annual report
and accounts
2002

The taste of the nation

GREGGS
plc

MISSION, VISION AND VALUES

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 1,200 retail outlets, trading under the Greggs and Bakers Oven brands.

Our Vision and Purpose. Our vision is to be Europe's finest bakery-related retailer. Our purpose is the growth and development of a thriving business, operating with integrity, for the benefit and enjoyment of our people, customers and shareholders alike.

Our Strategy. Our people will be enabled, within overall guidance from the centre, to work towards the successful attainment of world-class standards. To achieve this, the focus will be on:

> A Great Place to Work: we will place major emphasis on promoting a culture that encourages personal development, leadership qualities and creativity.
>
> Enjoyable Experience: we will deliver customer satisfaction by offering great-tasting food at unbeatable value to the highest standards of food safety. This will be achieved from shops that provide friendly and efficient service in attractive surroundings.
>
> Business Excellence: our people will seek continuous improvement in their areas of responsibility, enabling them to make a real and lasting contribution to the objectives of the company.
>
> Challenging Targets: we will strive to achieve a turnover of £1 billion by 2010 through continued core growth and the acquisition of new units, taking us to over 1,700 shops.
>
> Caring for the Community: our emphasis on social responsibility will encourage even greater involvement in local charity activities and social projects, and a strengthened focus on protecting the environment.

Our Values. As a people-focused business, we aim to be enthusiastic and supportive in all that we do, open, honest and appreciative, and to treat everyone with fairness, consideration and respect.

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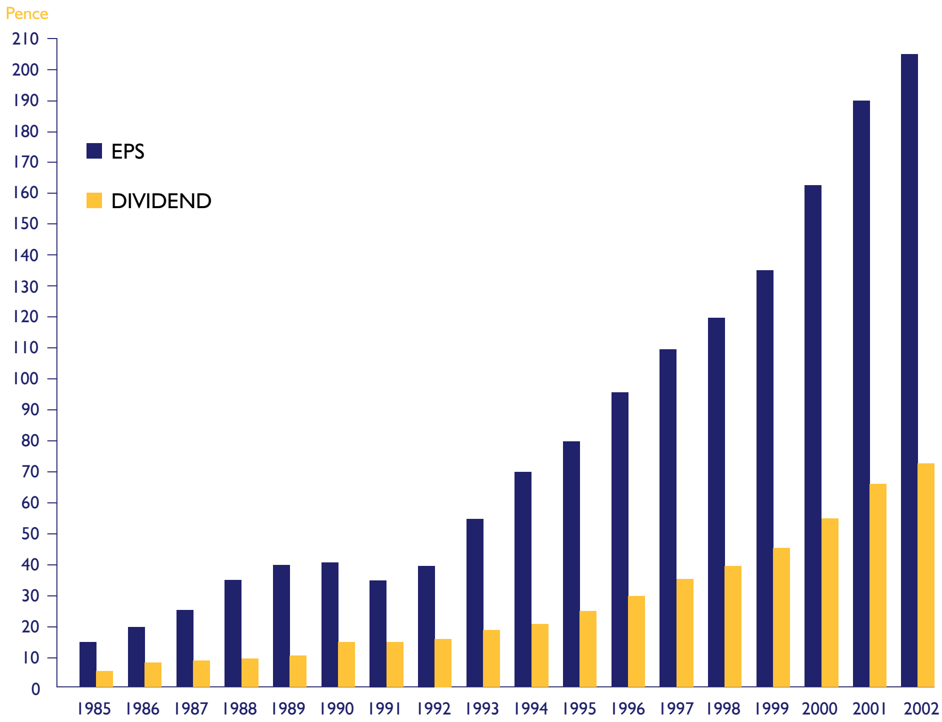
FINANCIAL REVIEW



FINANCIAL CALENDAR

Announcement of results and dividends

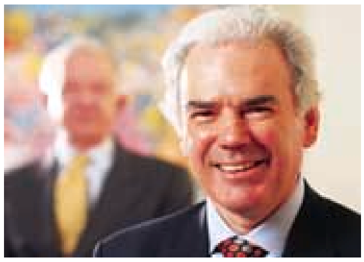
Half year	Early August
Full year	Early March
Dividends	
Interim	Mid October
Final	Late May
Annual report to shareholders	Early April
Annual General Meeting	16 May 2003

FINANCIAL HIGHLIGHTS

	2002	2001
	£'m	£'m
Turnover	**422.6**	377.6
Pre-tax profits	**36.7**	32.7
Post-tax profits	**24.7**	22.8
Shareholders' funds	**120.0**	103.6
Capital expenditure	**42.1**	27.4
	Pence	Pence
Earnings per share	**205.5**	190.2
Dividend per ordinary share	**72.5**	65.0

CHAIRMAN'S STATEMENT

In my first report as Chairman, it is pleasing to note that continued satisfactory progress during 2002 has made this the Group's eleventh consecutive year of profit, earnings and dividend growth. This success has been based above all on a culture of putting people first that goes right back to Greggs' roots as a family bakery. Attentiveness to the needs of our employees and customers has been the key to almost 40 years of successful expansion which have taken Greggs from a single shop to a nationwide market leader with over 1,200.



RESULTS

Sales in 2002 increased by 11.9 per cent to £422.6 million. This included like-for-like sales growth of 6.4 per cent, driven by continued strong demand for takeaway food.

Operating profit increased by 11.8 per cent to £35.3 million, despite the substantial increase in insurance costs that was experienced across the food and retail sectors, and interest receivable rose by £0.2 million to £1.3 million. Pre-tax profit advanced by 12.0 per cent to £36.7 million. Basic earnings per share were 205.5 pence, a rise of 8.0 per cent, reflecting an increase in the Group's tax charge following the exhaustion of credits relating to prior years.

DIVIDEND

The Board recommends a final dividend of 49.0 pence per share (2001: 44.0 pence), an increase of 11.4 per cent. Together with the interim dividend of 23.5 pence, paid in October 2002, this makes a total for the year of 72.5 pence (2001: 65.0 pence), a rise of 11.5 per cent. The Board remains committed to a progressive dividend policy which seeks to provide shareholders with increases in their 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 23 May 2003 to shareholders on the register at 22 April 2003.

BUSINESS HIGHLIGHTS

The Group traded satisfactorily throughout the year, with like-for-like sales growth slowing as expected in the second half, as we encountered comparison with the exceptionally strong performance achieved in the latter part of 2001. The Greggs brand maintained its good progress, with particularly strong performances in the South East, Midlands and Scotland. A year of record capital investment saw us increase the pace of new shop openings, adding a net 58 stores to give a total of 1,202 at the year end. We also made substantial investments in production facilities to support the growth of our retail operations. Mike Darrington provides a more detailed commentary on these and other trading and business development issues in his report on pages 6 - 10.

THE BOARD

I succeeded Ian Gregg as Chairman on 2 August 2002, having joined the Board on 1 March. I am delighted that Ian has agreed to remain on the Board as a non-executive director for the time being, providing us with continued access to his unequalled expertise. We are seeking to add to the number of independent non-executive directors on the Board.

"It's really good coffee."

"It's great value and the kids love it."

PEOPLE

I have greatly enjoyed getting to know Greggs and its people, visiting bakeries and shops in many of the divisions since my appointment to the Board. One cannot fail to be impressed by the hard work and commitment that is shown by all our staff, and also by the fact that they take pleasure as well as pride in what they do.

The continued growth of the business directly reflects the efforts of all our 17,524 employees and I would like to thank them on behalf of the Board for their contribution to another successful year.

PROSPECTS

Trading since the start of the new year has been satisfactory, with like-for-like sales in the first nine weeks up 5.2 per cent. Results to date are in line with our budgets, and ahead of the comparable period last year.

Since the year end we have opened our first two shops outside the UK, at Leuven and Antwerp in Belgium, and plan a controlled trial of the Greggs format in that country which will involve a small number of additional openings in the months ahead.

The main thrust of our expansion will continue to be in the UK where we plan to add a further 45 new units, net of closures. We will also make significant further investments in UK manufacturing capacity, to keep pace with our retail expansion.

Greggs is the market leader in a growing sector, with strong brands, proven formats and exceptional people. Despite further cost pressures we believe that the Group is well placed to achieve another year of satisfactory progress in 2003.

Derek Netherton, Chairman

7 March 2003


GREGGS
savouries

MANAGING DIRECTOR'S REPORT

This year we passed several important milestones, achieving turnover of over £400 million for the first time and opening our 1,200th shop. We also undertook the preparatory work that permitted the opening of our first shop outside the UK early in 2003. We further refined the strategic mission and vision through which we aim to achieve continued growth in the years ahead. Ian Gregg stepped down as Chairman of the Group in August after a remarkable 38 years of service.

TRADING PERFORMANCE

As the Chairman has noted, the Group made satisfactory progress during the year. We had anticipated from the outset that like-for-like sales growth would slow as the year progressed, given the exceptionally strong performance achieved in the second half of 2001. Our expectations were duly met, with like-for-like sales growth averaging 6.4 per cent over the year as a whole, comprising increases of 7.6 per cent in the first half (24 weeks) and 5.4 per cent in the second half. The weather was more favourable in the first half than the second, but we would consider it fairly average for our business over the year as a whole. Lower levels of consumer traffic on the high street in the run-up to Christmas are also assumed to have contributed to slower like-for-like sales progress in the final weeks of the year, when we achieved growth of just over 4 per cent.

Core volumes grew by 4.5 per cent in the first half and 2.9 per cent in the second, making an increase of 3.6 per cent over the year as a whole. Price increases averaging 2.8 per cent over the year were again driven primarily by product upgrades, though we also recovered cost increases in a number of areas including wages and insurance, where our premiums rose by some £1.7 million or 82.0 per cent.

