



the main ingredient

GREGGS  
—plc—

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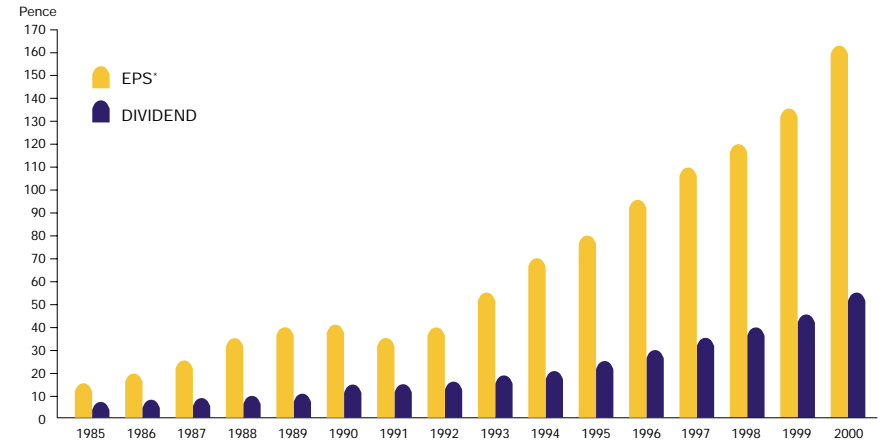
GREGGS plc  
annual report and accounts 2000

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# financial review

## Earnings per share & dividend



Our Business Greggs plc is the UK's leading retailer specialising in sandwiches, savouries and other bakery-related products, with a particular focus on takeaway food and catering. We continue to show significant growth and now have over 1,100 retail outlets, trading primarily under the Greggs and Bakers Oven brands.

Our Vision We intend to be Europe's finest bakery-related retailer, achieving our ambitious growth targets by attaining world-class standards in everything we do. Our purpose is the growth and development of a thriving business for the benefit and enjoyment of employees, customers and shareholders alike. We aim to achieve a turnover of £1billion by 2010.

Our Values Greggs is a customer-focused business, seeking to provide excellent products and services that deliver enjoyment and value for money. We are committed to people development, within a considerate culture that combines autonomy and accountability, and maintains a strong focus on profitability. In all our activities, we aim to achieve excellence through continuous improvement.

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### FINANCIAL CALENDAR

Announcement of results and dividends	
Half year	Early August
Full year	Early March
Dividends	
Interim	Mid October
Final	Late May
Annual report to shareholders	Early April
Annual General Meeting	9 May 2001

### FINANCIAL HIGHLIGHTS

	2000 £'m	1999 £'m
Turnover	339.0	308.7
Pre-tax profits	26.4	21.5
Post-tax profits	22.1	15.9
Shareholders' funds	97.0	80.9
Capital expenditure	21.4	22.4
Earnings per share*	Pence 162.3	Pence 135.1
Dividend per ordinary share	55.0	45.0

\*Adjusted earnings per share



## chairman's statement



I am pleased to report a year of excellent progress, as we began to realise the benefits of major past investments in our brands, shops, bakeries, products and people. A substantial profit improvement was driven by continued strong core volume growth, particularly in takeaway food, aided by favourable trading conditions throughout the year.

### Results

Sales grew by 9.8 per cent to £339.0 million, including like-for-like growth of 6.8 per cent. The weather was better than average for our business across the year as a whole. The second half also benefited from a helpful pattern of shop opening in the final two weeks, compared with longer closure periods in 1999 when Christmas and New Year fell at weekends and there was an additional

Millennium bank holiday. Operating profit increased by 20.1 per cent to £26.0 million, including a property profit of £52,000, and pre-tax profit rose by 22.5 per cent to £26.4 million.

Following the final agreement of several years' tax computations with the Inland Revenue, the group tax charge reflects the release of over-provisions relating to these earlier years. This has resulted in an effective tax rate which is substantially

below normal at 16.0 per cent.

This reduction in the effective tax rate has contributed to the increase in basic earnings per share which grew by 37.0 per cent to 185.1 pence.

In order to provide a more accurate guide to underlying performance we have also calculated an adjusted earnings per share, excluding this prior year tax credit, and this has increased by 20.1 per cent to 162.3 pence.

### Dividend

The Board recommends an increased final dividend of 39.0 pence per share (1999: 31.5 pence). Together with the interim dividend of 16.0 pence per share paid in October, this makes a total dividend for the year of 55.0 pence (1999: 45.0 pence), an increase of 22.2 per cent. This reflects our long-standing commitment to a progressive dividend policy that provides shareholders

with an increasing income, broadly in line with the underlying growth of earnings per share over the medium term.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 25 May 2001 to shareholders on the register at 20 April 2001.

### Business highlights

The undoubted highlight of 2000 was the continued strength of core volume



## satisfied customers



growth, which averaged 4.2 per cent over the year as a whole. This was again driven primarily by the success of our takeaway food ranges of sandwiches and savouries. It is particularly pleasing to see the Greggs brand achieving greater consumer recognition in the South, with both our London-based divisions now making valuable contributions to group profits. The Managing Director comments on trading and business development in

more detail in his report on pages 6 - 13.

### The Board

Over the past two years, the Board has been reviewing what changes are required to its composition to ensure that it is appropriate to the future needs of the business and that it satisfies the increasing requirements of corporate governance and independence.

As a result of this review, Susan Johnson

was appointed a non-executive director in May 2000. This is an opportunity to congratulate Susan on her OBE in June 2000 for services to New Deal in the North East.

At the AGM in May this year, my brother Colin will retire after 35 years' service to the Company. I would like to put on record my appreciation for the part he has played in helping to develop the business from its humble beginnings in Gosforth to an important national company - and for his

commitment and unflagging enthusiasm.

No further changes are planned in the immediate future. I intend to continue in my current role for the time being, but a search has been started to identify a suitable successor.

### Staff

The success of the group is in itself a tribute to the hard work of our 14,700 staff in meeting our customers' requirements

for good food and excellent service.

On behalf of the Board and our shareholders, I would like to add my own thanks for their contributions to our continued progress.

### Prospects

Trading in 2001 started relatively slowly, primarily because of the pattern of New Year shop opening, but has gained momentum in the subsequent weeks. The current year will see a substantial increase in capital expenditure across the group, as we

increase the rate of net shop openings, roll out the new Greggs shop format and develop additional manufacturing capacity to support our growth. This investment will not contribute to profits in the short term, but is vital to the achievement of our vision of the future for the group. Overall, I expect another year of good progress.

Ian Gregg  
Chairman  
9 March 2001

## managing director's report



We enjoyed a very successful year in 2000 as our established strategy delivered its planned benefits. Our results were also boosted by our decision to restrain capital expenditure until we could be sure of achieving the optimum returns. We are now ready to embark on a further phase of investment designed to take us towards our goal as Europe's finest bakery-related retail business.

### Strategic development

We have maintained our focus on the continuous improvement of our products, service, shops, brands and people.

Product and service excellence. The highlight of the year in our drive for product excellence was the opening in April of our £2 million group technical centre at Balliol Park, Newcastle upon Tyne. This invaluable research and development facility gives us much greater

scope for the creation and testing of even more enjoyable products, and for establishing best practice standards across the group. It will also help us to reduce costs in all our production processes, maximise product safety, experiment with new technologies and develop the most convenient shop layouts for customers and staff alike. This project is a good example of our long term approach to the development of the

business, incurring revenue costs now that will deliver substantial benefits in the future. Our central savouries unit at Balliol Park progressed well, with its products proving extremely successful in all parts of the business where they have been introduced. The quality and consistency of its output has contributed to the strength of our core volume growth, and I am sure that we will derive increasing benefits from this highly efficient production unit in the

years ahead. Since growth in savouries has exceeded our expectations, we will be investing in additional manufacturing capacity in the near future. Retail environment. The eye-catching new Greggs shop format has been very well received by our customers, who appreciate the improved display and accessibility of our core takeaway food ranges and the livelier, faster-moving shopping experience it offers. We have progressively engineered

down the cost of implementing the new design, and it is now being rolled out across the business as part of our normal shop refurbishment cycle. The new Greggs touch-screen electronic point of sale system is currently being appraised and will be installed in some 300 shops by the end of 2001. This investment is being supported by the implementation of a new business intelligence system, which will deliver improved information to senior managers.

