lives, convenience often rules in their food choices. Greggs exists to provide our customers with convenient access to food and drink on the go, and we want them to have product choices and clear information to help them make good, well-informed decisions. We provide calorie and nutritional information for all our products either on shelf or through our website and mobile application. We were the first UK food-on-the-go brand to introduce traffic light labelling on its website and app and, in 2019, rolled it out to our own-label crisps and drinks. Diabetes UK highlighted Greggs as an example of good practice as part of their Food Upfront Pledge, which we engaged with.

Our 'Balanced Choice' range launched six years ago offers products with fewer than 400 calories and good nutritional content and because of our wide distribution this has established itself as one of the strongest selling ranges of lower calorie food in the market. Whilst we remain committed to selling our traditional bakery products, we have worked hard over many years to make these products the best they can be whilst remaining true to their great tasting heritage.

We are active supporters of campaigns to promote healthier eating, promoting the 400-600-600 campaign led by Public Health England and the 'Pledge for Veg' in partnership with the Food Foundation. We were also proud supporters of the British Nutrition Foundation's 'Healthy Eating Week', a campaign that encourages UK school children and workplaces to focus on healthy eating and drinking, and physical activity.

Finally, we have worked with the Greggs Foundation to introduce primary school children across the UK to good nutrition and sporting activity through the 'Tackling Health' programme in partnership with Premiership Rugby. Following a successful first year, in which this initiative was delivered to 15,000 children, 94 per cent of those surveyed said they wanted to take part in more sport or activity having taken part in the programme, and 53 per cent now eat five or more pieces of fruit and vegetables a day, compared to 36 per cent at the beginning.

We care about where our ingredients come from

Customers are showing greater interest in where their food comes from and we have continued to improve our sourcing to meet these preferences. All of the tea, coffee, hot chocolate, orange juice, apple juice and bananas we sell are certified Fairtrade and the premium paid for these products over the last 15 years has enabled farmers to invest £4.4 million into their farms and communities.

We source our ingredients from sustainable sources and maintained a 'Tier 2' standing in the Business Benchmark on Farm Animal Welfare for the fourth year running. Greggs is one of only eight companies to have moved up three tiers in the BBFAW rankings since they were established in 2012, and we currently lead the restaurant and bars sector.

In 2019 we became a member of the Roundtable on Sustainable Palm Oil (RSPO). All of the palm oil used in our products meets RSPO standards, and has done since 2014.

We are proud to have held a Good Egg Award from Compassion in World Farming since 2014 for using free-range whole/shell eggs and are delighted to confirm that from September 2019 all of our liquid egg purchases now also come from eggs laid by cage-free hens.

We share our success with the community around us

Greggs is a national brand with a local culture. Our teams take enormous pride in their connection with, and support for, the local communities in which we operate. Redistributing unsold food is one way in which we can help, and by the end of 2019 more than 1,700 organisations were regularly collecting unsold food from our shops and bakeries, however many charities do not have the infrastructure and controls needed to manage temperature-controlled foods safely. Therefore, in 2019 we re-launched an initiative first conceived by Greggs in the 1970s, to redistribute surplus food ourselves through our own chain of 'outlet shops' sited in low income community locations. These outlets sell safe second-day food at very low clearance prices, and are proving very popular. In the year ahead we plan to open several more to add to our existing chain of ten.

Each year we donate at least one per cent of profits to the Greggs Foundation and this, along with support from our customers, colleagues and partners, has enabled the charity to invest over £3 million in 2019 in a wide range of initiatives that improve the quality of life in our local communities. These included the award-winning Greggs Breakfast Club programme, which celebrated its 20th anniversary in 2019. With support from 97 partners, this programme now provides over 36,000 free wholesome breakfasts every school day to children in over 537 primary schools; that's seven million breakfasts across the school year.

We also fundraise for other charities that our people and customers feel passionate about, including the Poppy Appeal and of course our long-standing support for BBC Children in Need, where in 2019 we were delighted to hit the magic £1 million mark for this great cause once again. We are also proud supporters of the North of England Children's Cancer Research charity and are the main sponsor of its annual Children's Cancer Run. Having supported the event since its conception in 1982, we were delighted to accept a 'Lifetime Achievement Award' at the charity's 40th anniversary celebration.

We are committed to creating a great place to work

Deeply embedded in the Greggs culture, and a fundamental source of our enduring success as a brand, is the way our colleagues feel about working for Greggs. We have worked hard to preserve their loyalty and affection whilst making transformational changes to our business model in recent years. We have engaged with our teams across the business to reflect on what 'being Greggs' means and are confident that our culture and values are alive and thriving and as fit for purpose now as they have ever been. Our Employee Opinion Survey provides us with the best insight to understand employee sentiment and the feedback remains at sector-leading levels. Our engagement score for 2019 increased once more and now stands at 84 per cent.

Whilst we can be proud of our reputation as an employer we recognise that we have room for improvement, particularly in the area of diversity. In this respect we are committed to making improvements by challenging ourselves to meet the criteria of the externally-accredited National Equality Standard. One area of focus in recent years has been our commitment to supporting progression for women in management. Our gender pay gap improved marginally in 2019 to 17.6 per cent, however this statistic is dominated by the disproportionate number of women working in our shops. Female representation on the Board stands at 43 per cent, placing us joint 21st in the FTSE 250 in the Hampton-Alexander report, but falls to 22 per cent at Operating Board level. Our key opportunity lies in supporting women to progress their careers and to that end we have created a women's leadership development group to help build a diverse pipeline for the future.

We recognise our responsibilities as a major employer and seek to extend employment opportunities for hard-to-reach people who find it difficult to break out of unemployment through our Fresh Start programme. One area where we have been active for several years has been our work with ex-offenders where we have provided support in prisons and employed over 100 people on release, many of whom have stayed and gone on to progress with us.