Including the benefit of new shop openings in the current and prior year, total sales rose by 13.2 per cent in the first half and 11.0 per cent in the second, making an overall increase of 11.9 per cent for the year.

Operating profit grew by 11.8 per cent to £35.3 million, net interest receivable rose by £0.2 million to £1.3 million, and pre-tax profit increased by 12.0 per cent to £36.7 million.

GREGGS BRAND

The nine Greggs divisions remained the key drivers of Group sales and profits. Like-for-like sales grew by 8.8 per cent in the first half and 6.6 per cent in the second, including core volume uplifts of 6.1 and 4.3 per cent respectively.

This produced a like-for-like sales increase of 7.6 per cent for the year, including core volume growth of 5.1 per cent.

The Enfield and Twickenham divisions, now combined as Greggs South East, again made particularly pleasing progress, and Greggs of the Midlands also performed strongly. Greggs of Scotland, already our most profitable division, achieved another record result.

Greggs of Cumbria, created during the year through the rebranding of our 50 Birketts shops in the Lake District and adjoining counties, responded positively to the adoption of the new fascia. This was the final phase of our programme to create a single and cohesive Greggs brand nationwide. We now have a strong platform for the more unified promotion of the Greggs proposition and brand across the UK, in which we will be assisted by the new advertising agency we appointed during the year.

BAKERS OVEN BRAND

Like-for-like sales in the four Bakers Oven divisions grew by 3.8 per cent in the first half and 1.8 per cent in the second, making a 2.7 per cent increase over the year. Core volume performance remained disappointing, declining by 0.4 per cent in the first half and 1.3 per cent in the second, and so averaging 0.9 per cent for the year. There was a small reduction in Bakers Oven's contribution to Group operating profit. Bakers Oven South continued to make satisfactory progress during the year, but the North and Scotland remained problematic. We have made a number of appointments to strengthen the management in these regions, including the transfer of proven, senior people from the Greggs divisions.

RETAIL PROFILE

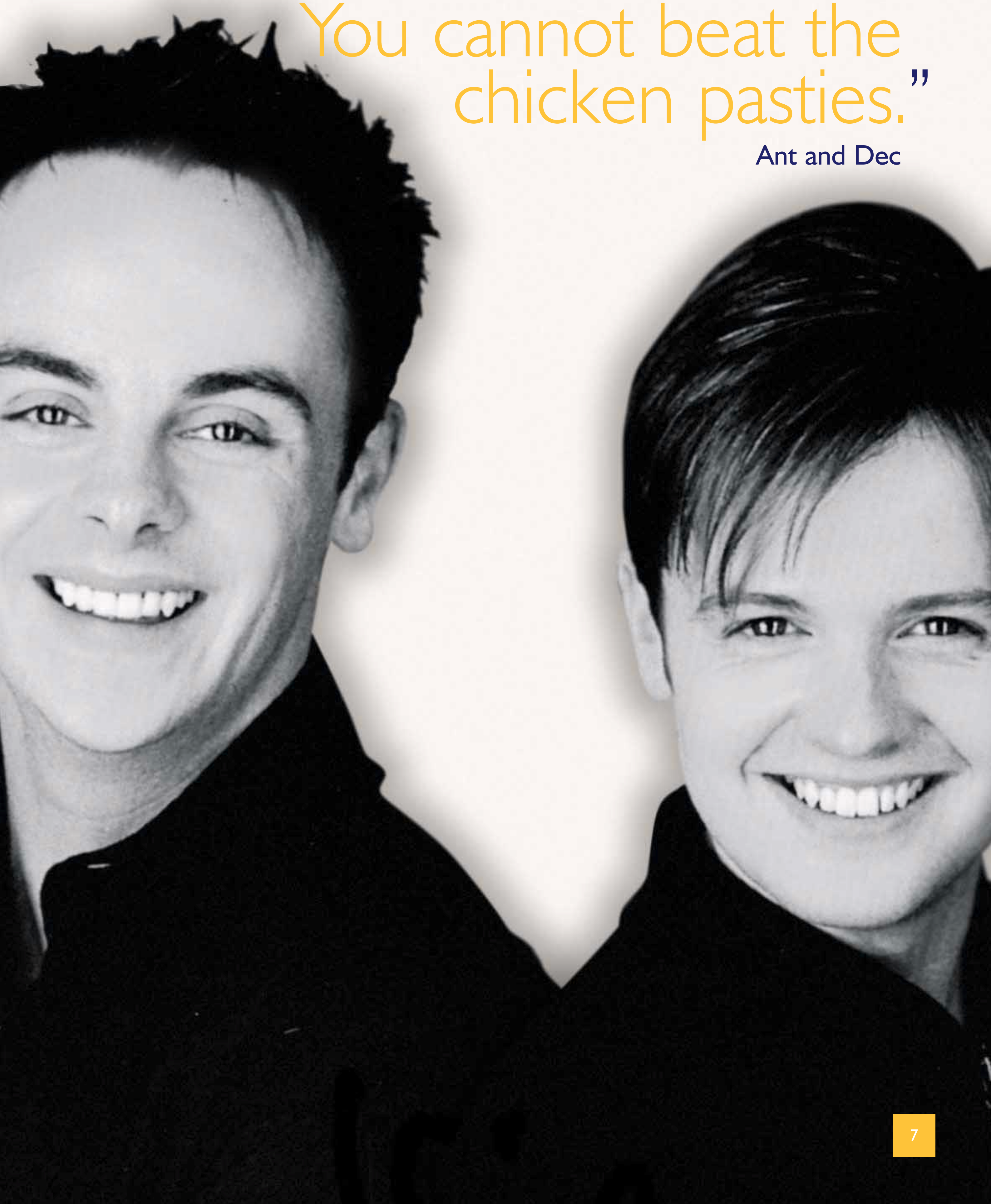
In the light of their relative performances, we have naturally concentrated our retail development programme on driving the successful Greggs brand, both by extending its geographic reach and by converting existing units to our new and more takeaway-focused shop format.

In total we opened 82 new shops during the year and closed 24, giving us a net increase of 58 to 1,202 outlets by 28 December 2002. This was slightly ahead of our target. There were 973 Greggs and 229 Bakers Oven shops at the year end, compared with 905 and 239 respectively twelve months earlier. We completed 58 comprehensive shop refurbishments and 17 minor refits during the year.

The combination of new openings and refurbishments gave us a total of 295 new format Greggs stores at the year end, comprising 30 per cent of the chain, compared with 19 per cent in December 2001.

"It's our favourite fast food.
We love it!
You cannot beat the
chicken pasties."

Ant and Dec



"The staff are great. Very friendly."

PRODUCT PROFILE

The well-established trend to takeaway food categories continued to drive our sales across the Group, led by savouries and sandwiches and supported by complementary products such as drinks. Cakes and confectionery products again remained fairly stable as a proportion of our trade, while the traditional bakery staples such as bread and rolls continued to decline.

STRATEGIC PRINCIPLES

Greggs plc has been built on simple principles: motivating and empowering people to deliver enjoyable, value-for-money products and provide great customer service. Our key strategic principles are outlined in our Mission Statement inside the front cover of this report, and I am pleased to report that we made progress in each of our key target areas during 2002.

'A Great Place to Work'. We want our people to enjoy their work and to derive real satisfaction from what they do. A major employee opinion survey was conducted in February 2002, the results of which were generally positive, and we are working hard on the areas for improvement that it highlighted. All our managers across the Group are committed to building a positive culture that is founded on simple values: being enthusiastic and supportive, open, honest and appreciative, and treating everyone with fairness, consideration and respect. 360° feedback is being undertaken to monitor the effectiveness of our approach, beginning with the executive directors and our most senior managers.

We aim to create the best possible working conditions for our people, and our new shop formats are designed to improve standards for employees as well as customers. Similarly, we devise improvements in working practices, such as the making of sandwiches, which are designed to make these everyday tasks more enjoyable as well as more efficient.

Opportunities for personal development are provided as widely as possible, and all our employees are encouraged to develop their leadership qualities and to use their individual initiative, while adhering to the strict company-wide policies that are necessary to ensure the safe preparation and handling of food.

During the year all of our most senior managers benefited from a visit to some businesses in the USA which are considered world leaders in customer service and in the creation of an environment and culture in which people can truly enjoy their work.

Although we recognise that much remains to be done, we were pleased to achieve recognition of our efforts to make working at Greggs an enjoyable experience when we featured for the first time in the The Sunday Times 'The 100 best companies to work for in the UK' survey, published in February 2003.

'Enjoyable Experience'. The continuous introduction of new and improved products is an important driver of like-for-like sales growth. Development work is undertaken both by our divisional teams and by the new Group Technical Centre in Balliol Park, Newcastle upon Tyne. Outstanding new products devised at Balliol Park, and launched successfully across the Group in 2002, included a ham and cheese bake and an egg and bacon breakfast savoury for Greggs, and a cheese and onion crumble topped bake for Bakers Oven. In addition, the centre houses one of the world's most advanced laboratories for microbiological testing of products and ingredients, equipped to provide exceptionally rapid results that ensure our attainment of the highest possible standards of food safety. During the year this laboratory became the first such facility in the UK to be audited to ensure compliance with the International Standard ISO 17025.

As well as monitoring the sales performance of each and every product line, we also talk directly to our customers and listen to what they have to say. Increasing investment in customer surveys is providing valuable feedback which will ensure that the next generation of products and shops is even more enjoyable and attuned to our customers' changing needs.