## serving up success



We have further refined and developed the new Bakers Oven seated catering format, and have continued our controlled roll-out of the concept in new locations and in stores scheduled for refurbishment. There were 29 such openings during 2000, giving us a total of 87 new format catering outlets at the year end.

Brand awareness. The adoption of the Greggs brand in our Yorkshire and Midlands divisions, which was completed

in 1999, has proved increasingly successful and contributed to a good performance in both businesses this year. The brand was supported by television advertising in both regions, with positive results, and further campaigns were also undertaken in the North East and Scotland. The flagship Bakers Oven outlet at the Millennium Dome fulfilled all our marketing objectives, exposing the brand to around 800,000 customers in the

course of the year and eliciting very positive feedback.

People. The business has benefited from the progressive strengthening of both central and divisional management, which has enhanced our ability to understand and respond to our customers' needs. Recruitment continued during the year, and in January 2001 we appointed a new group development director, whose responsibilities will include the

investigation of new market opportunities for the group.

### Trading performance

We made good sales progress throughout the year, with group turnover increasing by 9.8 per cent to £339.0 million. As the Chairman has noted, the weather over the year as a whole was better than average for our business, and the overall pattern of retail trading was also positive. We suffered no perceptible damage from

the autumn fuel crisis, and finally we benefited from the most favourable possible pattern of Christmas opening, which minimised the numbers of trading days lost as a result of bank holiday closures. This contrasted sharply with the pattern in 1999, and contributed to an improvement in like-for-like sales from 6.0 per cent in the first half to 7.5 per cent in the second, making an increase of 6.8 per cent for the year as a whole.

Core volumes grew by 3.4 per cent in the first half and 4.8 per cent in the second, giving an increase of 4.2 per cent for the year. Product upgrades were again the main reason that total like-for-like sales advanced even more strongly than core volumes.

The strong sales performance, improved efficiencies and a benign raw material pricing climate all contributed to the 22.5 per cent increase in group pre-tax profit to £26.4 million.



## the taste of things to come



Greggs. Core volumes in the nine Greggs divisions, including Birkellets, grew by 5.3 per cent over the year, and total like-for-like sales increased by 7.9 per cent. Both our London divisions, based in Enfield and Twickenham, made excellent progress. We were particularly pleased to open our first shop in the City of London during the year; this unit, in Eastcheap, is trading strongly and we are working hard to find suitable

additional sites for the brand in central London. Greggs of the Midlands also produced an outstanding result, following its successful re-branding, while Greggs of Scotland maintained its long record of excellent performance.

Bakers Oven. Core volumes in the four Bakers Oven divisions increased by 1.4 per cent, and total like-for-like sales by 3.9 per cent. The slower progress of the catering market, compared with the very

buoyant takeaway food sector, partly accounts for the different rates of core volume growth under our two fascias. Profits advanced, helped by a significant contribution from our outlet at the Millennium Dome, although this had been conceived essentially as a brand promotion exercise. Towards the end of the year we made a number of changes to the senior management of Bakers Oven to strengthen the business.

### Product profile

The main drivers of our continued core volume growth were again the major takeaway food categories of sandwiches and savouries, which once more increased their share of our total sales. Cakes and confectionery products maintained a fairly stable share of our trade, with the long-term decline in 'at home' consumption balanced by the growth of takeaway snack purchases.

The proportion of our business attributable to bread and rolls continued to decline.

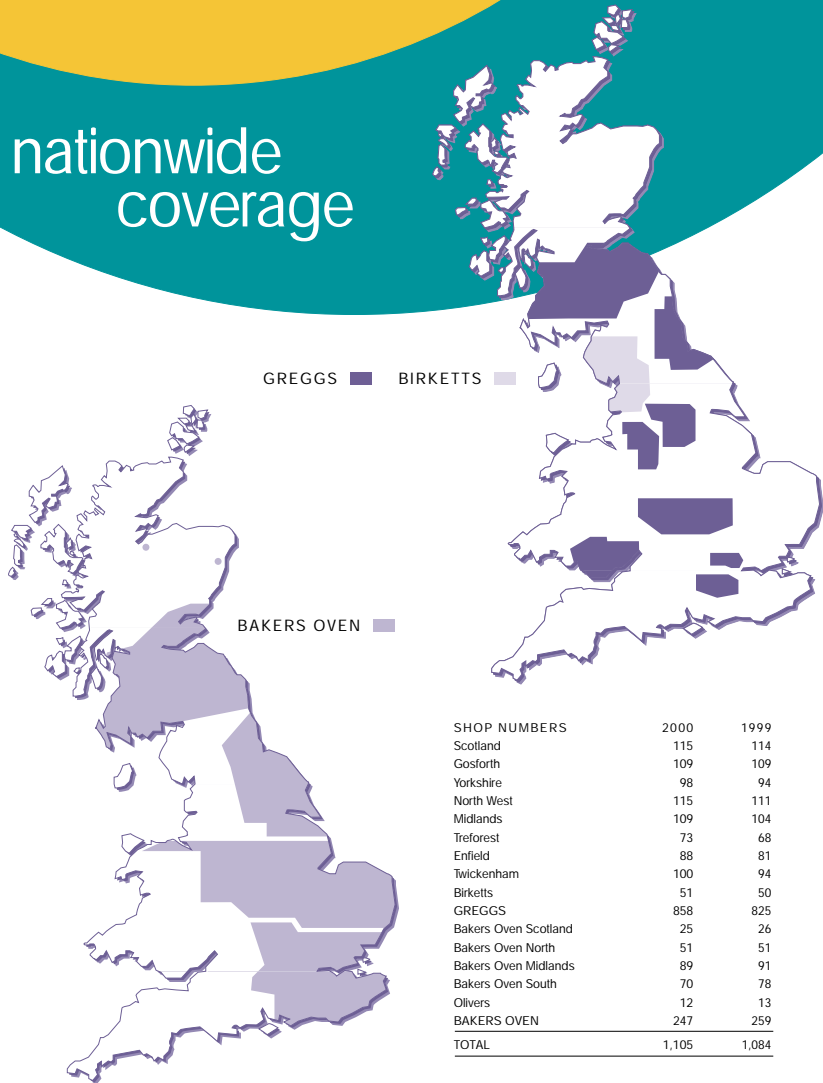
### Retail profile

We opened 47 new shops during the year and closed 26, giving us a net increase of 21 to 1,105 outlets at the year end. These comprised 858 Greggs and 247 Bakers Oven shops, compared with 825 and 259 respectively in 1999. We completed 59 comprehensive shop refurbishments and 19 minor refits during the year.

### Capital investment

Capital expenditure was some £2 million below our original budget at £21.4 million, compared with £22.4 million in the previous year. This principally reflected a slightly slower rate of new store openings than we had originally planned. It has always been our policy to restrain capital expenditure until we are sure of obtaining the best possible returns, but we now believe that it is right to increase the pace

# nationwide coverage



of investment and expansion. Plans are therefore in place for capital expenditure of some £30 million in 2001. This will include some 65 new store openings (a net addition of 35 after planned closures) and 110 refurbishments, as well as investment to raise standards across the group and to provide additional manufacturing capacity.

### Cash flow and balance sheet

The group continued to generate a strong cash flow and we ended the year with a substantially increased net cash position of £18.9 million, compared with £8.9 million at the end of 1999. Our strong balance sheet provides the ideal platform for our ambitious investment programme, which we intend to fund entirely from our own resources.

### Employees

We are a customer-focused business and the vast majority of our employees are in direct contact with those customers every day. Nothing is more important to our success than ensuring that all our staff

achieve high standards, whether in the preparation and handling of food or in individual customer service. We also seek to promote a culture in which everyone can enjoy what they do.