Critical to our culture is recognition of our colleagues as stakeholders in our business alongside our shareholders. Employees are encouraged to become shareholders through share investment schemes, and around 3,500 choose to do so. We also have a long tradition of sharing ten per cent of our profits with employees each year and in March 2020 we will be sharing another record £12.8 million with our people as a result of our performance in 2019. In addition, we were delighted to make a special payment of £7m as a one-off 'thank you' for their contribution to an exceptional business performance.

Outlook for 2020

We made a very strong start to 2020 in January, but have seen a significant impact on sales growth as a result of the storms that have affected the UK in February. Overall, in the nine weeks to 29 February 2020, Company-managed shop like-for-like sales grew by 7.5 per cent, and total sales were up 11.7 per cent. The flooding that resulted from the storms temporarily closed our supply site in Treforest, South Wales, and our teams there and across the business have done a terrific job in re-establishing operations.

As previously indicated, cost increases are likely to present a stronger-than-normal headwind in 2020, with wages and pork commodities driving cost inflation. We intend to invest some of the margin generated by our strong performance in 2019 to protect customers from these costs.

Demand for food-on-the-go continues to grow and we are investing in opportunities to develop further market share. Nevertheless, there is some uncertainty in the outlook, particularly given the potential impact of Coronavirus. This aside, we expect to make year-on-year progress and will do so from a strong financial position, supporting our investment for further growth whilst also delivering good returns for all stakeholders. Our expectations for the year remain unchanged.

Roger Whiteside OBE
Chief Executive
3 March 2020

Financial review

Greggs' financial performance in 2019 was record-breaking on many fronts. These results reflect the benefits of our multi-year investment programme and the operational leverage arising from very strong sales growth. The resulting cash generation has allowed us to bring forward investment in the growth opportunities that lie ahead whilst also rewarding both employees and shareholders with improved returns.

	2019	2018
	£m	£m
	IFRS 16 basis*	IAS 17 basis*
Revenue	**1,167.9**	1,029.3
Operating profit (excluding exceptional items and property profits)	**120.0**	89.1
Property profits	**0.7**	0.7
Operating profit (excluding exceptional items)	**120.7**	89.8
Finance expense	**(6.5)**	(0.0)
Profit before taxation (excluding exceptional items)	**114.2**	89.8
Profit margin (excluding exceptional items)	***9.8%***	*8.7%*
Exceptional items	**(5.9)**	(7.2)
Profit before taxation	**108.3**	82.6

* 2019 results are presented following the adoption of IFRS 16 (lease accounting); 2018 figures are as previously reported (i.e. not restated, see below for further details).

Sales

Total Group sales for the 52 weeks ended 28 December 2019 were £1,167.9 million (2018: £1,029.3 million), an increase of 13.5 per cent. Sales in Company-managed shops with more than one calendar year's trading history ('like-for-like') grew by 9.2 per cent to £987.8 million (2018: £904.7 million).

Profit

Underlying profit before tax excluding exceptional items was £114.2 million (2018: £89.8 million), an increase of 27.2 per cent. This included a £0.7 million contribution from property disposals (2018: £0.7 million).

Including exceptional items, pre-tax profit was £108.3 million (2018: £82.6 million).

Impact of IFRS 16 adoption

These are the first full-year results that the Company has published since the adoption of IFRS 16 (lease accounting). The balance sheet at 28 December 2019 now recognises 'right-of-use assets' of £272.7 million and lease liabilities totalling £275.7 million. In the income statement rent costs have been replaced by a straight-line depreciation charge of £50.6 million on right-of-use assets and an interest charge of £6.6 million. As disclosed in our 2018 annual report, we expected that the adoption of IFRS 16 would increase reported operating profit by £2.6 million 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 results reflect this impact. As a result of adoption of the 'modified approach' to transition the 2018 comparative results have not been restated.

Profit margin

Profit margin, including finance expenses but before exceptional items, was 9.8 per cent (2018: 8.7 per cent). Including exceptional items, the profit margin was 9.3 per cent (2018: 8.0 per cent).

Gross margin before exceptional items increased year-on-year to 64.7 per cent (2018: 63.7 per cent). The improvement reflected the benefits of the programme of investment in our internal manufacturing operations, plus the impact of strong volume growth in own-produced products. Including exceptional items, gross margin was 64.2 per cent (2018: 63.1 per cent).

Distribution and selling costs reflected the operational gearing inherent in our shop costs, with the cost ratio improving to 49.0 per cent (2018: 49.9 per cent). Although wage rates have increased significantly property lease costs have been more benign and the strong growth in like-for-like sales has not been matched by equivalent costs. Additionally, the adoption of IFRS16 has reduced the ratio by 0.2 per cent. The growth in the administrative expenses ratio to 5.3 per cent (2018: 5.1 per cent) reflected provision for incentive costs associated with the Company's strong performance in the year.

In 2019 we continued to drive actions to make the business simpler and more efficient, and in doing so again partially mitigated the impact of cost inflation on the business. In 2019 we delivered savings of £9.9 million (2018: £7.4 million) through procurement, waste reduction, and operational efficiency initiatives. Wage cost inflation continued to be a headwind and this will be the case again in 2020 as we manage the impact of National Living Wage increases. In addition, we have been experiencing significant increases in the cost of pork, a key ingredient for a number of our products. This is likely to continue in the year ahead as global markets react to constrained supply. In the year ahead we expect wage and salary cost inflation of around four per cent, whilst cost inflation on food inputs could be in the region of seven per cent.

Exceptional items

Our major investment programme, designed to reshape our internal supply chain for future growth, commenced in 2016 and is on schedule to complete in 2021. We expect the total exceptional cash costs of this change programme, excluding any associated property disposal gains, to be in the region of £27.0 million, with a further £4.0 million charge in respect of non-cash costs (accelerated depreciation and asset write-offs). Total charges so far amount to £28.7 million and we expect a further £2.3 million charge across 2020/2021.