'Business Excellence'. Listening to our employees and acting on their suggestions is central to our philosophy. Through effective two-way communication, we will ensure that all our people understand our corporate goals and can make a real contribution to their realisation. This is backed by our commitment to simplifying every area of the business as far as possible. Best practice in products and service standards is increasingly shared across the business, aided by the research and development work undertaken at the Group Technical Centre. In parallel, we are placing ever increasing focus on the development and promotion of our two distinct national brands. Systematic targeting, benchmarking and progress measurement are all being pursued with ever-increasing professionalism, to ensure the attainment of our long term strategic objectives.

'Challenging Targets'. We are striving to achieve a turnover of £1 billion by the end of the current decade. This will require not only the further expansion of our shop base, to over 1,700 shops, but also the achievement of continued like-for-like sales growth through our established outlets. Everything we are doing in the management of the business is designed to ensure that all our people are working together towards these goals. In the longer term, we see potential for at least 2,000 shops under our existing brands in the UK, and have already begun to examine the potential for our products and retail concepts on the Continent.

'Caring for the Community'. One of the founding principles of our business has been a care for the communities in which we operate. We have a long-standing commitment to contributing in areas of deprivation, notably through the Greggs Trust through which we channel the bulk of our charitable contributions, which totalled £379,000 this year. The Greggs Breakfast Clubs which featured in last year's annual report have continued to expand successfully, and now operate in over 40 primary schools. We are determined to remain at the forefront in exercising corporate responsibility not only in the social arena, but also in our care and consideration for the environment.

CAPITAL INVESTMENT

Capital expenditure during 2002 was a record £42.1 million, comprising £18.4 million in new shops and refurbishments and £23.7 million in land, buildings and plant including a substantial investment in a freehold site in west London for the further development of our business in the South East. We also invested £3.5 million in a new cold store adjacent to our central savouries unit at Balliol Park. This new facility was completed on schedule and in line with our budget, and has worked successfully to plan since it opened in October 2002. Its provision has enabled us to improve the utilisation of our existing savouries production capacity, increasing efficiency and effecting substantial savings in external storage costs. We are continuing to develop plans for the construction of a second savouries unit to ensure that we have the facilities to meet continuing strong demand for these products.

During 2003 we expect to invest around £40.0 million in the business, opening some 45 new shops net of closures, continuing our rolling refurbishment campaign, and adding to our production capacity in Enfield, Birmingham, Leeds, Manchester and Edinburgh.

CASH FLOW AND BALANCE SHEET

The strongly cash generative nature of the Group enabled us to fund our record capital expenditure programme from our own resources, with only a small net cash outflow during the year. At 28 December 2002 we had net cash on the balance sheet of £28.6 million, compared with £30.0 million at the end of 2001.

CONTINENTAL EUROPE

Although Greggs has the potential to expand successfully in the UK for many years to come, we feel that it is important to examine the scope for future growth in other countries. As previously outlined, we have therefore been researching Continental markets for a number of years. During 2002 we decided that our first overseas trial would take place in Belgium, and appointed a local manager who spent some months in the UK familiarising himself with the Greggs culture and operational style. We have undertaken extensive consumer research and trials, and our first two shops opened at Leuven and Antwerp early in 2003, offering a mixture of local specialities and standard Greggs product lines. We will refine and develop our range and concept in the light of continuing consumer feedback, and will open a further one or two shops in Belgium as the first stage of our trial. This is a very closely controlled and low-risk venture, in which we expect to invest some £500,000 of capital in the current year. If the trial proves successful, we will expand our shop base with the aim of developing local production capabilities once we have reached a critical mass of around 20 shops. We expect this business to be profitable in four to five years' time.

IAN GREGG

Ian Gregg is a very special man, as all who know him inside and outside the business can testify. He joined the family firm on the unexpected death of his father in 1964 and led it up to its flotation 20 years later. During that period he grew the company from a single shop in Gosforth, Newcastle upon Tyne, to a multi-divisional chain with over 300 outlets. From the outset he endowed Greggs with the fundamental principles of putting people first, on which our success has undoubtedly been based. Equally remarkably, given his founding role and his undoubted entrepreneurial skills, Ian readily stepped back from day-to-day management of the business on my appointment in 1984, and has given me exemplary support as a non-executive Chairman. On behalf of everyone in Greggs, I would like to thank him for his unique and outstanding contribution over his 38 years in the chair and look forward to his continued contribution as a non-executive director.

PEOPLE

We have written at length in this year's report about the importance we attach to putting people first, notably in my earlier comments on our strategic principles. To those words I would merely like to add that the continued success of the business remains a reflection of the quality of all our people. Once again, I would like to thank everyone for their individual contributions to meeting the expectations of our customers and shareholders.

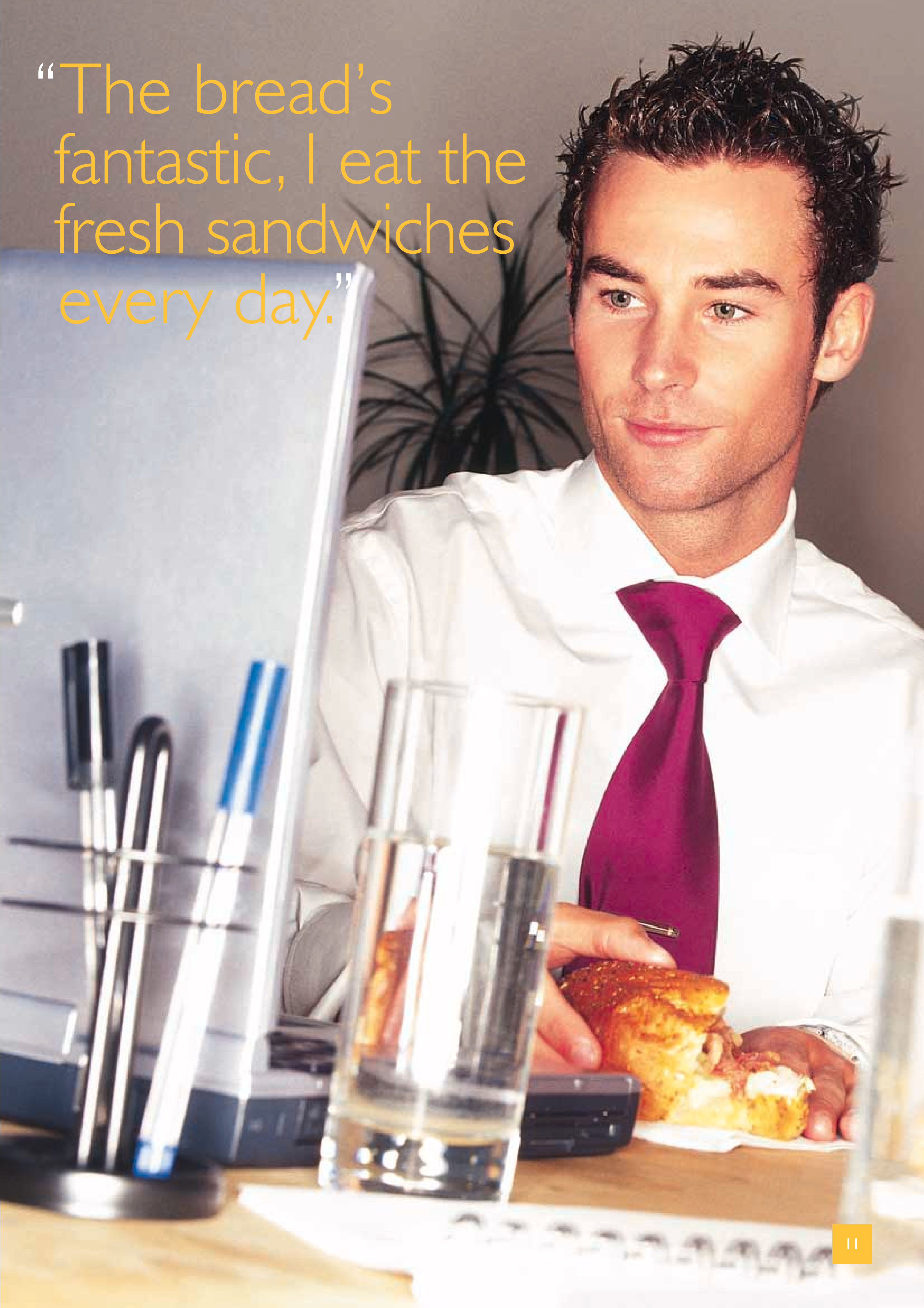
CORPORATE GOVERNANCE

We are committed to continuous improvement and raising of standards. In that context, we continue to strive for good standards of corporate governance. I feel, however, that the ever-increasing bureaucracy and the proportion of Board time associated with this area is beginning to impact adversely on the time that can actually be devoted to the running of businesses in the interests of shareholders. It is a matter of sensible balance.

OUTLOOK

As the Chairman has noted, we have made a positive start to the current year. The outlook for ingredient costs is benign, though we anticipate a further £1.8 million increase in our insurance costs. Greggs has always focused on achieving long term growth by building a simple business that strives to be the best in its field. Application of these principles has enabled us to attain market leadership in the growing market for bakery-related takeaway food in the UK, with a potent national brand, and will help us towards our ambitious targets for further growth in the years ahead.

Mike Darrington, Managing Director
7 March 2003



"The bread's fantastic, I eat the fresh sandwiches every day."

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 28 December 2002. The comparative period is the 52 weeks ended 29 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the retailing of sandwiches, savouries and other bakery related products with a particular focus on takeaway food and catering. The majority of products sold are manufactured in house.