We have again increased our investment in staff training at all levels across the group, including the establishment of new senior management development centres.

### Standards

We remain strongly supportive of high standards. In the year 2000, we applied resource to the detailed implementation of the Turnbull Report's recommendations.

We intend to change emphasis in the current year and devote increased resources to the development of a group environmental policy that will bring together and extend the policies already in place at divisional level. This will help us to ensure fulfillment of our long-standing commitment to high standards of environmental responsibility in all our operations.

### Outlook

The takeaway food markets in which we specialise are growing strongly, and there is considerable scope to increase our brand presence in many parts of the UK. We therefore intend to increase the pace of net shop openings in 2001 and subsequent years, with the aim of expanding the business from 1,105 to over 1,700 units during the next ten years. Based on our site finding analyses, we believe that there is potential for at least 2,000 Greggs and Bakers Oven shops within the UK. In addition, we intend within the next few years to explore the potential for our brands in mainland Europe.

Mike Darrington  
Managing Director  
9 March 2001



# directors' report

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 30 December 2000. The comparative period is the 52 weeks ended 1 January 2000.

## Principal activities

The principal activities of the Group are the manufacture of bread, flour confectionery, sandwiches and savoury products, the sale of these products through the Group's own retail shops and catering within those shops.

## Results and dividends

Sales for the financial year excluding VAT were £339,008,000, an increase of £30,330,000 or 9.8% over the previous financial year. Group profit before taxation amounted to £26,356,000, an increase of 22.5% over the previous financial year.

An interim dividend of 16.0p per ordinary share was paid on 6 October 2000 and the directors propose a final dividend of 39.0p payable on 25 May 2001 leaving profit for the financial year to be retained of £15,709,000 (1999: £10,591,000).

## Business review

A review of the business during the year and an outline of future developments are

given in the Chairman's statement and Managing Director's report on pages 2 to 13.

## Fixed assets

In the opinion of the directors the market value of all of the Group's properties is not significantly different from their historical net book amount.

## Directors and their interests

The names of the directors in office during the year together with their relevant interests in the share capital of the Company (as defined in the Companies Act 1985) at 30 December 2000 and 1 January 2000 and details of directors' share options are set out in note 7 to the accounts.

Trustee holdings of ordinary shares with no beneficial interest include 214,655 shares held by the Greggs Employee Benefit Trust to which certain directors are trustees.

In accordance with the Company's Articles of Association, Mr. M. Simpson, Mr. I.D. Gregg OBE, Miss S.I.L. Elkin OBE and Mr. C.S. Gregg retire from the Board by rotation. Mr. M. Simpson, Mr. I.D. Gregg OBE and Miss S.I.L. Elkin OBE, being eligible, offer themselves for re-election. Mr. C.S. Gregg will not be seeking

re-election to the Board. Mr. M. Simpson has a service agreement determinable by not less than two years' notice from the Company, or not less than six months' notice from Mr. M. Simpson. Mr. I.D. Gregg OBE and Miss S.I.L. Elkin OBE do not have service agreements (in common with the other non-executive directors).

On 2 March 2000 Mrs. S. Johnson OBE was appointed a non-executive director.

## Corporate governance

A separate report on corporate governance is set out on pages 37 to 38.

## Substantial shareholdings

At 9 March 2001 the only notified interests of substantial shareholdings in the issued share capital of the Company, other than directors referred to in note 7, were:

Percentage of issued share capital	%
CGNU plc	11.81
A.J. Davison (as trustee of various settlements)	9.14
Prudential plc	6.61
3i plc	5.73
J.A. Wardropper (as trustee with A.J. Davison)	5.45
Mrs. G.V. Richardson and Family	4.66
Standard Life	3.75

## Employment policies

We are committed to promoting policies which ensure that employees and those who seek to work for us are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

It is our policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

The number and dispersion of the Group's operating locations make it difficult, but essential, to communicate effectively with employees.

Communication with our shop staff is principally through the operational structure of shop area and divisional management. We communicate with our bakery staff by regular briefings and letters to employees. All staff receive a copy of divisional and Group gazettes.

The Group operates Profit Sharing and Savings Related Share Option Schemes to encourage its employees to identify

with its corporate objectives.

## Payments to suppliers

Supplier credit is an extremely important factor in the success of the Group. Whilst the Group does not follow any code or standard on payment practice, payments to suppliers are made in accordance with the Group's normal terms and conditions of business except where varied terms and conditions are agreed with individual suppliers in which case these prevail. Where disputes arise we attempt to resolve them promptly and amicably to ensure delays in payment are kept to a minimum.

The Group's average creditor payment period at 30 December 2000 was 47 days (1999: 44 days).

## Charitable contributions

The Group is a member of the 'Per Cent' Club. Charitable donations of £272,000 were made by the Group during the year including £208,000 to Greggs Trust (of which Mr. I.D. Gregg OBE is a trustee). The Trust also received donations from employees under Give As You Earn of £40,000, from major shareholders of £130,000 and income from investments of £136,000. These funds were used by

the Trust in pursuance of its main objective to alleviate the effects of poverty and social deprivation in the areas where the Company trades.

During the year the Group invested £500,000 in the Newcastle Employment Bond for a five year period which is secured as to repayment by Northern Rock plc. This investment is at a zero rate of interest. The purpose of the investment is to allow the interest foregone to be used to help tackle long term unemployment in the area.

## Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board  
 ANDREW DAVISON  
 Secretary  
 Greggs plc (CRN 502851)  
 Fernwood House  
 Clayton Road  
 Jesmond  
 Newcastle upon Tyne NE2 1TL  
 9 March 2001

## statement of directors' responsibilities

The directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the results for that period.

The directors consider that in preparing the accounts on pages 18 to 36, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The accounts have been prepared on a going concern basis on the presumption that the Group will continue in business.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## report of the auditors to the members of Greggs plc

We have audited the accounts on pages 18 to 36.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page

37 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the

accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 December 2000 and of the profit of the Group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Newcastle upon Tyne  
9 March 2001

## group profit and loss account

for the 52 weeks ended 30 December 2000

	Note	2000 £'000	1999 £'000
Turnover	1	339,008	308,678
Cost of sales	2	(131,197)	(123,535)
Gross profit		207,811	185,143
Distribution and selling costs	2	(158,327)	(143,211)
Administrative expenses	2	(23,440)	(20,241)
Operating profit		26,044	21,691
Net interest receivable/(payable) and other income/(similar charges)	3	312	(171)
Profit on ordinary activities before taxation	4	26,356	21,520
Taxation on profit on ordinary activities	10	(4,225)	(5,602)
Profit on ordinary activities after taxation	11	22,131	15,918
Dividends paid and proposed	12	(6,422)	(5,327)
Retained profit for the financial year	25	15,709	10,591
Adjusted earnings per share	13	162.3p	135.1p
Basic earnings per share	13	185.1p	135.1p
Diluted earnings per share	13	183.7p	134.2p

The Group's operating profit for both the current and preceding financial period derives from continuing operations. There are no recognised gains or losses during the current and previous period other than the profit for the period.

### RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Profit on ordinary activities after taxation	22,131	15,918
Dividends	(6,422)	(5,327)
Retained profit for the financial year	15,709	10,591
New share capital		
- nominal value	9	13
- share premium	407	707
Net addition to shareholders' funds	16,125	11,311
Opening shareholders' funds	80,896	69,585
Closing shareholders' funds	97,021	80,896

## group balance sheet

At 30 December 2000

	Note	30 December 2000 £'000		1 January 2000 £'000	
Fixed assets					
Tangible assets	14		113,285		108,786
Investments	16		3,563		1,430
			116,848		110,216
Current assets					
Stocks	17	5,636		5,983	
Debtors	18	11,893		9,751	
Cash at bank and in hand		20,015		8,892	
		37,544		24,626	
Creditors: amounts falling due within one year	19	(55,227)		(49,755)	
Net current liabilities			(17,683)		(25,129)
Total assets less current liabilities			99,165		85,087
Creditors: amounts falling due after more than one year	20		(133)		(2,180)
Provision for liabilities and charges					
Deferred taxation	22		(2,011)		(2,011)
			97,021		80,896
Capital and reserves					
Called up share capital	23		2,397		2,388
Share premium account	24		9,558		9,151
Profit and loss account	25		85,066		69,357
Equity shareholders' funds			97,021		80,896

The accounts on pages 18 to 36 were approved by the Board of directors on 9 March 2001 and were signed on its behalf by

M.J. Darrington }  
M. Simpson } Directors



## parent company balance sheet

At 30 December 2000

	Note	30 December 2000		1 January 2000	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	15	86,641		79,130	
Investments	16	8,753		6,620	
		95,394		85,750	
Current assets					
Stocks	17	5,268		5,506	
Debtors	18	32,362		31,873	
Cash at bank and in hand		19,289		8,280	
		56,919		45,659	
Creditors: amounts falling due within one year	19	(51,557)		(45,923)	
Net current assets/(liabilities)			5,362		(264)
Total assets less current liabilities			100,756		85,486
Creditors: amounts falling due after more than one year	20		(133)		(157)
Provision for liabilities and charges					
Deferred taxation	22		(1,657)		(1,657)
			98,966		83,672
Capital and reserves					
Called up share capital	23		2,397		2,388
Share premium account	24		9,558		9,151
Profit and loss account	25		87,011		72,133
Equity shareholders' funds			98,966		83,672

The accounts on pages 18 to 36 were approved by the Board of directors on 9 March 2001 and were signed on its behalf by

M.J. Darrington }  
M. Simpson } Directors

## group cash flow statement

for the 52 weeks ended 30 December 2000

	2000		1999	
	£'000	£'000	£'000	£'000
Operating profit		26,044		21,691
Depreciation charges		14,162		13,035
Loss/(profit) on disposal of fixed assets		222		(83)
Release of government grants		(46)		(25)
Decrease/(increase) in stocks		347		(103)
(Increase)/decrease in debtors		(2,142)		176
Increase/(decrease) in creditors		4,844		(165)
Net increase/(decrease) in working capital		3,049		(92)
Net cash inflow from continuing operating activities		43,431		34,526
CASH FLOW STATEMENT				
Net cash inflow from continuing operating activities		43,431		34,526
Returns on investments and servicing of finance				
Interest received		622		267
Interest paid		(301)		(425)
Interest element of finance lease payments		(9)		(13)
Net cash inflow/(outflow) from returns on investments and servicing of finance		312		(171)
Taxation paid		(5,604)		(6,668)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		(21,397)		(22,403)
Disposal of tangible fixed assets		2,514		974
(Purchase)/sale of investments		(2,133)		56
Net cash outflow for capital expenditure and financial investments		(21,016)		(21,373)
Equity dividends paid		(5,593)		(4,949)
Financing				
Issue of ordinary share capital		416		720
Redemption of loan notes		(32)		(36)
Capital element of finance lease payments		(40)		(102)
Loan repayments		(1,913)		(1,789)
Government grants received		22		-
Net cash outflow from financing		(1,547)		(1,207)
Net increase in cash in the period		9,983		158

Further details regarding cash flows are given in note 27 to the accounts.

## accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

(a) Basis of accounting

The accounts are prepared under the historical cost accounting rules and in accordance with applicable accounting standards. The requirements of all new accounting standards and pronouncements adopted during the past year have been implemented where relevant.

(b) Consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the period of 52 weeks ended 30 December 2000. The comparative period is the 52 weeks ended 1 January 2000.

(c) Depreciation

Depreciation is provided on the cost of tangible fixed assets before deducting government capital grants and after taking the estimated residual value into consideration. Freehold and long leasehold properties are depreciated by equal instalments over a period of 40 years. No depreciation is provided on freehold land. Depreciation of other tangible fixed assets is provided on a straight line basis as follows:

Short leasehold properties	10%
Plant:	
General	10%
Computers	20% - 33%/%
Motor vehicles	20% - 25%
Delivery trays	33%/%
Shop fixtures and fittings:	
General	10%
Electronic equipment	20%

(d) Government grants

Grants received in respect of specific capital items are credited to deferred income and transferred to the profit and loss account in equal instalments over the estimated average life of the relevant fixed assets. Grants which are related to the fulfilment of certain conditions or to the expiry of a period of time are also credited to deferred income and are transferred to the profit and loss account in equal instalments over a period from the commencement of the project until these conditions are met.

(e) Stocks

Stocks are stated at the lower of cost and net realisable value.

(f) Deferred taxation

Deferred taxation is provided on accelerated capital allowances and other timing differences except when the tax benefit can be expected with reasonable probability to be retained for the foreseeable future. Provision is made under the liability method.

(g) Goodwill

Purchased goodwill arising in respect of acquisitions before 1 January 1998, when FRS 10: "Goodwill and Intangible Assets" was adopted was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered whether through depreciation or sale.

(h) Leased assets

Assets acquired under finance leases are capitalised and depreciated over their estimated useful lives in accordance with Group policy for owned assets. The obligation to repay the capital element of the lease is included in creditors. Finance interest is charged to the profit and loss account over the period of the lease to reflect the outstanding capital commitment.

The rental costs of properties and other assets acquired under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

(i) Pension costs

The Group operates defined benefit and defined contribution schemes for its employees. The assets of these funds are held by the Trustees of the schemes and are entirely separate from those of the Group.

The amount charged to the profit and loss account is based on actuarial estimates and is calculated to spread the cost of pensions over employees' working lives with the Group.

## notes to the accounts

1. Turnover

Turnover represents sales to customers less value added tax. The turnover arises from the Group's principal activity and relates wholly to sales within the United Kingdom.

2. Employee profit sharing scheme

The total amount paid out under the Group's employee profit sharing scheme is contained within the main cost categories as follows:

	2000 £'000	1999 £'000
Cost of sales	922	735
Distribution and selling costs	1,942	1,521
Administrative expenses	374	316
	<b>3,238</b>	<b>2,572</b>

3. Net interest receivable/(payable) and other income/(similar charges)

	2000 £'000	1999 £'000
Interest receivable	622	267
Interest payable on bank loans	(301)	(425)
Interest payable on finance leases	(9)	(13)
	<b>312</b>	<b>(171)</b>

4. Profit on ordinary activities before taxation

This is stated after charging/(crediting):

	2000 £'000	1999 £'000
Depreciation on tangible fixed assets:		
owned	14,111	12,922
held under finance leases	51	113
Release of government grants	(46)	(25)
Auditors' remuneration:		
audit services	81	80
non-audit fees paid to the auditor and its associates		
- corporation tax compliance	20	14
- other taxation services	10	11
- pension schemes audit	8	7
- IT consultancy	10	3
Payments under operating leases:		
property rents	23,780	21,785

# notes to the accounts *continued*

## 5. Directors' emoluments

### (a) Directors' remuneration excluding pensions

	Salary and fees £	Benefits £	Annual bonus and profit share £	Total 2000 £	Total 1999 £
<b>Executives</b>					
M.J. Darrington	250,000	10,213	80,102	340,315	287,984
M. Simpson	167,000	10,957	53,494	231,451	194,459
<b>Non-executives</b>					
I.D. Gregg OBE	68,000	-	-	68,000	65,000
S.W. Curran	19,250	-	-	19,250	18,500
S.I.L. Elkin OBE	20,250	-	-	20,250	18,500
C.S. Gregg	19,250	-	-	19,250	18,500
S. Johnson OBE	16,042	-	-	16,042	-
	559,792	21,170	133,596	714,558	602,943

Further details of directors' remuneration are shown on page 39.

Details of directors' share options are shown in note 7.