Activity in 2019 included further work on the consolidation of doughnut manufacturing at our Gosforth Park bakery in Newcastle upon Tyne, roll production at our Enfield bakery and the commissioning of a national facility for the production of fresh cream products at our Leeds bakery. The exceptional charge in relation to this programme was £5.9 million in 2019 (2018: £5.9 million).

The total exceptional charge for the year was £5.9 million (2018: £7.2 million), comprised as follows:

	2019 £m	2018 £m
Supply chain restructuring:		
- redundancy costs provision/(release)	**0.7**	(0.2)
- transfer of operations	**5.0**	4.9
- property-related	**0.1**	0.5
Cash costs of supply chain restructuring	**5.8**	5.2
- depreciation and asset write-offs	**0.1**	0.7
Net supply chain restructuring charge	**5.9**	5.9
GMP equalisation past service costs	**-**	1.7
Release of prior years' exceptional items:		
- property-related	**-**	(0.4)
Total exceptional items	**5.9**	7.2

There were no exceptional property gains in the year in respect of the supply chain restructuring programme. Our vacant Twickenham site is under contract for sale subject to certain conditions. Should this progress to completion then any resultant profit will be treated as an exceptional gain. Proceeds to date from property disposals associated with this programme have totalled £1.5 million and we continue to expect the ultimate total proceeds arising from site disposals to be close to £20 million, in line with those anticipated in our investment plan.

The Board considered the treatment of the £7.0 million special 'thank you' payment to employees and concluded that it should not be classified as exceptional given its inherent relationship to the strength of the underlying result for the year. It is, however, one-off in nature and not expected to be repeated.

In 2019 the total cash impact of exceptional items was a net outflow of £9.1 million (2018: £9.0 million cash outflow). We expect the 2020 cash outflow in respect of exceptional items to be c.£3.0 million.

Financing charges

There was a net financing expense of £6.5 million in the year (2018: £0.0 million) reflecting the interest charge on lease liabilities following the adoption of IFRS 16 and the funding position of the defined benefit pension scheme, offset by interest received and exchange gains and losses. In the year ahead we expect to incur a financing expense of around £7.0 million relating to the interest charge on lease liabilities and the small net liability of the pension scheme at the start of the year.

Taxation

The Company has a simple corporate structure, carries out its business entirely in the UK and all taxes are paid there. We aim to act with integrity and transparency in respect of our taxation obligations.

Excluding the effect of exceptional items, the Group's underlying effective tax rate was 19.6 per cent (2018: 20.3 per cent). The overall tax rate for the year including exceptional items was 19.7 per cent (2018: 20.4 per cent). The year-on-year reduction in the effective rate primarily reflected a relative reduction in the impact of disallowed expenses as the Company generated higher levels of profit.

We expect the effective rate for 2019 to be around 20.25 per cent and that the effective rate going forward will be around 1.5 per cent above the headline corporation tax rate. This is principally because of disallowed expenditure such as depreciation on non-tax-deductible qualifying properties and costs of acquisition of new shops.

In 2020 the larger company payment regime for UK Corporation Tax will change with the result that instalments are effectively brought forward by six months. The impact on cash flow for Greggs is anticipated to be an additional outflow of around £11.0 million in the first half of 2020.

Earnings per share

Diluted earnings per share before exceptional items were 89.7 pence (2018: 70.3 pence), an increase of 27.6 per cent. Basic earnings per share before exceptional items were 91.0 pence (2018: 71.1 pence). Including exceptional items diluted earnings per share were 85.0 pence (2018: 64.5 pence) and basic earnings per share were 86.2 pence (2018: 65.2 pence).

Dividend

The Board recommends a final ordinary dividend of 33.0 pence per share (2018: 25.0 pence). Together with the interim dividend of 11.9 pence (2018: 10.7 pence) paid in October 2019, this makes a total ordinary dividend for the year of 44.9 pence (2018: 35.7 pence), an increase of 25.8 per cent. This is in line with our progressive dividend policy and is covered two times by diluted earnings per share before exceptional items. In line with our policy on special distributions, as outlined below under 'Cash flow and capital structure', we paid a special dividend of 35.0 pence in October 2019.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 21 May 2020 to shareholders on the register on 17 April 2020.

Balance sheet

Capital expenditure

We invested a total of £86.0 million (2018: £73.0 million) in capital expenditure during 2019. The total included £36.0 million for development and maintenance of our retail estate and £7.8 million in respect of development and maintenance of our IT infrastructure. Investment in our supply chain totalled £42.2 million as we opened our latest distribution centre at Amesbury in Wiltshire, began investment in our new automated cold store, and continued to consolidate our previously decentralised regional bakery operations. Depreciation and amortisation on property, plant and equipment in the year was £59.9 million (2018: £55.9 million). As noted above a further £50.6 million (2018: £nil) of depreciation was charged in respect of right-of-use assets as a result of the adoption of IFRS 16 (lease accounting).

The investment for growth in our supply chain capacity will continue in 2020 as we develop the distribution capacity of our Treforest and Birmingham sites, and increase manufacturing capacity at our Balliol Park savoury production facility in Newcastle upon Tyne, whilst continuing construction of an automated cold store on the same site. We will also continue to expand our shop estate, investing in around 100 new Company-managed shops alongside further openings with franchise partners. Overall, we plan capital expenditure of around £100 million in 2020.

The investment programme to transform our supply chain is expected to complete in mid-2021 and is already delivering net benefits ahead of our initial plan. Product quality and consistency has improved and the net supply cost in 2019, when compared with the 2015 base, is £9.5 million lower. This compares favourably with the £7.0 million net efficiency expected from the investment programme.

We intend to continue to grow net shop numbers at a rate of c.100 per year, with a gross opening rate of around 100 Company-managed shops driving the capital expenditure requirement. The requirement for capital expenditure to refurbish our existing shops will increase in the coming years, as we come out of the current low point in the refurbishment cycle. Supply chain expenditure on our transformation programme will reduce but we intend to invest in further manufacturing capacity in order to meet demand for our iconic savoury products. Overall, we expect the medium-term capital expenditure requirement to be around £90 million per annum.