RESULTS AND DIVIDENDS

Sales for the financial year excluding VAT were £422,600,000, an increase of £45,044,000 or 11.9% over the previous financial year. Group profit before taxation amounted to £36,666,000, an increase of 12.0% over the previous financial year.

An interim dividend of 23.5p per ordinary share was paid on 4 October 2002 and the directors propose a final dividend of 49.0p payable on 23 May 2003 leaving profit for the financial year to be retained of £16,116,000 (2001: £15,146,000).

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 10.

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 28 December 2002 and 29 December 2001 are set out in note 6 to the accounts. Details of directors' share options are set out in the Directors' Remuneration Report on pages 35 to 39.

On 1 March 2002 Derek Netherton was appointed a non-executive director.

Trustee holdings of ordinary shares with no beneficial interest include 214,567 shares held by the Greggs Employee Benefit Trust to which certain directors are trustees.

In accordance with the Company's Articles of Association, Malcolm Simpson, Ian Gregg, Sonia Elkin and Susan Johnson retire from the Board by rotation and, being eligible, offer themselves for re-election. Malcolm Simpson has a service agreement determinable in normal circumstances by not less than one years' notice from the Company, or not less than six months' notice from Malcolm Simpson, Ian Gregg, Sonia Elkin and Susan Johnson do not have service agreements (in common with the other non-executive directors).

CORPORATE GOVERNANCE

A separate report on corporate governance is set out on pages 40 to 43.

SUBSTANTIAL SHAREHOLDINGS

At 7 March 2003 the only notified interests of substantial shareholdings in the issued share capital of the Company were:

	Percentage of issued share capital, %
A.J. Davison (as trustee of various settlements)	8.90
Aviva plc	7.01
J.A. Wardropper (as trustee jointly with A.J. Davison)	5.43
FMR Corporation	5.05
Prudential plc	4.80
Mrs G.V. Richardson and family	4.44
Legal and General Investment Management Limited	3.02

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. 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 average creditor payment period for the Company and the Group at 28 December 2002 was 46 days (2001: 51 days).

CHARITABLE CONTRIBUTIONS

The Group is a member of the 'Per Cent' Club. Charitable donations of £379,000 were made by the Group during the year, including £282,000 to Greggs Trust. Greggs Trust also received donations from employees under Give As You Earn of £50,000, from major shareholders of £129,000 and income from investments of £174,000. These funds were used by Greggs Trust in pursuance of its main objective, to alleviate the effects of poverty and social deprivation in the areas where the Company trades.

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

7 March 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF ACCOUNTS

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 16 to 34, 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 INDEPENDENT AUDITORS TO THE MEMBERS OF GREGGS PLC

We have audited the accounts on pages 16 to 34. We have also examined the amounts disclosed relating to emoluments, share options and directors' pension entitlements which form part of the directors' remuneration report on pages 35 to 39.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 14 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 whether the accounts have been properly prepared in accordance with the Companies Act 1985. 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 40 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 28 December 2002 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
7 March 2003

GROUP PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 28 December 2002

	Note	2002 £'000	2001 £'000
Turnover	1	**422,600**	377,556
Cost of sales	2	**(163,406)**	(147,468)
Gross profit		**259,194**	230,088
Distribution and selling costs	2	**(192,790)**	(172,711)
Administrative expenses	2	**(31,070)**	(25,780)
Operating profit		**35,334**	31,597
Net interest receivable and other income	3	**1,332**	1,145
Profit on ordinary activities before taxation	4	**36,666**	32,742
Taxation on profit on ordinary activities	9	**(11,980)**	(9,933)
Profit on ordinary activities after taxation	10	**24,686**	22,809
Dividends paid and proposed	11	**(8,570)**	(7,663)
Retained profit for the financial year	24	**16,116**	15,146
Basic earnings per share	12	**205.5p**	190.2p
Diluted earnings per share	12	**202.0p**	187.7p

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

RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Profit for the financial year	**24,686**	22,809
Dividends	**(8,570)**	(7,663)
Retained profit for the financial year	**16,116**	15,146
New share capital		
- nominal value	**4**	3
- share premium	**291**	236
Net addition to shareholders' funds	**16,411**	15,385
Opening shareholders' funds	**103,554**	88,169
Closing shareholders' funds	**119,965**	103,554

GROUP BALANCE SHEET

at 28 December 2002

	Note	£'000	28 December 2002 £'000	£'000	29 December 2001 £'000
Fixed assets					
Tangible assets	13		**148,184**		124,123
Investments	15		**3,561**		3,563
			151,745		127,686
Current assets					
Stocks	16	**6,330**		6,275	
Debtors	17	**11,740**		12,406	
Cash at bank and in hand		**28,635**		30,027	
		46,705		48,708	
Creditors: amounts falling due within one year	18	**(64,943)**		(60,762)	
Net current liabilities			**(18,238)**		(12,054)
Total assets less current liabilities			**133,507**		115,632
Creditors: amounts falling due after more than one year	19		**(119)**		(109)
Provisions for liabilities and charges					
Deferred tax	21		**(13,423)**		(11,969)
			119,965		103,554
Capital and reserves					
Called up share capital	22		**2,404**		2,400
Share premium account	23		**10,085**		9,794
Profit and loss account	24		**107,476**		91,360
Equity shareholders' funds			**119,965**		103,554

The accounts on pages 16 to 34 were approved by the Board of directors on 7 March 2003 and were signed on its behalf by

M.J. Darrington
M. Simpson } Directors

PARENT COMPANY BALANCE SHEET

at 28 December 2002

	Note	£'000	28 December 2002 £'000	£'000	29 December 2001 £'000
Fixed assets					
Tangible assets	14		**127,358**		102,739
Investments	15		**8,751**		8,753
			136,109		111,492
Current assets					
Stocks	16	**6,330**		6,275	
Debtors	17	**28,270**		30,737	
Cash at bank and in hand		**28,553**		29,872	
		63,153		66,884	
Creditors: amounts falling due within one year	18	**(64,884)**		(60,556)	
Net current (liabilities) / assets			**(1,731)**		6,328
Total assets less current liabilities			**134,378**		117,820
Creditors: amounts falling due after more than one year	19		**(119)**		(109)
Provisions for liabilities and charges					
Deferred tax	21		**(10,704)**		(9,250)
			123,555		108,461
Capital and reserves					
Called up share capital	22		**2,404**		2,400
Share premium account	23		**10,085**		9,794
Profit and loss account	24		**111,066**		96,267
Equity shareholders' funds			**123,555**		108,461

The accounts on pages 16 to 34 were approved by the Board of directors on 7 March 2003 and were signed on its behalf by

M.J. Darrington } Directors
M. Simpson

GROUP CASH FLOW STATEMENT

for the 52 weeks ended 28 December 2002

	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit		35,334		31,597
Depreciation charges		16,813		14,907
Loss / (profit) on disposal of fixed assets		260		(248)
Release of government grants		(7)		(24)
Increase in stocks	(55)		(639)	
Decrease / (increase) in debtors	666		(513)	
Increase in creditors	2,544		5,338	
Net increase in working capital		3,155		4,186
Net cash inflow from continuing operating activities		55,555		50,418
CASH FLOW STATEMENT				
Net cash inflow from continuing operating activities		55,555		50,418
Returns on investments and servicing of finance				
Interest received	1,361		1,354	
Interest paid	(29)		(209)	
Net cash inflow from returns on investments and servicing of finance		1,332		1,145
Taxation paid		(9,474)		(6,005)
Capital expenditure and financial investments				
Purchase of tangible fixed assets	(42,143)		(27,385)	
Disposal of tangible fixed assets	1,009		1,888	
Disposal of investments	2		-	
Net cash outflow from capital expenditure and financial investments		(41,132)		(25,497)
Equity dividends paid		(7,968)		(7,067)
Financing				
Issue of ordinary share capital	295		239	
Redemption of loan notes	-		(42)	
Loan repayments	-		(2,039)	
Net cash inflow / (outflow) from financing		295		(1,842)
Net (decrease) / increase in cash in the period		(1,392)		11,152

Further details regarding cash flows are given in note 26 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 28 December 2002. The comparative period is the 52 weeks ended 29 December 2001.

(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% - 33⅓%
Motor vehicles	20% - 25%
Delivery trays	33⅓%
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) TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation purposes and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(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

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 in respect of the defined benefit scheme is based on actuarial estimates and is calculated to spread the cost of pensions over employees' working lives with the Group. The amount charged to the profit and loss account in respect of the defined contribution schemes represents the contributions payable in respect of the accounting period.

(j) FINANCIAL ASSETS AND LIABILITIES

Changes in the value of financial instruments are disclosed in the notes to the accounts but are not reflected in the profit and loss account or the balance sheet.

(k) CASH AND LIQUID RESOURCES

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

(l) FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange rate differences are included in the profit and loss account.

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:

	2002 £'000	2001 £'000
Cost of sales	**1,326**	1,212
Distribution and selling costs	**2,744**	2,362
Administrative expenses	**619**	504
	4,689	4,078

3. Net interest receivable / (payable) and other income / (similar charges)	2002 £'000	2001 £'000
Interest receivable and similar income	**1,361**	1,354
Interest payable on bank loans	**(29)**	(209)
	1,332	1,145

Interest receivable and similar income includes net exchange gains on foreign currency deposits of £165,000 (2001: £nil).