### (b) Directors' pension information

#### (i) Defined benefit scheme

Executive	Date of birth	Date service commenced	Accrued annual pension entitlement at age 65 as at 30 Dec 2000 £	Accrued annual pension entitlement at age 65 as at 1 Jan 2000 £	Increase in accrued pension entitlement for the year £	Transfer value of increase in entitlement for the year £
M.J. Darrington	8/3/42	15/8/83	72,763	68,363	3,648	48,359
M. Simpson	15/10/41	24/4/73	74,412	71,723	1,900	24,964

#### Note 1

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year, but excluding any statutory increases which would be due after the year end.

#### Note 2

The increase in accrued pension during the year excludes any increase for inflation. The inflation rate used is that published by the Secretary of State for Social Security in accordance with Schedule 3 of the Pension Schemes Act 1993. The inflation rate for the year to 31 December 2000 was 1.1%.

#### (ii) Defined contribution schemes

During the year contributions were made to defined contribution schemes in respect of M.J. Darrington of £66,390 (1999: £63,380) and M. Simpson of £8,350 (1999: £8,000).

## 6. Share options

Contingent rights to the allotment of Ordinary Shares in the Company at future dates exist under the terms of the Company's Savings Related Share Option Scheme and its Executive Share Option Schemes.

Details of these options at 30 December 2000 are as follows:

	Date of grant	Price	Options outstanding at the end of the year		Dates exercisable
			2000	1999	
Executive Share Option Scheme 4	September 1993	700p	17,600	47,050	Three to ten years after September 1993
Executive Share Option Scheme 5	September 1996	1355p	52,500	68,000	Three to ten years after September 1996
Granted upon appointment to senior managers:	April 1997	1340p	-	3,000	Three to seven years after April 1997
Executive Share Option Scheme 6	March 1999	2687½p	100,250	100,250	Three to seven years after March 1999
Savings Related Share Option Scheme 4	April 1999	2098p	229,153	229,153	June 2004 to December 2004
Executive Share Option Scheme 7	March 2000	1701½p	150,200	-	Three to seven years after March 2000

In addition, options over nil (1999: 3,000) Ordinary Shares have been granted by the Company on shares currently held by the Greggs Employee Benefit Trust (see note 16).



# notes to the accounts *continued*

## 7. Directors' share interests

The directors who served during the year and who were still in office at the end of the year and their interests in the share capital of the Company are as follows:

	Ordinary shares of 20p (Beneficial interest)		Ordinary shares of 20p (Trustee holding with no beneficial interest)	
	2000	1999	2000	1999
I.D. Gregg OBE (non-executive)	257,500	257,500	429,655	333,155
M.J. Darrington	70,397	64,459	214,655	124,665
M. Simpson	77,309	69,840	243,256	146,256
C.S. Gregg (non-executive)	86,944	86,944	180,000	-
S.W. Curran (non-executive)	3,700	3,700	-	-
S.I.L. Elkin OBE (non-executive)	900	900	-	-
S. Johnson OBE (non-executive)	-	-	-	-

The executive directors have a potential beneficial interest in the Greggs Employee Benefit Trust (note 16).

The directors held options as follows:

	At 1/1/00	Number of options During the year		At 30/12/00	Exercise price £	Market price at date exercise £	Gain on exercise £	Date from which exercisable	Expiry date
		Granted	Exercised						
M.J. Darrington	5,000	-	5,000	-	7.00	23.675	83,375	Sep-96	Aug-03
	5,000	-	-	5,000	13.55	-	-	Sep-99	Aug-03
	18,000	-	-	18,000	26.875	-	-	Mar-02	Mar-06
	199	-	-	199	20.98	-	-	Jun-04	Dec-04
	-	27,900	-	27,900	17.015	-	-	Mar-03	Mar-07
M. Simpson	3,500	-	3,500	-	7.00	23.675	58,362	Sep-96	Aug-03
	3,500	-	-	3,500	13.55	-	-	Sep-99	Aug-03
	12,000	-	-	12,000	26.875	-	-	Mar-02	Mar-06
	199	-	-	199	20.98	-	-	Jun-04	Dec-04
	-	18,600	-	18,600	17.015	-	-	Mar-03	Mar-07

In 1999 the aggregate gains on exercise of share options were £55,282, including £55,282 in respect of the highest paid director.

There have been no changes since 30 December 2000 in the directors' interests noted above.

The mid-market price of a Greggs plc ordinary share on 30 December 2000 was £24.00. The mid-market high and low price during the year was £24.90 and £15.075 respectively.

## 8. Pension schemes

The Group operates a defined benefit scheme for management employees, the assets of which are held in a separate trustee-administered fund.

The pension cost relating to the scheme is assessed in accordance with the advice of an independent qualified actuary using the attained age method. Actuarial valuations are carried out triennially and the latest actuarial assessment of this scheme was at 6 April 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment return would exceed salary increases by 2.0% per annum.

At the date of the latest actuarial valuation, the market value of the scheme's assets was £26,344,300. The actuarial value of the scheme's assets represented 109% of the benefits that had accrued to members, after allowing for expected future increases in earnings. It is the intention of the Group that any surplus arising will be applied in giving discretionary pension increases or other benefits to retired members of the scheme. The total pension cost to the Group of this scheme was £1,248,000 for the year (1999: £1,166,000).

The Group also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £537,000 in the year (1999: £410,000). There were no material amounts outstanding to the schemes at the year end.

## 9. Employees

The average number of persons employed by the Group (including directors) during the year was as follows:

	2000 No's	1999 No's
Management	576	547
Administration	259	283
Production	2,433	2,366
Shop	11,447	10,839
	<b>14,715</b>	<b>14,035</b>

The aggregate payroll costs of these persons were as follows:

	2000 £'000	1999 £'000
Wages and salaries	125,347	119,011
Social security costs	8,414	7,971
Other pension costs	1,785	1,576
	<b>135,546</b>	<b>128,558</b>

## notes to the accounts *continued*

### 10. Taxation on profit on ordinary activities

	2000 £'000	1999 £'000
Corporation tax at 30.0% (1999: 30.25%)		
- current year	6,950	5,841
- previous years	(2,725)	(239)
	<u>4,225</u>	<u>5,602</u>

The previous years' credit amounting to £2,725,000 reflects the release of over provisions following the final agreement of several years' tax computations with the Inland Revenue.

### 11. Profit attributable to Greggs plc

Of the profit attributable to shareholders, £21,300,000 (1999: £14,927,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

### 12. Dividends

	2000 £'000	1999 £'000
On ordinary shares of 20p		
Interim paid: 16.0p (1999: 13.5p)	1,832	1,617
Final proposed: 39.0p (1999: 31.5p)	4,590	3,761
Less: dividends paid to Employee Benefit Trust (now waived)	-	(51)
Total dividends: 55.0p (1999: 45.0p)	<u>6,422</u>	<u>5,327</u>

### 13. Earnings per share

Basic earnings per share are calculated on earnings after taxation of £22,131,000 (1999: £15,918,000) divided by the weighted average number of shares in issue for which consideration is receivable during the year, 11,956,166 (1999: 11,783,960).

In order to provide a more accurate guide to underlying performance an adjusted earnings per share has been calculated for 2000, which uses the same weighted average number of shares as for the basic earnings per share calculation. However, the earnings are adjusted to eliminate the effect of the large prior year tax credit of £2,725,000 (see note 10). Hence the earnings figure used for the current period is £19,406,000 and this reduces the earnings per share by 22.8p to 162.3p

Diluted earnings per share are calculated using a weighted average number of shares of 12,044,814 (1999: 11,861,045). This number includes 88,648 (1999: 77,085) shares being the dilutive effect of the share options in place at the year end.

### 14. Group statement of tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Shop fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2000	50,489	48,086	64,519	163,094
Additions	1,636	7,269	12,492	21,397
Disposals	(1,695)	(2,464)	(4,740)	(8,899)
Reclassification	(58)	(1,145)	1,203	-
At 30 December 2000	<u>50,372</u>	<u>51,746</u>	<u>73,474</u>	<u>175,592</u>
Depreciation				
At 1 January 2000	8,901	23,442	21,965	54,308
Charged in year	1,191	5,889	7,082	14,162
Disposals	(388)	(1,604)	(4,171)	(6,163)
Reclassification	(193)	(495)	688	-
At 30 December 2000	<u>9,511</u>	<u>27,232</u>	<u>25,564</u>	<u>62,307</u>
Net book amount				
At 30 December 2000	<u>40,861</u>	<u>24,514</u>	<u>47,910</u>	<u>113,285</u>
At 1 January 2000	<u>41,588</u>	<u>24,644</u>	<u>42,554</u>	<u>108,786</u>

Included in land and buildings is an amount of £1,218,000 (1999: £1,641,000) in respect of freehold land which is not depreciated.