Working capital

Group net current liabilities increased to £66.4 million at the end of 2019 (2018: £4.5 million). This was due to the adoption of IFRS 16 with £48.8 million of lease liabilities being included in current liabilities in 2019. We held a relatively high cash balance at the end of 2019 thanks to the strong financial performance and some delays in the anticipated phasing of capital expenditure. Inventory levels rose by £3.1 million and receivables fell by £4.5 million in the year.

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme decreased to £0.6 million (2018: £8.4 million). The Company made a £5.0 million special contribution to the scheme in the year in support of the trustee's strategy to adopt a more liability-driven investment approach, with the ultimate aim of achieving a future buy-out of the scheme's liabilities. In 2019 the assets of the scheme gained in value, though this was largely offset by changes in the actuarial assumptions used in accounting for the scheme, particularly a weakening of the discount rate used to value the scheme's liabilities. The scheme will next undergo a full actuarial revaluation in 2020.

Return on capital

We manage return on capital against predetermined targets and monitor performance through our Investment Board, a management committee where all capital expenditure is subject to rigorous appraisal before and after it is made. For investments in new shops we target an average cash return on invested capital of 25 per cent, with a hurdle rate of 22.5 per cent, over an average investment cycle of eight years. Other investments are appraised using discounted cash flow analysis.

The performance of new shops opened in 2019 was very good, with average sales materially above the level expected at the time of investment. New shops opened in 2018 have also performed particularly well and are showing excellent returns for their level of maturity. We continue to see particularly strong returns on the relocation of shops within their existing catchments and will continue to examine the opportunity to improve the quality of our existing estate in this way.

In 2019, on an IFRS 16 basis, we delivered an overall return on capital employed (ROCE, defined in Note 9) of 20.0 per cent excluding exceptional items. On the pre-IFRS 16 basis the performance in 2019 would have been reported as a ROCE of 33.6 per cent (2018, IAS 17 basis: 27.4 per cent), reflecting the strength of performance in the year relative to the capital base.

Cash flow and capital structure

The net cash inflow from operating activities after lease payments in the year was £169.5 million (2018: £136.1 million). At the end of the year the Group had net cash and cash equivalents of £91.3 million (2018: £88.2 million).

Given the significant growth in the business in recent years the Board believes that, going forward, it is appropriate to target a year-end net cash position of around £50.0 million, to allow for seasonality in our working capital cycle. The current cash position is clearly above this level, reflecting the strength of performance in 2019 and the Company's requirements for capital expenditure and tax payments in 2020. It is, however, likely that a proportion of the current cash position will be surplus to requirements under existing plans. Given the current outlook uncertainties we are keeping these plans under active review and, in line with our existing policy, will consider declaration of a special dividend at the time of the interim results in July 2020.

Richard Hutton
Finance Director
3 March 2020

Greggs plc

Consolidated income statement
for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	**2019 Excluding exceptional items IFRS 16 £m**	**2019 Exceptional items (see Note 3) IFRS 16 £m**	**2019 Total IFRS 16 £m**	2018 Excluding exceptional items IAS 17 £m	2018 Exceptional items (see Note 3) IAS 17 £m	2018 Total IAS 17 £m
Revenue	2	**1,167.9**	**-**	**1,167.9**	1,029.3	-	1,029.3
Cost of sales		**(412.2)**	**(5.9)**	**(418.1)**	(373.4)	(5.9)	(379.3)
Gross profit		**755.7**	**(5.9)**	**749.8**	655.9	(5.9)	650.0
Distribution and selling costs		**(572.8)**	**-**	**(572.8)**	(513.2)	0.4	(512.8)
Administrative		**(62.2)**		**(62.2)**	(52.9)	(1.7)	(54.6)

expenses		**(62.2)**	**-**	**(62.2)**	(52.9)	(1.7)	(54.6)
Operating profit		**120.7**	**(5.9)**	**114.8**	89.8	(7.2)	82.6
Finance expense		**(6.5)**	**-**	**(6.5)**	-	-	-
Profit before tax		**114.2**	**(5.9)**	**108.3**	89.8	(7.2)	82.6
Income tax	4	**(22.4)**	**1.1**	**(21.3)**	(18.2)	1.3	(16.9)
Profit for the financial year attributable to equity holders of the Parent		**91.8**	**(4.8)**	**87.0**	71.6	(5.9)	65.7
		=======	=======	=======	=======	=======	=======
Basic earnings per share	5	**91.0p**	**(4.8p)**	**86.2p**	71.1p	(5.9p)	65.2p
Diluted earnings per share	5	**89.7p**	**(4.7p)**	**85.0p**	70.3p	(5.8p)	64.5p

At 30 December 2018 the Company implemented IFRS 16 *Leases* using the modified retrospective transition method. As a result the comparative figures have not been restated and are presented on an IAS 17 basis.

Greggs plc
Consolidated statement of comprehensive income

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	2019	2018
	IFRS 16	IAS 17
	£m	£m
Profit for the financial year	**87.0**	65.7
Other comprehensive income		
Items that will not be recycled to profit and loss:		
Re-measurements on defined benefit pension plans	**3.0**	1.0
Tax on re-measurements on defined benefit pension plans	**(0.5)**	(0.2)
Other comprehensive income for the financial year, net of income tax	**2.5**	0.8

Total comprehensive income for the financial year	**89.5**	66.5
	=======	=======

Greggs plc
Consolidated Balance Sheet

at 28 December 2019 (2018: 29 December 2018)