4. Profit on ordinary activities before taxation

This is stated after charging / (crediting):		2002 £'000	2001 £'000
Depreciation on tangible fixed assets:			
owned		**16,813**	14,907
Loss / (profit) on disposal of fixed assets		**260**	(248)
Release of government grants		**(7)**	(24)
Auditors' remuneration (group and parent company):			
audit services (2002: including £7,000 in respect of internal audit advice)		**94**	84
non-audit fees paid to the auditor and its associates:			
- corporation tax compliance	- current year	**25**	25
	- prior years	**21**	42
- other taxation services		**4**	26
- pension schemes audit		**12**	10
- IT consultancy		**-**	25
Payments under operating leases – property rents		**27,713**	25,226

5. 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 28 December 2002 are as follows:

	Date of grant	Price	Options outstanding at the end of the year 2002	2001	Dates exercisable
Executive Share Option Scheme 4	September 1993	700p	4,400	11,900	Three to ten years after September 1993
Executive Share Option Scheme 5	September 1996	1355p	28,734	36,812	Three to ten years after September 1996
Executive Share Option Scheme 6	March 1999	2687½p	89,846	93,350	Three to seven years after March 1999
Savings Related Share Option Scheme 4	April 1999	2098p	170,647	185,128	June 2004 to December 2004
Executive Share Option Scheme 7	March 2000	1701½p	143,200	145,000	Three to seven years after March 2000
Savings Related Share Option Scheme 5	April 2002	2821p	121,276	-	June 2005 to December 2005
Executive Share Option Scheme 8	April 2002	3526p	8,800	-	Three to seven years after April 2002

6. 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 according to the register of directors' interests are as follows:

	Ordinary shares of 20p (Beneficial interest) 2002	2001	Ordinary shares of 20p (Trustee holding with no beneficial interest) 2002	2001
Mike Darrington	**70,440**	70,640	**214,567**	214,655
Malcolm Simpson	**79,323**	80,723	**243,168**	243,256
Ian Gregg (non-executive)	**231,300**	240,500	**214,567**	214,655
Stephen Curran (non-executive)	**3,700**	3,700	**-**	-
Sonia Elkin (non-executive)	**900**	900	**-**	-
Susan Johnson (non-executive)	**-**	-	**-**	-
Derek Netherton (non-executive) - appointed 1 March 2002	**-**	-	**-**	-

The executive directors have a potential beneficial interest in the Greggs Employee Benefit Trust (note 15).
Details of directors' share options and emoluments can be found in the Directors' Remuneration Report on pages 35 to 39.
There have been no changes since 28 December 2002 in the directors' interests noted above.

NOTES TO THE ACCOUNTS

continued

7. Pensions

a). Defined benefit scheme

The Company operates a defined benefit pension scheme, the Greggs plc 1978 Retirement and Death Benefit Scheme. The scheme funds are administered by trustees and are independent of the Company's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial adviser.

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 2002. 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 £33,334,400. The actuarial value of the scheme's assets represented 87% of the benefits that had accrued to members, after allowing for expected future increases in earnings. In view of this situation the Company has already made a one off contribution to the scheme and has agreed to increase the funding rate, including employees contribution, to a total of 16.5% (previously 13.3%) of annual pensionable salary. In addition the Company has undertaken regularly to review the funding position and intends to ensure that the scheme is adequately funded to meet its liabilities. The total pension cost to the Group of this scheme, including the group life premium, was £2,400,000 for the year (2001: £1,798,000).

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' under FRS 17 'Retirement Benefits' the following transitional disclosures are required:

The actuarial valuation was updated to 28 December 2002, by an independent qualified actuary in accordance with the transitional arrangements of FRS 17. As required by FRS 17, the defined benefit liabilities have been measured using the projected unit method and both the assets and liabilities include the value of those pensions in payment which are secured with insured annuities.

The major assumptions used in this valuation were:

	28 December 2002	29 December 2001
Inflation	**2.4% pa**	2.5% pa
Pension increases (LPI)	**2.4% pa**	2.5% pa
Salary growth	**3.9% pa**	4.0% pa
Discount rate	**5.6% pa**	5.8% pa

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

7. Pensions *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

				28 December 2002			29 December 2001 (restated)
		Expected return	**£'000**	**£'000**	Expected return	£'000	£'000
Fair value of assets Composed of :							
	Equities	7.4% pa	**18,188**		8.0% pa	20,908	
	Bonds	4.5% pa	**6,229**		4.8% pa	7,125	
	Other	4.5% pa	**7,952**		5.3% pa	6,034	
Total fair value of assets				**32,369**			34,067
Present value of liabilities				**(41,699)**			(34,373)
Gross pension liability				**(9,330)**			(306)
Related deferred tax asset				**2,799**			92
Net pension liability				**(6,531)**			(214)

The present value of liabilities at 29 December 2001 has been restated from the value presented in the 2001 annual report following clarification of the treatment of benefits accrued before 6 April 1997. An allowance has been made for the pensions payable for pre-April 1997 service to increase overall at rates lower than 3% pa. This has resulted in a reduction of £1,219,000 in the net pension liability at 29 December 2001.

Over the year to 28 December 2002, contributions by the Company of £2,171,000 (2001: £1,852,000) were made to the scheme. It has been agreed with the trustees that employer's contributions from 6 April 2003 will be at the level of 9.9% of annual pensionable salary plus the cost of insuring death in service benefits and the cost of administration expenses.

The post retirement deficit under FRS 17 would have moved as follows during the year to 28 December 2002:

	Year ended 28 December 2002 £'000
Post retirement deficit at 29 December 2001	**(306)**
Current service cost (employee and employer)	**(2,513)**
Contributions (employee and employer)	**3,011**
Other net finance income	**367**
Actuarial loss	**(9,889)**
Post retirement deficit at 28 December 2002	**(9,330)**

NOTES TO THE ACCOUNTS

continued

7. Pensions *(continued)*

The following amounts would have been included within operating profit under FRS17:

	Year ended 28 December 2002 £'000
Current service cost (employer's part only)	1,673
Past service cost	-
	1,673

The following amounts would have been included as net finance income under FRS 17:

	Year ended 28 December 2002 £'000
Expected return on pension scheme assets	2,419
Interest on post retirement liabilities	(2,052)
	367

The following amounts would have been recognised within the statement of recognised gains and losses ("STRGL") under FRS 17:

	Year ended 28 December 2002 £'000	
Annual return less expected return on scheme assets	(6,663)	(21%)
Experience losses arising on liabilities	(2,206)	(5%)
Loss due to changes in assumptions underlying the present value of scheme liabilities	(1,020)	(2%)
Actuarial loss recognised in the STRGL	(9,889)	

The above percentages show the STRGL components as a percentage of the end of year value of the scheme's assets or liabilities as appropriate.

The scheme is now closed to new entrants and, under the method used to calculate pension costs in accordance with FRS 17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The Group's net assets, including the disclosed FRS 17 balance sheet item above, would be £113,434,000 at 28 December 2002.

b). Defined contribution schemes

The Company 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 £942,000 in the year (2001: £893,000).

There were no material amounts outstanding to any of the schemes at the year end.

8. Employees

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

	2002 No's	2001 No's
Management	**643**	585
Administration	**306**	290
Production	**2,610**	2,529
Shop	**13,498**	12,237
	17,057	15,641

The aggregate payroll costs of these persons were as follows:

	2002 £'000	2001 £'000
Wages and salaries	**156,568**	142,530
Social security costs	**10,171**	9,135
Other pension costs	**3,477**	2,691
	170,216	154,356

9. Taxation on profit on ordinary activities

a). Analysis of charge in period at 30% (2001: 30%)

		2002 £'000		2001 £'000
Current tax:				
Corporation tax at 30.0% (2001: 30.0%)				
- current year	**10,526**		8,827	
Total current tax		**10,526**		8,827
Deferred tax				
Origination and reversal of timing differences				
- current year	**1,454**		1,316	
- previous years	**-**		(210)	
Total deferred tax		**1,454**		1,106
Tax on profit on ordinary activities		**11,980**		9,933

NOTES TO THE ACCOUNTS
continued

9. Taxation on profit on ordinary activities *(continued)*

b). Factors affecting current tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	**36,666**	32,742
Tax on profit on ordinary activities at UK standard rate of tax of 30% (2001:30%)	**11,000**	9,823
Effects of:		
Capital allowances for period in excess of depreciation	**(1,454)**	(1,316)
Expenses not deductible for tax purposes	**147**	208
Lease rentals	**-**	(660)
Chargeable gains rolled over	**(65)**	(273)
Non-qualifying depreciation	**758**	789
Other	**140**	256
Current tax charge for period	**10,526**	8,827

10. Profit attributable to Greggs plc

Of the profit attributable to shareholders, £23,369,000 (2001: £22,534,000) 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.

11. Dividends

	2002 £'000	2001 £'000
On ordinary shares of 20p		
Interim paid: 23.5p (2001:21.0p)	**2,782**	2,477
Final proposed: 49.0p (2001:44.0p)	**5,788**	5,186
Total dividends: 72.5p (2001: 65.0p)	**8,570**	7,663

12. Earnings per share

Basic earnings per share are calculated on earnings after taxation of £24,686,000 (2001: £22,809,000) divided by the weighted average number of shares in issue for which consideration is receivable during the year of 12,015,526 (2001: 11,993,371).

Diluted earnings per share are calculated using the same earnings as those used for basic earnings per share, and a weighted average number of shares of 12,220,091 (2001: 12,153,399). This number includes 204,565 (2001: 160,028) shares being the dilutive effect of the share options in place at the year end.