Included in plant and machinery is an amount of £12,000 (1999: £63,000) representing assets held under finance leases.

The net book amount of land and buildings comprises:

		2000 £'000	1999 £'000
Freehold property	Shops	13,773	13,673
	Bakeries	21,231	21,696
	Other	5,170	5,699
		<u>40,174</u>	<u>41,068</u>
Long leasehold property	Bakeries	158	143
Short leasehold property	Shops	529	377
		<u>40,861</u>	<u>41,588</u>

# notes to the accounts *continued*

## 15. Parent Company statement of tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Shop fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 January 2000	18,351	45,823	61,590	125,764
Additions	1,546	6,952	12,197	20,695
Intra Group transfers	238	1,207	1,771	3,216
Disposals	(382)	(2,413)	(4,729)	(7,524)
Reclassification	(58)	(1,145)	1,203	-
<b>At 30 December 2000</b>	<b>19,695</b>	<b>50,424</b>	<b>72,032</b>	<b>142,151</b>
<b>Depreciation</b>				
At 1 January 2000	3,094	22,541	20,999	46,634
Charged in year	433	5,583	6,858	12,874
Intra Group transfers	193	600	930	1,723
Disposals	-	(1,553)	(4,168)	(5,721)
Reclassification	(193)	(495)	688	-
<b>At 30 December 2000</b>	<b>3,527</b>	<b>26,676</b>	<b>25,307</b>	<b>55,510</b>
<b>Net book amount</b>				
At 30 December 2000	16,168	23,748	46,725	86,641
At 1 January 2000	15,257	23,282	40,591	79,130

Included in land and buildings is an amount of Enil (1999: £423,000) in respect of freehold land which is not depreciated.

Included in plant and machinery is an amount of £12,000 (1999: £63,000) representing assets held under finance leases.

The net book amount of land and buildings comprises:

		2000 £'000	1999 £'000
Freehold property	Shops	4,945	4,037
	Bakeries	5,366	5,105
	Other	5,180	5,663
		<b>15,491</b>	<b>14,805</b>
Long leasehold property	Bakeries	158	143
Short leasehold property	Shops	519	309
		<b>16,168</b>	<b>15,257</b>

## 16. Investments

### Group

Investments relate to shares in Greggs plc held by the trustees of the Greggs Employee Benefit Trust. This trust was established during 1988 to act as a repository of issued Company shares which can be purchased either on the exercise of an option by employees under the Greggs Executive Share Option Schemes or by the trustees of the Greggs Employee Share Scheme. None of the shares held by the trust are currently under option to employees (1999: 3,000).

The trust holds 214,655 shares in Greggs plc (1999: 118,155). The only movement in the year was a purchase of 96,500 shares. These are shown in the accounts at cost of £3,563,000 (1999: £1,430,000) and have a market value at 30 December 2000 of £5,152,000 (1999: £2,260,000).

### Parent Company

	2000 £'000	1999 £'000
Interest in subsidiary undertakings		
Shares at cost	5,828	5,828
Less: Amounts written off	(638)	(638)
	<b>5,190</b>	<b>5,190</b>
Employee Benefit Trust	3,563	1,430
	<b>8,753</b>	<b>6,620</b>

The Company's subsidiary undertakings, which are all wholly owned, are as follows:

Charles Bragg (Bakers) Limited	Non-trading
Greggs (Leasing) Limited	Non-trading
Thurston Parfitt Limited	Dormant
Greggs Properties Limited	Property holding
Olivers (UK) Limited	Non-trading
Olivers (UK) Development Limited *	Dormant
Birketts Holdings Limited	Non-trading
J R Birkett & Sons Limited *	Retail bakers
Greggs Trustees Limited	Trustee

\*held indirectly



## notes to the accounts *continued*

### 17. Stocks

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Raw materials and consumables	4,536	4,851	4,291	4,508
Work in progress	1,100	1,132	977	998
	<u>5,636</u>	<u>5,983</u>	<u>5,268</u>	<u>5,506</u>

### 18. Debtors

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Trade debtors	508	709	182	108
Amounts owed by subsidiary undertakings	-	-	21,093	23,110
Other debtors, including value added tax	5,909	3,143	5,728	3,149
Prepayments and accrued income	5,476	5,899	5,359	5,506
	<u>11,893</u>	<u>9,751</u>	<u>32,362</u>	<u>31,873</u>

All amounts fall due within one year.

### 19. Creditors: amounts falling due within one year

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Bank overdraft (unsecured)	1,140	-	1,425	889
Loan notes	42	74	42	74
Bank loan (see note 20)	2,039	1,929	-	-
Obligations under finance leases	-	40	-	40
Trade creditors	19,658	17,387	18,836	15,810
Corporation tax	1,964	3,343	1,762	3,197
Other taxes and social security costs	3,030	3,004	2,886	2,811
Other creditors	15,103	13,692	14,681	13,293
Accruals	7,637	6,501	7,311	6,024
Proposed final dividend	4,590	3,761	4,590	3,761
Deferred government grants	24	24	24	24
	<u>55,227</u>	<u>49,755</u>	<u>51,557</u>	<u>45,923</u>

### 20. Creditors: amounts falling due after more than one year

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Bank loan	-	2,023	-	-
Deferred government grants	133	157	133	157
	<u>133</u>	<u>2,180</u>	<u>133</u>	<u>157</u>

The bank loan is repayable over five years and bears interest at a fixed rate of 7.38%.

### 21. Financial assets and liabilities

The Group's activities are financed by cash at bank and short term investments which comprise cash placed on deposit. The Group's borrowings comprise a fixed rate, fixed term bank loan.

The Group's treasury policy has as its principal objective the achievement of the maximum rate of return on cash balances whilst maintaining an acceptable level of risk. Other than mentioned above there are no financial instruments, derivatives or commodity contracts used.

Given the low level of borrowing within the Group it is considered that the interest rate risk is not significant.

For the purposes of the following disclosures, short-term debtors and creditors have been excluded, as permitted by FRS13.

The Group's financial assets comprise cash at bank. At 30 December 2000 the average interest rate earned on the temporary closing cash balance was 5.7% (1999: 5.0%).

The Group's financial liabilities comprise a bank loan in the amount of £2,039,000 (1999: £3,952,000) bearing interest at a fixed rate of 7.38%. The Group has an overdraft facility of £10,000,000 of which £8,860,000 was undrawn at 30 December 2000 (1999: £10,000,000 undrawn).

The maturity profile of the Group's financial liabilities at 30 December 2000 was as follows:

	2000 £'000	1999 £'000
In one year or less	2,039	1,929
In more than one year but not more than two years	-	2,023
	<u>2,039</u>	<u>3,952</u>

The fair value of the Group's other financial assets and liabilities is not materially different from their book values.

# notes to the accounts *continued*

## 22. Deferred taxation

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
The provision is in respect of:				
Accelerated capital allowances	2,011	2,011	1,657	1,657

The unprovided liability for deferred taxation calculated at 30% (1999: 30%) is:

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Accelerated capital allowances	8,852	6,113	8,852	5,190
Roll-over relief	175	175	128	128
	<b>9,027</b>	<b>6,288</b>	<b>8,980</b>	<b>5,318</b>

## 23. Share capital

	2000 £'000		1999 £'000	
	Authorised:			
25,000,000 ordinary shares of 20p			5,000	5,000
Issued and fully paid:				
Number of shares				
11,939,607		At 1 January 2000	2,388	2,375
44,950		Issued in respect of share options	9	13
11,984,557		At 30 December 2000	2,397	2,388

Details of outstanding share options are given in note 6.