	2019 IFRS 16 £m	2018 IAS 17 £m
ASSETS		
Non-current assets		
Intangible assets	**16.8**	16.9
Property, plant and equipment	**353.7**	330.4
Right-of-use assets	**272.7**	-
Deferred tax asset	**3.3**	0.2
	646.5	347.5
Current assets		
Inventories	**23.9**	20.8
Trade and other receivables	**27.1**	31.6
Cash and cash equivalents	**91.3**	88.2
	142.3	140.6
Total assets	**788.8**	488.1
LIABILITIES		
Current liabilities		
Trade and other payables	**(142.3)**	(126.5)
Current tax liability	**(11.8)**	(10.0)
Lease liabilities	**(48.8)**	-
	(5.8)	(8.7)

Provisions		
	(208.7)	(145.2)
Non-current liabilities		
Other payables	**(4.2)**	(4.7)
Defined benefit pension liability	**(0.6)**	(8.4)
Lease liabilities	**(226.9)**	-
Long-term provisions	**(1.6)**	(0.7)
	(233.3)	(13.8)
Total liabilities	**(442.0)**	(159.0)
Net assets	**346.8**	329.1
	=======	=======
EQUITY		
Capital and reserves		
Issued capital	**2.0**	2.0
Share premium account	**13.5**	13.5
Capital redemption reserve	**0.4**	0.4
Retained earnings	**330.9**	313.2
Total equity attributable to equity holders of the Parent	**346.8**	329.1
	=======	=======

Greggs plc
Consolidated statement of changes in equity

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

52 weeks ended 29 December 2018

	Attributable to equity holders of the Company				
	Issued capital	Share premium	Capital redemption	Retained earnings	Total

			reserve		
	IAS 17	IAS 17	IAS 17	IAS 17	IAS 17
	£m	£m	£m	£m	£m
Balance at 31 December 2017	2.0	13.5	0.4	283.3	299.2
Total comprehensive income for the year					
Profit for the financial year	-	-	-	65.7	65.7
Other comprehensive income	-	-	-	0.8	0.8
Total comprehensive income for the year	-	-	-	66.5	66.5
Transactions with owners, recorded directly in equity					
Sale of own shares	-	-	-	5.2	5.2
Purchase of own shares	-	-	-	(9.9)	(9.9)
Share-based payment transactions	-	-	-	2.0	2.0
Dividends to equity holders	-	-	-	(33.0)	(33.0)
Tax items taken directly to reserves	-	-	-	(0.9)	(0.9)
Total transactions with owners	-	-	-	(36.6)	(36.6)
Balance at 29 December 2018	2.0	13.5	0.4	313.2	329.1
	=======	=======	=======	=======	=======

Greggs plc

Consolidated statement of changes in equity (continued)

52 weeks ended 28 December 2019

	Attributable to equity holders of the Company				
	Issued capital	Share premium	Capital redemption reserve	Retained earnings	Total
	IFRS 16 £m	IFRS 16 £m	IFRS 16 £m	IFRS 16 £m	IFRS 16 £m
Balance at 30 December 2018	**2.0**	**13.5**	**0.4**	**313.2**	**329.1**
Total comprehensive income for the year					
Profit for the financial year	**-**	**-**	**-**	**87.0**	**87.0**
Other comprehensive income	**-**	**-**	**-**	**2.5**	**2.5**
Total comprehensive income for the year	**-**	**-**	**-**	**89.5**	**89.5**
Transactions with owners, recorded directly in equity					
Sale of own shares	**-**	**-**	**-**	**4.9**	**4.9**
Purchase of own shares	**-**	**-**	**-**	**(11.8)**	**(11.8)**
Share-based payment transactions	**-**	**-**	**-**	**4.4**	**4.4**
Dividends to equity holders	**-**	**-**	**-**	**(72.1)**	**(72.1)**
Tax items taken directly to reserves	**-**	**-**	**-**	**2.8**	**2.8**

Total transactions with owners	**-**	**-**	**-**	**(71.8)**	**(71.8)**
	________	________	________	________	________
Balance at 28 December 2019	**2.0**	**13.5**	**0.4**	**330.9**	**346.8**
	=======	=======	=======	=======	=======

Greggs plc
Consolidated statement of cashflows

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	2019 **IFRS 16** **£m**	2018 IAS 17 £m
Operating activities		
Cash generated from operations (see below)	**246.0**	152.2
Income tax paid	**(20.3)**	(16.1)
Interest paid on lease liabilities	**(6.6)**	-
	________	________
Net cash inflow from operating activities	**219.1**	136.1
	________	________
Investing activities		
Acquisition of property, plant and equipment	**(85.4)**	(61.4)
Acquisition of intangible assets	**(3.7)**	(5.2)
Proceeds from sale of property, plant and equipment	**1.4**	1.7
Interest received	**0.3**	0.2
	________	________
Net cash outflow from investing activities	**(87.4)**	(64.7)
	________	________
Financing activities		
Sale of own shares	**4.9**	5.2
Purchase of own shares	**(11.8)**	(9.9)
Dividends paid	**(72.1)**	(33.0)
Repayment of principle of lease liabilities	**(49.6)**	-
	________	________

Net cash outflow from financing activities	**(128.6)**	(37.7)
Net increase in cash and cash equivalents	**3.1**	33.7
Cash and cash equivalents at the start of the year	**88.2**	54.5
Cash and cash equivalents at the end of the year	**91.3**	88.2

Cash flow statement - cash generated from operations

	2019 IFRS 16 £m	2018 IAS 17 £m
Profit for the financial year	**87.0**	65.7
Amortisation	**3.8**	3.0
Depreciation - property, plant and equipment	**56.1**	52.9
Depreciation - right-of-use assets	**50.8**	-
Impairment - property, plant and equipment	**0.3**	0.3
Impairment - right-of-use assets	**0.5**	-
Loss on sale of property, plant and equipment	**1.2**	1.6
Release of government grants	**(0.5)**	(0.5)
Share-based payment expenses	**4.4**	2.0
Finance expense	**6.5**	-
Income tax expense	**21.3**	16.9
Increase in inventories	**(3.1)**	(2.1)
Decrease in receivables	**4.5**	1.8
Increase in payables	**19.9**	12.9
Decrease in provisions	**(1.7)**	(4.0)
(Decrease) / increase in pension liability	**(5.0)**	1.7
Cash from operating activities	**246.0**	152.2

Greggs plc
Notes

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 28 December 2019 or 29 December 2018 but is derived from these accounts. Statutory accounts for the 52 weeks ended 29 December 2018 have been delivered to the registrar of companies, and those for the 52 weeks ended 28 December 2019 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 29 December 2018, which are available on the Company's website www.greggs.co.uk. From 30 December 2018 the Group adopted IFRS 16 Leases. 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. The impact of the adoption of IFRS 16 is set out below.