13. Group statement of tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Shop fixtures and fittings £'000	Total £'000
Cost				
At 29 December 2001	52,070	57,879	82,501	192,450
Additions	13,250	10,581	18,312	42,143
Disposals	(755)	(4,202)	(7,271)	(12,228)
Reclassification	(721)	721	-	-
At 28 December 2002	**63,844**	**64,979**	**93,542**	**222,365**
Depreciation				
At 29 December 2001	10,674	31,031	26,622	68,327
Charged in year	1,267	6,731	8,815	16,813
Disposals	(311)	(3,457)	(7,191)	(10,959)
Reclassification	-	242	(242)	-
At 28 December 2002	**11,630**	**34,547**	**28,004**	**74,181**
Net book amount				
At 28 December 2002	**52,214**	**30,432**	**65,538**	**148,184**
At 29 December 2001	41,396	26,848	55,879	124,123

Included in land and buildings is an amount of £8,511,000 (2001: £1,218,000) in respect of freehold land which is not depreciated.

The net book amount of land and buildings comprises:

		2002		2001	
		£'000	**£'000**	£'000	£'000
Freehold property	Shops	**14,396**		15,242	
	Bakeries	**31,087**		20,578	
	Other	**6,115**		4,965	
			51,598		40,785
Long leasehold property	Bakeries		**264**		149
Short leasehold property	Shops		**352**		462
			52,214		41,396

NOTES TO THE ACCOUNTS
continued

14. Parent company statement of tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Shop fixtures and fittings £'000	Total £'000
Cost				
At 29 December 2001	24,021	58,412	82,989	165,422
Additions	13,136	10,581	18,312	42,029
Disposals	(705)	(4,202)	(7,271)	(12,178)
Reclassification	(721)	721	-	-
At 28 December 2002	**35,731**	**65,512**	**94,030**	**195,273**
Depreciation				
At 29 December 2001	4,368	31,302	27,013	62,683
Charged in year	611	6,731	8,815	16,157
Disposals	(276)	(3,458)	(7,191)	(10,925)
Reclassification	-	242	(242)	-
At 28 December 2002	**4,703**	**34,817**	**28,395**	**67,915**
Net book amount				
At 28 December 2002	**31,028**	**30,695**	**65,635**	**127,358**
At 29 December 2001	19,653	27,110	55,976	102,739

Included in land and buildings is an amount of £7,293,000 (2001: £nil) in respect of freehold land which is not depreciated.

The net book amount of land and buildings comprises:

		2002		2001	
		£'000	**£'000**	£'000	£'000
Freehold property	Shops	**7,397**		7,838	
	Bakeries	**16,922**		6,146	
	Other	**6,208**		5,058	
			30,527		19,042
Long leasehold property	Bakeries		**149**		149
Short leasehold property	Shops		**352**		462
			31,028		19,653

15. 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.

The trust holds 214,567 shares in Greggs plc (2001: 214,655). These are shown in the accounts at cost of £3,561,000 (2001: £3,563,000) and have a market value at 28 December 2002 of £6,947,000 (2001: £6,574,000).

The trust has registered a waiver in respect of dividends on these shares.

Parent Company

	2002 £'000	2001 £'000
Interest in subsidiary undertakings		
Shares at cost	**5,828**	5,828
Less: Amounts written off	**(638)**	(638)
	5,190	5,190
Employee Benefit Trust	**3,561**	3,563
	8,751	8,753

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	Dormant
Olivers (UK) Development Limited *	Dormant
Birketts Holdings Limited	Non-trading
J R Birkett & Sons Limited *	Non-trading
Greggs Trustees Limited	Trustee

* held indirectly

16. Stocks

	Group		Parent company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Raw materials and consumables	**4,685**	4,865	**4,685**	4,865
Work in progress	**1,645**	1,410	**1,645**	1,410
	6,330	6,275	**6,330**	6,275

NOTES TO THE ACCOUNTS
continued

17. Debtors

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Trade debtors	**525**	484	**525**	484
Amounts owed by subsidiary undertakings	**-**	-	**16,530**	18,331
Other debtors, including value added tax	**3,910**	5,383	**3,910**	5,383
Prepayments and accrued income	**7,305**	6,539	**7,305**	6,539
	11,740	12,406	**28,270**	30,737

18. Creditors: amounts falling due within one year

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Trade creditors	**24,721**	24,097	**24,721**	24,097
Corporation tax	**5,838**	4,786	**5,779**	4,580
Other taxes and social security costs	**4,299**	3,531	**4,299**	3,531
Other creditors	**16,120**	14,914	**16,120**	14,914
Accruals	**8,170**	8,224	**8,170**	8,224
Proposed final dividend	**5,788**	5,186	**5,788**	5,186
Deferred government grants	**7**	24	**7**	24
	64,943	60,762	**64,884**	60,556

19. Creditors: amounts falling due after more than one year

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Deferred government grants	**119**	109	**119**	109

20. Financial assets and liabilities

The Group's activities are financed by cash at bank and short term investments which comprise cash placed on deposit.

During the year the Group has placed funds in a deposit account denominated in Euros in preparation for its anticipated expansion into Europe.

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.

The Group considers that the interest rate and currency risks are 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 28 December 2002 the average interest rate earned on the closing cash balance was 3.5% (2001: 3.5%).

At 28 December 2002 the Group had no financial liabilities (2001: £nil). The Group has an overdraft facility of £10,000,000 of which £10,000,000 was undrawn at 28 December 2002 (2001: £10,000,000 undrawn).

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

21. Provisions for liabilities and charges - deferred tax

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
The provision is in respect of:				
Accelerated capital allowances	**13,423**	11,969	**10,704**	9,250

The movement in deferred tax is represented by the charge for the year.

22. Share capital

		Group and Parent company	
		2002	2001
		£'000	£'000
Authorised:			
25,000,000 ordinary shares of 20p		**5,000**	5,000
Issued and fully paid: Number of shares:			
12,000,632	At 29 December 2001	**2,400**	2,397
21,767	Issued in respect of share options	**4**	3
12,022,399	At 28 December 2002	**2,404**	2,400

Details of outstanding share options are given in note 5.

23. Share premium account

	Group and Parent company £'000
At 29 December 2001	**9,794**
Premium arising on issue of shares in respect of share options	**291**
At 28 December 2002	**10,085**

24. Profit and loss account

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
At start of year	**91,360**	76,214	**96,267**	81,396
Retained profit for the year	**16,116**	15,146	**14,799**	14,871
At end of year	**107,476**	91,360	**111,066**	96,267

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

NOTES TO THE ACCOUNTS
continued

25. Commitments

a). Capital commitments

Outstanding commitments for capital expenditure at 28 December 2002 not provided for in the accounts are as follows:

	Group		Parent company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Contracted for	**2,689**	2,161	**2,689**	2,161

b). Operating lease commitments

At 28 December 2002 the Group and Company had annual commitments under operating leases on land and buildings as set out below:

	2002	2001
	£'000	£'000
Operating leases which expire:		
Within one year	**1,195**	1,213
In the second to fifth years inclusive	**6,749**	5,882
After more than five years	**18,954**	16,690
	26,898	23,785

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.

26. Notes to the group cash flow statement

a). Reconciliation of net cash flow to movement in net funds

	2002	2001
	£'000	£'000
(Decrease) / increase in cash in the period	**(1,392)**	11,152
Cash outflow from decrease in debt	**-**	2,039
Movement in net funds in the period	**(1,392)**	13,191
Net funds at 29 December 2001	**30,027**	16,836
Net funds at 28 December 2002	**28,635**	30,027

b). Analysis of net funds

	At 29 December 2001 £'000	Cash flow £'000	Other changes £'000	**At 28 December 2002 £'000**
Cash in hand and at bank	30,027	(1,392)	-	**28,635**

DIRECTORS' REMUNERATION REPORT

Remuneration Committee

The names of the directors who have served on the Remuneration Committee of the Board during the year are Ian Gregg (Chairman), Sonia Elkin, Stephen Curran and Derek Netherton (with effect from August 2002). Mike Darrington and Andrew Davison have assisted the Committee in their deliberations on directors' remuneration.

The Remuneration Committee also received advice from Monks Partnership that materially assisted the Committee in their consideration of matters relating to directors' remuneration, benefits and incentives. Monks Partnership were selected and appointed by the Committee.

General Policy on Directors' Remuneration

The Company's policy is to establish competitive remuneration packages for its directors that will attract, retain and motivate individuals with appropriate skills and experience and will best serve the interests of the Company, its shareholders and its employees.

Remuneration packages for executive directors are designed so as to reward them fairly for their contributions within the range of benefits offered by other UK companies of equivalent size and to recognise the unusually complex nature of the combined retail, manufacturing and distribution operations of the Greggs business.

The Remuneration Committee aims to set basic salaries for executive directors at a level broadly equivalent to median salaries for individuals holding similar positions in comparable companies, with adjustment to reflect individual performance. Basic salaries are normally re-set every three years unless a material change in the business warrants earlier review. Basic salaries were last re-set in 2002, to take effect from 1 January 2003, on the basis of advice and information as to levels of remuneration in comparable companies provided by Monks Partnership. Between major reviews, basic salaries will normally rise in line with rates of increase adopted elsewhere in the Greggs business.

The Remuneration Committee seeks to structure total benefits packages in a manner which will align the interests of the executive directors with those of shareholders. The performance-related elements of the executive directors' remuneration packages, under which executive directors can receive payments in total of up to 50% of their basic salaries, consist of annual performance based cash bonuses and participation in the Company's Profit-Sharing Scheme (which distributes 10% of profits half-yearly to all employees on the basis of a formula related to service and salary levels). Such bonus payments are not pensionable. In addition, there will be occasional grants of options over shares in the Company, pursuant to one or more of the share option schemes operated through the Remuneration Committee. These include both Inland Revenue approved and unapproved long-term share incentive schemes, designed to encourage the executive directors and other 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 new shares over which the Company may grant options is limited and the Company has chosen to allocate most of the number available to the Company's Savings Related Share Option Scheme open to all employees, including executive directors. This has restricted the number of new shares available to be allocated under the discretionary Senior Executive Share Option Scheme under which the last grant of options (in which no executive director participated) was made in 2002. The policy adopted by the Remuneration Committee is that further grants of options will be awarded to executive directors under the Senior Executive Share Option Scheme, only when it is necessary to ensure that the value of options held is broadly in line with the median value of options held by directors holding similar positions in comparable companies. Unless granted pursuant to the all-employee Savings Related Share Option Scheme (under which options may be offered at a discount to market price), all options granted to executive directors will be at exercise prices at least equal to the market price of a share as at the date of grant.