## 24. Share premium account

	Group and Parent Company £'000
At 1 January 2000	9,151
Premium arising on issue of shares in respect of share options	407
At 30 December 2000	9,558

## 25. Profit and loss account

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
At 1 January 2000	69,357	58,766	72,133	62,533
Add: Retained profit for the year	15,709	10,591	14,878	9,600
At 30 December 2000	85,066	69,357	87,011	72,133

Cumulative goodwill written off resulting from acquisitions made prior to 1 January 1998 amounts to £3,275,000 (1999: £3,275,000).

## 26. Commitments

### (a) Capital commitments

Outstanding commitments for capital expenditure at 30 December 2000 not provided for in the accounts are as follows:

	Group		Parent Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Contracted for	1,284	1,802	1,284	1,758

### (b) Leasing commitments

At 30 December 2000 the Group had annual commitments under operating leases on land and buildings as set out below:

	2000 £'000		1999 £'000	
	Operating leases which expire:			
Within one year			723	748
In the second to fifth years inclusive			5,101	4,870
After more than five years			14,846	13,315
			<b>20,670</b>	<b>18,933</b>

The Group's business is carried on through retail outlets which are subject to operating leases which include clauses for periodic rent reviews. The property commitments above are stated at current rents.

## notes to the accounts *continued*

### 27. Notes to the Group Cash Flow Statement

#### (a) Reconciliation of net cash flow to movement in net funds

	2000 £'000	1999 £'000
Increase in cash in the period	9,983	158
Cash outflow from decrease in debt and decrease in lease financing	1,953	1,891
Movement in net funds in the period	11,936	2,049
Net funds at 1 January 2000	4,900	2,851
Net funds at 30 December 2000	16,836	4,900

#### (b) Analysis of net funds

	At 1 January 2000 £'000	Cash Flow £'000	Other Changes £'000	At 30 December 2000 £'000
Cash in hand and at bank	8,892	11,123	-	20,015
Bank overdraft	-	(1,140)	-	(1,140)
	8,892	9,983	-	18,875
Debt due after 1 year	(2,023)	-	2,023	-
Debt due within 1 year	(1,929)	1,913	(2,023)	(2,039)
Finance leases	(40)	40	-	-
	(3,992)	1,953	-	(2,039)
Total	4,900	11,936	-	16,836

## corporate governance

In June 1998, the Stock Exchange published the Principles of Good Governance and Code of Best Practice ("the Combined Code") which embraces the work of the Cadbury, Greenbury and Hampel Committees.

The Group is committed to high standards of corporate governance. This statement describes how the relevant principles of governance are applied to the Company.

The Board has complied throughout the year with the Combined Code apart from the provisions relating to the length of executive directors' notice periods.

The Board has not set as an objective the reduction of directors' service contract periods to one year or less. The Board does not wish to reduce the service contract period below the current level of two years as it feels this is the minimum appropriate to retain the services of key executives in a competitive environment.

#### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, any such system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of guidance for directors on internal control, *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance), in 2000 the Board initiated measures to consolidate and develop the existing risk management, assurance and compliance processes into a group wide system of internal control which is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for

identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management is responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis covering all functional areas but in particular the areas of Food Safety, Health and Safety, Information flow, Asset protection and Regulatory Requirements. In addition management is responsible for providing protection against these significant risks by various techniques, including putting in place adequate insurance cover. Management also reports to the Board on significant changes in the business and external environment which affect this risk profile.

The Board has set in place a system of regular hierarchical reporting which provides for relevant details and assurances on the assessment and control of risks to be given to it.

The continuing role of the Board is regularly to review the key risks inherent in the business, the operation of the system of control necessary to manage such risks and its effectiveness and satisfy itself that all reasonable steps are being taken in mitigation of these risks.

The following statements show how the Company has applied the principles of the Combined Code:-

#### The Board and Directors

Whilst the executive responsibility for the running of the Company's business rests ultimately with the Managing Director, Mike Darrington, the Board, under the non-executive Chairmanship of Ian Gregg, meets regularly to discharge its duties. At these meetings, it reviews Group strategy, performance and matters reserved for the Board.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Thus the Board feels it has effectively led and controlled the Company. The Board considers that with five non-executive and two executive members the balance is suitable and complies with recommendations regarding the level of non-executives.

The non-executive directors fulfil a vital role in corporate accountability. They ensure that the strategies proposed by executive directors are fully discussed and critically examined.

#### Directors' C.V.s

##### Executive directors

Mike Darrington, 58, qualified as a Chartered Accountant and then spent 17 years with United Biscuits, latterly in General Management. During this time he attended the PMD course at Harvard Business School. He joined Greggs in 1983 and was appointed Managing Director in January 1984.

Malcolm Simpson, 59, qualified as a Chartered Accountant with what is now KPMG and then worked for eight years within the finance department of Procter and Gamble Limited. He joined the Company in 1973 and was appointed Financial Director in 1975.

##### Non-executive directors

Ian Gregg OBE, 61, Chairman, qualified as a solicitor before joining the Company as Executive Chairman and Managing Director on the death of his father in 1964. He built the business up from a single-shop operation to a multi-divisional specialist retailer with almost 300 shops by the time of its successful flotation in 1984. Following the appointment of Mike Darrington in January 1984, Ian continued in the role of Executive Chairman until July 1993. He was then invited to become non-executive Chairman in order that the Board can avail itself of his unequalled experience of both the industry and the Company.

Colin Gregg, 59, is a member of the family which founded the business and has been a member of the Board since 1964. He currently



## corporate governance *continued*

runs his own consultancy business and is a director of Peacocks Limited, a manufacturer and retailer of surgical appliances. He has previous career experience in education and administration, including a period as Administrator of the Children's Foundation – a registered charity which raised £12 million for child health in the North of England.

Stephen Curran, 57, joined the Board in 1981. He was appointed Chairman of Candover Investments plc in May 1999, having previously been Chief Executive of Candover since January 1991. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an investment manager with what is now Cinvén. He is a non-executive director of Jarvis Hotels plc and a number of unquoted companies.

Sonia Elkin OBE, 68, is a former CBI Director, responsible for its Regional organisation and policy in relation to Smaller Firms. She was a Commissioner of the Manpower Services Commission and served on a DTI committee on deregulation. She is a member of the Review Committee of the Institute of Chartered Accountants. She joined the Board in 1992, is Chairman of the Audit Committee and has been appointed the senior independent non-executive.

Susan Johnson OBE, 43, was appointed to the Board in March 2000. She obtained an MBA in 1993 after which she pursued a career in sales and marketing before being appointed as Chief Executive of the Northern Business Forum. She is now an Executive Director of Yorkshire Forward.

After carefully considering the guidance in the Combined Code, all of the non-executive directors are considered to be independent of management and free from any business or other relationship which would materially interfere with the exercise of their independent judgement.

To facilitate the effective administration of the Group's affairs, the Board has established sub-committees as follows:

The Audit Committee consists of three non-executive directors (Miss S.I.L. Elkin OBE – Chairman, Mrs. S. Johnson OBE and Mr. S.W. Curran). It meets twice a year and, as its main function, reviews the annual and interim financial statements issued to shareholders, compliance with financial reporting standards, internal financial controls, the scope of the external audit and the report of the auditors.

The Remuneration Committee consists entirely of non-executive directors (Mr. I.D. Gregg OBE – Chairman, Mr. S.W. Curran, Miss S.I.L. Elkin OBE and Mr. C.S. Gregg). Its main duties are to review and make recommendations to the Board on the basic salary, benefits in kind, terms and conditions of employment including performance-related bonuses, share options and pension benefits of executive directors. In order to assist with these duties the Committee has used the services of a leading specialist consultancy.

The Board report on directors' remuneration is included on page 39 of this Annual Report. This provides an indication of how the principles of the Combined Code have been applied.