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 (IFRC 16, c8(a), c8(b)(ii)), 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.

Details of the changes in accounting policies arising from the implementation of IFRS 16 are as follows:

Accounting policies adopted

(i) Lease recognition

At inception of a contract the Group assesses whether a contract is or contains a lease. 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. To assess whether a contact conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

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.

(ii) 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.

(iii) 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.

(iv) Short-term leases and leases of low-value assets

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.

(v) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a shop. For individual shops, up to 100 per cent of lease payments are on the basis of variable payments terms. These payments are recognised in the income statement in the period in which the condition that triggers them occurs.

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 above, using the Group's incremental borrowing rate as at 30 December 2018 which ranged from 2.25% to 2.78%. The weighted average rate used at 30 December 2018 was 2.41%. Right-of-use assets were measured at an amount equal to the corresponding lease liability, adjusted for any prepaid or accrued lease payments.

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 used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- 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.
- Applying the recognition exemptions for lease contracts that, at 30 December 2018, had a lease term of 12 months or less and did not contain a purchase option, and lease contracts for which the underlying asset was of low value ('low-value assets').

Balance sheet

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

	30 December 2018 £m
Right-of-use assets	266.3
Lease liabilities	(267.8)
Prepayments (included in right-of-use assets)	(9.2)
Accruals (included in lease liabilities)	10.7

	0.0
	======

The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 December 2018 to the total lease liabilities recognised in the accounts immediately after transition:

	30 December 2018 £m
Operating lease commitment at 29 December 2018 as disclosed in the Group's accounts	164.7
Discounted using the incremental borrowing rate at 30 December 2018	(30.1)
Recognition exemption for leases of low-value assets / short-term leases	(0.1)
Payments due for periods beyond break clauses	92.5
Renewal assumptions for expired leases where renewal is assumed	40.8

Total lease liabilities recognised on 30 December 2018	267.8
	======

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	**Plant and equipment**	**Total**
	£m	**£m**	**£m**
Balance at 30 December 2018	262.1	4.2	266.3
Balance at 28 December 2019	269.4	3.3	272.7

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

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 52 weeks ended 28 December 2019, the Group recognised £50.6 million of depreciation charges, £0.5 million of impairment on right-of-use assets and £6.6 million of interest costs in respect of these leases.

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.

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.

2. Segmental analysis

The Board is considered to be the "chief operating decision maker" of the Group in the context of the IFRS 8 definition. In addition to its retail activities, the Group generates revenues from franchise and wholesale. However, these elements of the business are not sufficiently significant to be "Reportable Segments" in the context of IFRS 8.

Products and services - the Group sells a consistent range of fresh bakery goods, sandwiches and drinks in its shops. The Group also provides frozen bakery products to its wholesale customers.

Major customers - the majority of sales are made to the general public on a cash basis. A small proportion of sales are made on credit to certain organisations, including wholesale customers and franchisees. These are included within the 'Other' column in the table below.

Geographical areas - all results arise in the UK.

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:

	2019	2018

	Retail Company-managed shops	Other	Total	Retail Company-managed shops	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**1,073.8**	**94.1**	**1,167.9**	949.2	80.1	1,029.3
	=======	**=======**	**=======**	=======	=======	=======
Trading profit*	**191.2**	**19.9**	**211.1**	151.2	14.4	165.6
Overheads including profit share			**(90.4)**			(75.8)
Operating profit before exceptional items			**120.7**			89.8
Finance expense			**(6.5)**			-
Profit before tax (excluding exceptional items)			**114.2**			89.8
Exceptional items (see Note 3)			**(5.9)**			(7.2)
Profit before tax			**108.3**			82.6
			=======			=======

* Trading profit is defined as gross profit less supply chain costs and retail costs (including property costs) and before central overheads.

3. Exceptional items

		2019	2018
		£m	£m
Cost of sales			
Supply chain restructuring	- redundancy	**0.7**	(0.2)
	- depreciation and asset write-off	**0.1**	0.7
	- transfer of operations	**5.0**	4.9
	- property-related	**0.1**	0.5
		5.9	5.9
Distribution and selling			
Prior year items	- property-related	**-**	(0.4)
Administrative expenses			
Pension scheme	- guaranteed minimum pension equalisation	**-**	1.7
Total exceptional items		**5.9**	7.2
		=======	=======

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 further consolidation of manufacturing into dedicated centres of excellence, including additional running costs. This programme of investment is due to be completed in 2021.

Prior year item

This relates to the movement on costs treated as exceptional in prior years and arises 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.

On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement ruled that the schemes should equalise benefits for men and women in relation to GMP benefits. The judgement has implications for many defined benefit schemes including that operated by the Company. We have worked with our actuarial advisors to understand the implications of the judgement for the Greggs scheme and the £1.7 million pre-tax exceptional expense reflects our best estimate of the effect on our reported pension liabilities.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. Lloyds Banking Group have appealed the High Court Judgement - this appeal is expected to be heard in 2020. These accounts reflect the best estimate of the impact on pension liabilities; however, that estimate reflects a number of assumptions. 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 will continue to monitor any further clarifications or court hearings arising from the Lloyds case and consider the impact on pension liabilities accordingly.