The above policies enable the executive directors to receive potentially significant benefits in addition to their basic salaries, but only if value has been created for shareholders. The Remuneration Committee considers that, although the non-performance-related elements of the executive directors' remuneration packages are, rightly, substantial, the performance-related elements are significant in terms of providing motivation to the executive directors to improve shareholder value.

Fees payable to non-executive directors are set by a committee of the Board consisting only of executive directors (Mike Darrington and Malcolm Simpson) who periodically seek advice from external consultants as to the appropriate market rates applicable. Such advice was last obtained in 2002 from Monks Partnership and formed the basis upon which the fees payable in 2003 were set.

Policy on Performance Conditions

The performance conditions attaching to share options granted to the executive directors under the Company's Senior Executive Share Option Schemes have varied according to the date of grant. Such conditions are set by the Remuneration Committee following receipt of advice from external consultants as to prevailing market practice and in order to set challenging performance objectives linked to shareholder return. The Remuneration Committee intends that performance conditions will continue to be settled on this basis and applied to any future grants of options to the executive directors under the discretionary Senior Executive Share Option Schemes. Details of the performance conditions for options currently outstanding are set out in the section headed 'Share Options' below.

Whether performance conditions attached to share options have been met is tested by the Remuneration Committee, which compares the actual performance of the Company with relevant published statistics and, if necessary, obtains advice from external consultants in order to reach its conclusion. This ensures that no director is in a position to rule on whether any performance condition applicable to his own options has been satisfied.

No performance conditions have been attached to options granted pursuant to the Company's Savings Related Share Option Scheme, which is available for all employees, as the principal purpose of this scheme is to encourage employees at all levels within the Company to participate in, and to understand better, the growth in value of the Company and the rules of that scheme require that all options granted must be on the same terms.

Performance criteria in relation to the performance based annual cash bonuses payable to the executive directors are set by the Remuneration Committee each year in accordance with the general remuneration policy set out above.

Policy on Service Contract Notice Periods and Payments on Early Termination

The Company's policy on the duration of directors' contracts is that:

- existing executive directors should have service contracts terminable on one year's notice served by the Company or by six months notice served by the director. Future executive directors would be engaged on terms necessary to secure individuals of appropriate calibre, having regard to prevailing market conditions at that time;
- non-executive directors are appointed subject to the Company's Articles of Association, which require them to retire and to seek re-election at the first AGM after appointment. Thereafter, one half of the Board (other than those appointed since the last AGM), being those who have been longest in office since last re-election, and any other director who has not been elected or re-elected at either of the two preceding AGMs, must retire and seek re-election. The Nominations Committee advises the Board as to whether a particular director, whose turn it is to retire by rotation, should be nominated for re-election.

DIRECTORS' REMUNERATION REPORT
continued

The policy on termination payments for executive directors is that the Company does not normally make payments beyond its contractual obligations, including any payment in respect of notice to which a director is entitled. In exceptional circumstances, an additional ex-gratia payment may be considered, based on factors including the director's past contribution and the circumstances of the director's departure.

The Company's policy on notice periods changed at the end of 2002 when the executive directors agreed (without receiving any compensation) to reduce their entitlement to notice in all circumstances other than within 12 months following a change of control of the Company from two years to one year. Should either of the existing executive directors' employment by the Company be terminated within 12 months following a change of control of the Company, it has been agreed that he would be entitled to a payment by way of liquidated damages calculated on the basis of a two year, rather than one year, notice period. This provision was approved by the Remuneration Committee in recognition of the special circumstances applicable to these executives, both of whom have served the Company well for many years and who intend to continue to do so for the rest of their working lives.

Non-executive directors would not normally be entitled to compensation for early termination of their appointments prior to the date on which they would next be due to retire by rotation, or if not re-appointed at such time.

In addition to the above arrangements, for 2003, the executive directors have been awarded a performance based cash bonus such that the combined bonus to be received by each of them under this arrangement and the Company's Profit-Sharing Scheme will be set according to a straight line graph, subject to confirmation by the Remuneration Committee. By way of example as to how this graph would operate, if net profit per share before tax (excluding any property profit) adjusted for the issue of any shares during the period (other than those issued on the exercise of share options) for 2003 is greater than that for 2002 by 10%, the total bonus will be 20% of basic salary. If such net profit per share growth is greater than that for 2002 by 25%, the total bonus will be 50% of basic salary. Total bonus payments are capped at 50% of basic salary.

Non-executive Directors

The non-executive directors do not have service contracts with the Company. However, all of them do have letters of appointment. The terms of appointment of each non-executive director require that they seek re-election on a regular basis in accordance with the Articles of Association of the Company (see above). The fees payable to the non-executive directors cover all normal duties. In exceptional circumstances, where significant additional time commitment is required, the Board (or a duly authorised committee) may award additional fees. No right of compensation exists where the office is terminated, for whatever reason.

DIRECTORS' SERVICE CONTRACTS

Details of the directors' service contracts or letters of appointment are as follows:

Executive Directors

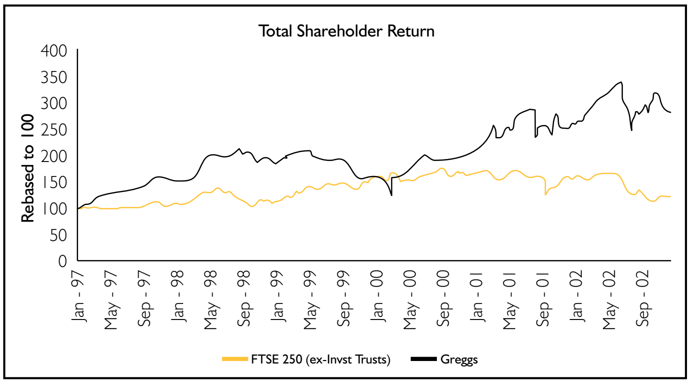
Mike Darrington has a service contract with the Company. His continuous period of service with the Company commenced on 15 July 1983.

Malcolm Simpson has a service contract with the Company. His continuous period of service with the Company commenced on 24 April 1973.

Both Mike Darrington and Malcolm Simpson have provisions in their contracts which enable them to be terminated by the Company on 12 months notice (in normal circumstances) or by the executive on 6 months notice. In addition to their basic salaries, each is entitled to participate in the Company's profit sharing scheme available to all employees and to a performance based cash bonus. They are also entitled to additional benefits including the use of a motor car, private medical insurance, life assurance, permanent health insurance and a contribution towards telephone expenses. The service contracts contain a special provision which operates only in circumstances where the executive director's employment with the Company is terminated within 12 months following a change of control of the Company. In those circumstances only they would be entitled to a payment calculated on the basis of a two year notice period. They will be entitled to a payment equal to their salary and the value of their other benefits (including bonus) for the full two year notice period and are obliged to accept this in full settlement of any claim they may have against the Company in respect of the termination of their contract. Their entitlement to this payment will not be affected if they in fact are able to reduce their loss by obtaining alternative employment during the normal notice period. This provision was introduced when the executives' notice periods in other circumstances were reduced from two years to twelve months and are considered by the Remuneration Committee to be appropriate in the case of executive directors who have served the Company for 20 years and 30 years respectively and who intend to devote the remainder of their working lives to the service of the Company.

PERFORMANCE GRAPH

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last 5 financial years against the total shareholder return for the companies comprised in the FTSE Mid 250 Index (excluding investment Trusts). This index was chosen for this comparison because it includes companies of broadly similar size to the Company.



Produced from information supplied by Thomson Financial, Datastream

DIRECTORS' EMOLUMENTS AND COMPENSATION

The following table sets out details of the emoluments and compensation received in 2002 by each director (excluding pension contributions, details of which are set out below).

	Salary/fees £	Estimated value of benefits £	Annual bonus and profit share £	Total 2002 £	Total 2001 £
Executive					
Mike Darrington	279,000	19,494	71,815	370,309	359,847
Malcolm Simpson	186,000	15,299	47,876	249,175	244,202
Non-executive					
Derek Netherton	66,667	-	-	66,667	-
Stephen Curran	21,250	-	-	21,250	20,250
Sonia Elkin	22,250	-	-	22,250	21,250
Colin Gregg	-	-	-	-	7,180
Ian Gregg	74,750	-	-	74,750	71,500
Susan Johnson	21,250	-	-	21,250	20,250
TOTAL	671,167	34,793	119,691	825,651	744,479

The fees for Stephen Curran were paid to a third party.

The fees for Sonia Elkin reflect the fact that she is the Chairman of the Audit Committee and the Senior Independent Non-executive Director.

No part of the remuneration, other than the basic salaries of the executive directors, is taken into account when calculating pension benefits.