The Nominations Committee comprises the Chairman, Managing Director, Miss S.I.L. Elkin OBE and Mr. C.S. Gregg. An alternate is appointed in the event of any member of the committee standing for re-election. Its duty is to ensure that there is a formal and transparent procedure for the appointment of new directors and the reappointment of existing directors to the Board.

### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### Relations with shareholders

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results.

The directors believe that the Annual General Meeting provides an excellent forum for communication with investors with the Chairman of the Board and its sub-committees available to answer any issues raised.

At the Annual General Meeting the balance of proxy votes cast for or against each resolution are indicated after it has been dealt with on a show of hands. All substantial issues including the adoption of the annual report and accounts are proposed at the Annual General Meeting as separate resolutions.

The Company intends to comply with the Combined Code and give 20 working days notice of the Annual General Meeting.

### Accountability and audit

The Board acknowledges its responsibility to present a balanced and understandable assessment of the Company's position and prospects. This is fulfilled by the statements contained in the Managing Director's and Chairman's statements which supplement the statutory accounts themselves.

The procedures regarding internal controls and the operation of the Audit Committee are outlined above.

The Company does not have a full time internal audit function. However the Board periodically reviews the need for such a function and has done so during the year. The Board continues to conclude that, for the time being, such a function is unnecessary given the internal monitoring of systems of control and the examination carried out by external audit to the extent necessary to arrive at their audit opinion.

The Audit Committee is satisfied that the Company's auditors, KPMG Audit Plc continue to be objective and independent of the Company. KPMG Audit Plc does perform non audit services for the Group but the Audit Committee is satisfied that its objectivity is not impaired by such work.

A statement of directors' responsibilities in respect of the preparation of accounts is given on page 16.

## directors' remuneration

### Introduction

The Board is pleased to present this report to shareholders for the 52 week period ended 30 December 2000.

The remuneration packages of the executive directors are determined, on behalf of the Board, by the Remuneration Committee, consisting of four non-executive directors, Mr. S.W. Curran, Miss S.I.L. Elkin OBE, Mr. C.S. Gregg and myself as Chairman. None of the Committee members have a personal financial interest, other than as shareholders, in the matters to be decided. There are no conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the business.

The remuneration of the executive directors consists of a basic salary, benefits in kind, an annual performance-related bonus, profit share, long-term incentive schemes and a contribution to Company pension schemes. Details of the amounts of each element are set out in notes 5 and 7 to the accounts.

The remuneration of the non-executive directors is determined by the executive directors.

### Objectives

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place, in order best to serve the interests of the Company, the shareholders and employees. In order to assist in meeting this aim on an informed basis, the Committee commissioned a report by an independent consultant in 1998.

### Salaries

Base salaries reflect job responsibilities, their market value and the level of individual performance. The Company sets base salaries around the upper quartile relative to comparator companies, reflecting the level of its achievements over a sustained period and its desire to secure these for the future.

### Benefits in Kind

These are the use of a company car, private medical cover and permanent health insurance.

### Annual Bonus

The annual bonus is directly determined by reference to the level of achieved net profit before tax in relation to the budget approved by the Board. The relationship between level of bonus and variance from budget is set by the Remuneration Committee.

### Profit Share

The executive directors participate in the overall Company Profit Share Scheme, in which 10% of Company profits are distributed half-yearly to all employees on a formula related to service and salary level. This profit share can be taken in the form of shares in the Company purchased by the Trustees of the Employee Share Scheme.

### Long-Term Incentive Schemes

The Company operates both Inland Revenue approved and unapproved long-term share incentive schemes to encourage the executive directors and employees to hold shares in the Company and to enhance share values.

In accordance with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds, the total number of shares on which the Company may grant options is limited and the directors have chosen to allocate most of the number available to S.A.Y.E. schemes open to all employees. This has restricted the number of shares available to be allocated under the Senior Executive Share Option Scheme. This has been in existence since 1987 and the last grant of options was made in 2000. Options have been granted on a discretionary basis to senior executives and managers, as well as to executive directors. The Savings Related Share Option Schemes are an all-employee arrangement, including executive directors.

### Pensions

Mr. M.J. Darrington and Mr. M. Simpson are members of the Greggs 1978 Retirement and Death Benefit Scheme and, in accordance with the Combined Code recommendations, only their basic salary is pensionable. The scheme, which requires a contribution of 5.7% of pensionable salary from members, provides for up to two-thirds of final pensionable salary, dependent on length of service.

Mr. M.J. Darrington is the sole member of the Greggs Bakeries (MJD) Retirement Benefit Scheme which is a defined contribution scheme, the cost of which is met by the Company.

Mr. M. Simpson is a member of the Greggs Senior Executive Pension Scheme which is a defined contribution scheme. The Company contributes 5% of basic salary to the Scheme and members may also make contributions.

### Service contracts

Mr. M.J. Darrington and Mr. M. Simpson have service contracts which are terminable by the Company on two years' notice, this being the minimum considered appropriate by the Board to retain the services of key executives in a competitive environment, or by the individual on not less than six months' notice.

On behalf of the Board of Greggs plc

I.D. GREGG OBE

Chairman of the Board

9 March 2001

## Greggs plc annual report and accounts 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>10 YEAR HISTORY</b>										
Turnover (£'000)	95,540	100,990	110,426	167,851	219,514	238,465	265,941	291,420	308,678	339,008
Profit on ordinary activities before taxation (£'000)	6,074	6,967	9,019	12,017	13,056	15,673	18,035	20,214	21,520	26,356
Shareholders' funds (£'000)	23,278	26,314	30,475	36,591	41,219	48,107	58,384	69,585	80,896	97,021
Earnings per share (pence)	36.8	40.6	53.0	71.0	79.0	95.8	121.1	122.8	135.1	185.1
Adjusted earnings per share (pence)	36.8	40.6	53.0	71.0	79.0	95.8	111.2	122.8	135.1	162.3
Dividend per share (pence)	14.125	15.0	18.0	23.0	26.0	32.0	37.0	41.0	45.0	55.0
Cash generated by operations (£'000) (before dividends, tax and capital expenditure)	11,066	11,466	14,670	25,251	20,838	24,955	30,408	34,902	34,526	43,431
Capital expenditure (£'000)	8,760	5,046	5,643	15,008	11,931	15,669	24,364	26,204	22,403	21,397
Acquisition of Bakers Oven (£'000)	-	-	-	19,547	-	-	-	-	-	-
Number of shops in operation at year end	474	485	499	930	967	1,032	1,057	1,072	1,084	1,105

### DIRECTORS

Ian Gregg OBE (Non-executive Chairman) <sup>10</sup>  
 Mike Darrington FCA (Managing) <sup>9</sup>  
 Malcolm Simpson FCA (Financial)  
 Collin Gregg (Non-executive) <sup>10</sup>  
 Steven Curran FCCA (Non-executive) <sup>11</sup>  
 Sonia Ekin OBE (Non-executive) <sup>10</sup>  
 Susan Johnson OBE (Non-executive) <sup>\*</sup>

<sup>10</sup>Member of Audit Committee <sup>11</sup>Member of Remuneration Committee <sup>\*</sup>Member of Nominations Committee

### SECRETARY AND REGISTERED OFFICE

Andrew John Davison, Solicitor  
 Fernwood House  
 Claydon Road  
 Jesmond  
 Newcastle upon Tyne  
 NE2 1TL

Bankers	National Westminster Bank PLC 149 High Street Gosforth Newcastle upon Tyne NE3 1HA	Stockbrokers	Warburg Dillon Read 1 Finsbury Avenue London EC2M 2PA Brewin Dolphin Securities Ltd Commercial Union House 39 Pilgrim Street Newcastle upon Tyne NE1 6RQ
Merchant Bankers	SG Hambros	Solicitors	Eversheds
Corporate Finance Advisory	41 Tower Hill London EC3N 4SG	Sun Alliance House 35 Mosley Street Newcastle upon Tyne NE1 1XX	
Auditors	KPMG Audit Plc Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX	Registrars	Capita IRG plc Bourne House 34 Beckenham Road Beckenham, Kent BR3 4TU