In 2018 the Directors made the judgement that the estimated effect of GMP equalisation is a past service cost that should be reflected through the income statement and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement is based on the fact that the reported pension liabilities as at 30 December 2017 did not include any amount in respect of GMP equalisation.

4. Taxation

Recognised in the income statement

	Excluding exceptional items 2019 £m	**Exceptional items 2019 £m**	**Total 2019 £m**	Excluding exceptional items 2018 £m	Exceptional items 2018 £m	Total 2018 £m
Current tax						
Current year	**23.3**	**(1.1)**	**22.2**	18.9	(0.9)	18.0
Adjustment for prior years	**(0.1)**	**-**	**(0.1)**	(0.6)	-	(0.6)
	23.2	**(1.1)**	**22.1**	18.3	(0.9)	17.4
Deferred tax						
Origination and reversal of temporary differences	**(0.2)**	**-**	**(0.2)**	(0.2)	(0.4)	(0.6)
Adjustment for prior years	**(0.6)**	**-**	**(0.6)**	0.1	-	0.1
	(0.8)	**-**	**(0.8)**	(0.1)	(0.4)	(0.5)
Total income tax expense in income	**22.4**	**(1.1)**	**21.3**	18.2	(1.3)	16.9

statement

=======	=======	=======	=======	=======	=======

5. Earnings per share

Basic earnings per share

Basic earnings per share for the 52 weeks ended 28 December 2019 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the 52 weeks ended 28 December 2019 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 52 weeks ended 28 December 2019 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) in issue during the 52 weeks ended 28 December 2019 as calculated below.

Profit attributable to ordinary shareholders

	2019 Excluding exceptional items IFRS 16 £m	**2019 Exceptional items IFRS 16 £m**	**2019 Total IFRS 16 £m**	2018 Excluding exceptional items IAS 17 £m	2018 Exceptional items IAS 17 £m	2018 Total IAS 17 £m
Profit for the financial year attributable to equity holders of the Parent	**91.8**	**(4.8)**	**87.0**	71.6	(5.9)	65.7
	=======	**=======**	**======**	=======	=======	=======
Basic earnings per share	**91.0p**	**(4.8p)**	**86.2p**	71.1p	(5.9p)	65.2p
Diluted earnings per share	**89.7p**	**(4.7p)**	**85.0p**	70.3p	(5.8p)	64.5p

Weighted average number of ordinary shares

	2019 Number	2018 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(342,748)**	(462,731)

Weighted average number of ordinary shares during the year	**100,813,153**	100,693,170
Effect of share options on issue	**1,505,456**	1,161,042
Weighted average number of ordinary shares (diluted) during the year	**102,318,609**	101,854,212
	=========	=========

6. Dividends

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

	2019	2018
	Per share	Per share
	pence	pence
2017 final dividend	**-**	22.0p
2018 interim dividend	**-**	10.7p
2018 final dividend	**25.0p**	-
2019 interim dividend	**11.9p**	-
2019 special dividend	**35.0p**	-
	71.9p	32.7p
	=======	=======

The proposed final dividend in respect of 2019 amounts to 33.0 pence per share (£33.3 million). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2019	2018

	£m	£m
2017 final dividend	**-**	22.2
2018 interim dividend	**-**	10.8
2018 final dividend	**25.3**	-
2019 interim dividend	**12.0**	-
2019 special dividend	**35.3**	-
	72.6	33.0
	=======	=======

7. Related parties

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

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

The Directors have carried out a robust assessment of the principal risks facing the Company, and set out below are those which are considered to present the most significant threat to the business' future development or performance. The position described below is a summary of the status at the date of the annual report.

Additional risks and uncertainties, not presently known to management or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as we take mitigating actions, or as new risks emerge.

In disclosing our risk exposures this year, we have combined our reputational risks into one overarching risk. We have also combined the loss of production and loss of distribution capacity into a single risk of supply chain disruption. A new risk has been added regarding allergen labelling legislation, since our shop-based production results in greater process risks than manufacturing on a single site. We have also included a risk relating to the potential impact of a pandemic on our operations and customer demand.

The risks are grouped according to their overriding theme, and are described along with key mitigations, and any movement in net risk during the year.

Organisational capacity

Description	Key mitigations	Change
Business transformation		
Our current business change programme continues, though it is now nearing completion. Expected timelines or savings may not be met, and there may be disruption to our customers.	All change activity has been phased, to avoid affecting the Company as a whole wherever possible. Timelines and forecasts are clearly defined and agreed. Progress against these is closely monitored and reported on a regular basis to our Operating Board.	↓
Supply chain disruption		
We continue to move towards more centralised production and larger distribution centres of excellence, with a greater reliance on technology. As a result, the impact of any operational failure on our shops and customers increases.	We have contingency plans for our supply sites, along with IT disaster recovery plans, which are tested against simulated scenarios. We have identified alternative supply sources for key ingredients and products, and periodically test these alternative routes. Our property insurers advise on the design of new buildings and conduct annual inspections of existing sites. We also believe that, to an extent, customers will choose an alternative product if their first choice is not available, reducing our dependence upon each individual product.	↑

Management of third-party relationships		
As our reliance on third parties for services, ingredients or business support increases, we become more exposed to their business interruption risks. This could impact on our ability to produce, distribute or sell our products.	Our own contingency arrangements consider the implications of key systems or ingredients being unavailable. All third parties are vetted prior to engagement. Key supplier relationships are managed by our central procurement team.	↔
Ability to attract / retain / motivate people		
Market forces and the impact of Brexit may result in a shortage of available workforce, particularly within our shops and specialist IT roles. The former may be compounded by the relative complexity of our shop operations compared with other retailers.	We offer attractive remuneration and benefit packages to reward our teams, along with training and development opportunities. Our annual employee opinion survey confirms high levels of engagement. We continually work towards streamlined and simplified processes and operations for our shop teams. We have developed new centralised recruitment processes, making the application journey easier for potential employees.	↔

Brand perception

Description	Key mitigations	Change
Damage to reputation		
As the business' profile increases, so does the impact of any reputational damage due to a loss of customer trust. This could result from: • Sale of unsafe food; • Products not meeting customer requirements; • Social media activity. Wider engagement with franchise partners and broadening the scope of our operations could result in a loss of control over our brand.	Procedures are in place throughout our supply sites and shops to ensure that food safety is maintained. Compliance is monitored both internally and by regulators. Routine checks are carried out to confirm the integrity of our products and ingredients. We have robust crisis management procedures in place if required, and utilise third party support where this is appropriate. All the processes described above are equally applicable to our franchise partners.	↔

Technology

Description	Key mitigations	Change
Cyber & data security		
As with all businesses, our data and systems are exposed to external threats such as hackers or viruses. These could lead to data breaches, or disruption to our operation.	We actively monitor our networks and systems, including conducting regular penetration testing. Training and awareness sessions are provided across the business. Our approach to information security is closely monitored by the Board.	↔
System capacity		
Our IT systems may have insufficient capacity to keep pace with the required rate of change. Greater system integration and interconnectivity results in an increased impact in the event of any process failure or technology outage.	Our development plans take into account the business' ambitions, to provide appropriate capacity. We work closely with partners to provide additional capacity and technical expertise when required. Contingency plans continue to evolve in response to system and process changes.	↔

Regulatory compliance

Description	Key mitigations	Change
Allergen legislation		
		New

Increased focus on allergens and associated legislation brings added complexity to our operations.	We will provide full ingredient listings for our full sandwich range and all other relevant product lines during 2020. New processes and controls have been developed and tested in our shops to ensure we meet legal requirements. Extensive training will ensure that our teams are familiar with new working methods. Allergen complaints are investigated and action taken to address the root cause.	
Other legislation and taxation		
New legislation may necessitate additional processes. Continued growing concern over the environment and health may drive the introduction of additional levies and taxes.	We input into the development of new regulations via engagement with industry bodies. We have met the Government's sugar reduction targets across our range and are working towards meeting those for calories In order to reduce our impact on the environment, we have further developed our coffee cup recycling process, have replaced plastic carrier bags and cutlery, and are planning further plastic reduction. 95% of our electricity comes from renewable sources.	↔

Significant fines for non-compliance with legislation		
Large financial penalties could be imposed on the business for breaches of Food Safety or Health & Safety legislation. Due to the number of stores we operate, and the volume of customer transactions we handle on a daily basis, we may be exposed to isolated incidents which fall below our expected standards and may expose us to prosecution.	We have a system of due diligence controls and monitors in place, and our teams are provided with extensive training on safe processes and procedures. Our audit processes confirm whether proper procedures are being followed. We have Primary Authority arrangements in place for Food Safety, Health & Safety, and Fire Safety.	↔
Impact of Brexit		
There is continued uncertainty regarding changes to trading arrangements, customs agreement, tariffs etc. This may give rise to increased costs.	Developments continue to be monitored, with regular review by our Operating Board. Contingency arrangements have been developed where possible.	↔

External factors

Impact of a pandemic		
A pandemic could have an adverse impact on our operations and the levels of demand for our products.	Our teams are preparing for different pandemic scenarios and following WHO preventative guidelines. We are maintaining a strong financial position in advance of potential disruption.	**New**

9. Alternative Performance Measures

The Group uses alternative performance measures ('APM's) which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The Directors use a combination of these APMs and IFRS measures when reviewing the performance, position and cash of the Group. The APMs in respect of pre-exceptional results are reconciled in the Income Statement and Notes 3 and 5.

Calculations for LFL and ROCE are shown below:

Like-for-like (LFL) sales growth - compares year-on-year cash sales in our company-managed shops, with a calendar year's trading history and is calculated as follows:

	2019	2018
	£m	£m
Current year LFL sales	**987.8**	876.3
Prior year LFL sales	**904.7**	851.7
Growth	**83.1**	24.6
LFL sales growth percentage	**9.2%**	2.9%

Return on capital employed (ROCE) - calculated by dividing profit before tax by the average total assets less current liabilities for the year.

	2019	**2019**	2018	2018
	Underlying	**Including**	Underlying	Including

		exceptional items		exceptional items
	IFRS 16	**IFRS 16**	IAS 17	IAS 17
	£m	**£m**	£m	£m
Profit before tax	**114.2**	**108.3**	89.8	82.6
	=======	**=======**	=======	=======
Capital employed:				
Opening	**559.3**	**559.3**	313.3	313.3
Closing	**580.1**	**580.1**	343.0	343.0
	-------------	**-------------**	-------------	-------------
Average	**569.7**	**569.7**	328.2	328.2
	=======	**=======**	=======	=======
Return on capital employed	**20.0%**	**19.0%**	27.4%	25.2%

Notional return on capital employed - calculated by dividing profit before tax by the average total assets less current liabilities for the year and taking into account the pre-agreed adjustments in respect of IFRS 16 used by the Remuneration Committee for determination of incentive outcomes.

Underlying	2019 as reported	IFRS 16 adjustments	Notional 2019
	£m	£m	£m
Underlying profit before tax	114.2	4.2	118.4
	=======	=======	=======
Capital employed			
Opening	559.3	(216.3)	343.0
Closing	580.1	(219.2)	360.9

	-------------		-------------
Average	569.7		352.0
	=======		=======
Return on capital employed	20.0%		33.6%

Including exceptional items	2019 as reported	IFRS 16 adjustments	Notional 2019
	£m	£m	£m
Underlying profit before tax	108.3	4.2	112.5
	=======	=======	=======
Capital employed			
Opening	559.3	(216.3)	343.0
Closing	580.1	(219.2)	360.9
	-------------		-------------
Average	569.7		352.0
	=======		=======
Return on capital employed	19.0%		32.0%

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