SHARE OPTIONS

The following table sets out details of the share options (all of which were granted at a nominal or nil cost to the executive director concerned) held by, or granted to, each director during the year, according to the register of directors' interests:

	Number of options during year										
	At 29/12/01	Granted	Exercised	At 28/12/02	Exercise price £	Market price at date of exercise	Gain on exercise	Date of grant	Date from which exercisable	Expiry date	Scheme
Mike Darrington	5,000	-	-	5,000	13.55	-	-	Sep 96	Sep 99	Aug 03	Executive
	18,000	-	-	18,000	26.875	-	-	Mar 99	Mar 02	Mar 06	Executive
	199	-	-	199	20.98	-	-	Jun 99	Jun 04	Dec 04	SAYE
	27,900	-	-	27,900	17.015	-	-	Mar 00	Mar 03	Mar 07	Executive
Malcolm Simpson	3,500	-	-	3,500	13.55	-	-	Sep 96	Sep 99	Aug 03	Executive
	12,000	-	-	12,000	26.875	-	-	Mar 99	Mar 02	Mar 06	Executive
	199	-	-	199	20.98	-	-	Jun 99	Jun 04	Dec 04	SAYE
	18,600	-	-	18,600	17.015	-	-	Mar 00	Mar 03	Mar 07	Executive

The executive directors also have a potential beneficial interest in the Greggs Employee Benefit Trust (see note 15 to the Accounts).

The grants awarded in 1996 under the Senior Executive Share Option Scheme were conditional upon the Company's earnings per share increasing annually on an average over a three year period by inflation plus 4%.

On each of the grants awarded in 1999 and 2000 under the Senior Executive Share Option Scheme, the exercise of one half of the options granted was made conditional upon the growth in the Company's earnings per share over the three years from grant being greater than the median earnings per share growth of the companies comprised in the FTSE Mid 250 index (excluding Investment Trusts). The other half of the options granted was conditional upon growth in the earnings per share of the Company being at least 10% above the median earnings per share growth of such comparator companies within the same period.

No non-executive director has any options to acquire shares in the Company.

The mid-market price of ordinary shares in the Company as at 28 December 2002 was £32.375. The highest and lowest mid-market prices of ordinary shares during the financial year were £40.025 and £28.625 respectively.

PENSIONS

Both of the executive directors earned pension benefits under the Greggs 1978 Retirement and Death Benefit Scheme, the Company's defined benefit scheme, during the period under review. This scheme, which currently requires a contribution of 5.7% of pensionable salary from members, provides for up to two-thirds of final pensionable salary, dependant on length of service. Both of the executive directors also received contributions into the Company's money purchase defined contributions pension schemes during the period under review. No pension benefits were earned or accrued in respect of any non-executive director.

Defined benefit scheme

The following table sets out the change in each director's accrued pension in the Company's defined benefit scheme during the year and his accrued benefits in the scheme at the year end:

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement at age 65 as at 28 December 2002 £	Accrued annual pension entitlement at age 65 as at 29 December 2001 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.7% £
Mike Darrington	8/3/42	15/8/83	92,410	82,379	10,031	8,631
Malcolm Simpson	15/10/41	24/4/73	91,152	82,766	8,386	6,979

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 inflation rate of 1.7% shown in the table above is that published by the Secretary of State for Social Security in accordance with Schedule 3 of the Pensions Schemes Act 1993.

Executive Director	Cash equivalent transfer value as at 29 December 2001 £	Contributions made by the director 29 December 2001 £	Increase in the cash equivalent transfer value since £	Cash equivalent transfer value as at 28 December 2002 £
Mike Darrington	1,084,581	15,942	97,424	1,183,648
Malcolm Simpson	1,058,847	10,413	79,615	1,153,803

Note: cash equivalent transfer values have been calculated in accordance with Actuaries Guidance Note GN11.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

Money purchase schemes

The Company has paid the following contributions to two of the Company's money purchase schemes (the Greggs Bakeries (MJD) Retirement Benefit Scheme and the Greggs Senior Executive Pension Scheme) for the benefit of executive directors during this financial year:

Director	Contribution in respect of 2002 £	Contributions in respect of any other financial year but made in 2002 £	Total contributions made during 2001 £
Mike Darrington	67,800	-	67,800
Malcolm Simpson	9,267	-	8,900

APPROVAL BY SHAREHOLDERS

At the Annual General Meeting of the Company to be held on 16 May 2003, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 7 March 2003.

Signed on behalf of the Board

Ian Gregg, Director

Chairman of Remuneration Committee

7 March 2003

CORPORATE GOVERNANCE

The Combined Code

The Board recognises the importance of, and is committed to, high standards of corporate governance and to integrity and high ethical standards in all of its business dealings.

The Board considers that it has complied throughout the period under review with the principles of governance set out in Section 1 of the combined code on corporate governance appended to the Listing Rules published by the UK Listing Authority ("the Combined Code"), apart from the provisions relating to the length of executive directors' notice periods. During the period under review, the service contracts for both of the executive directors contained a requirement that the Company give two years notice of termination. With effect from 1 January 2003 the executive directors have agreed (without compensation) to a reduction in their notice periods to one year, save that they will be entitled to a payment by way of liquidated damages calculated by reference to a two year notice period if termination takes place within 12 months following a change of control of the Company. The Remuneration Committee considers that such protection is reasonable for individuals who have given over 20 and 30 years service respectively to the Company and who intend to continue to do so for the remainder of their working lives.

The following statements describe how the relevant provisions of the Combined Code are applied to the Company.

The Board

The Board, under the non-executive chairmanship of Derek Netherton, meets regularly to discharge its duties. At these meetings, it reviews Group strategy, performance and matters reserved for the Board. Whilst the executive responsibility for running the Company's business rests ultimately with the Managing Director, Mike Darrington, the non-executive directors fulfil an essential role in that they ensure that the strategies proposed by the executive directors are fully discussed and critically examined. 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 and considers that it effectively leads and controls the Company.

The Board currently comprises 2 executive and 5 non-executive directors as follows:-

Derek Netherton (Non-Executive Chairman), 58, spent his career in investment banking and retired in 1996 from his position as joint head of corporate finance at J Henry Schroder & Co. He is a non-executive director of Next plc, Hiscox plc, St James's Place Capital plc, Plantation & General Investments plc and Life Assurance Holding & Corporation Limited. He was appointed to the Board on 1 March 2002 and was appointed Chairman in August of the same year.

Mike Darrington (Managing Director), 61, 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 (Finance Director), 61, 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.

Stephen Curran, 59, 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 Cinven. He is a non-executive director of Jarvis Hotels plc and a number of unquoted companies.

Sonia Elkin OBE, 70, 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 as the Senior Independent Non-Executive Director.

Ian Gregg OBE, 63, 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 as Managing Director 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 could avail itself of his unequalled experience of both the industry and the Company. Ian stepped down from the Chairman's role in August 2002.

Susan Johnson OBE, 45, 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 reviewing the guidance in the Combined Code, all of the non-executive directors are considered by the Board to be independent of management and free from any business or other relationship which would materially interfere with the exercise of their independent judgement. As stated in the interim announcement issued on 2 August 2002, the Board is taking steps to add to the number of independent non-executive directors on the Board.

The Company's Articles of Association require that all directors must retire and seek re-election at the first AGM following appointment. Thereafter, one half of the directors (other than those appointed since the last AGM) being those who have been in office longest since last re-election and any other director who has not been elected or re-elected at either of the two preceding AGMs must seek re-election at each AGM. All directors are able to receive training and to take independent professional advice at the expense of the Company. They also have direct access to the Company Secretary. All directors are appraised annually.

Board Committees

The Board delegates some of its activities to the following committees, each of which has written terms of reference:

The Audit Committee consists of three independent non-executive directors (Sonia Elkin – Chairman, Susan Johnson and Stephen Curran). It meets at least twice a year. Its main functions are to endeavour to ensure (i) that the accounting and financial policies of the Company are proper and effective; (ii) the integrity of the financial statements and information published by the Company; and (iii) that the financial controls of the Company are proper and effective. The Committee, in performing these functions, reviews the annual and interim financial statements issued to shareholders, compliance with financial reporting standards and the size and remit of the internal audit function. The Committee also considers and makes recommendations to the Board in relation to the independence and objectivity of the external auditors (including the impact of any non-audit work undertaken by them) and their suitability for re-appointment. The Committee determines the scope of the external audit in discussion with the external auditors and agrees their fees in respect of the audit. The Committee normally meets with the Finance Director and the external auditors in attendance, although time is set aside annually for discussion between the Committee and the external auditors in the absence of all executive directors.

The Remuneration Committee consists entirely of independent non-executive directors (Ian Gregg – Chairman, Stephen Curran, Sonia Elkin and Derek Netherton). Its main duties are to determine the basic salary, benefits in kind, terms and conditions of employment, performance-related bonuses, share options and pension benefits of the executive directors. In order to assist with these duties the Committee has, during 2002, used the services of external consultants, Monks Partnership. The Committee is also responsible for the operation of the Company's share option schemes. The Directors' Remuneration Report is set out on pages 35 to 39 of this Annual Report.

The Nominations Committee comprises Derek Netherton - Chairman, Mike Darrington and Sonia Elkin. Its main functions are to review the balance and constitution of the Board; to advise the Board as to whether directors retiring by rotation should be nominated for re-election by the members; and to approve and manage the process for setting the specification for all Board appointments, identifying candidates who meet that specification and making recommendations to the Board in respect of all new Board appointments.

Relations with shareholders.

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

The AGM provides a forum for communication with investors, with the chairmen of the Board and its committees available to answer any issues raised.

At the AGM, the balance of proxy votes cast for and against each resolution is 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 AGM as separate resolutions.

Accountability, Audit and Going Concern.

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 Chairman's statement and Managing Director's report, which supplement the statutory accounts themselves. A statement of directors' responsibilities in respect of the preparation of accounts is given on page 14.

The Audit Committee has reviewed and 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 (non-audit fees amounted to £62,000 during 2002 and related mainly to taxation compliance advice). The Company has an internal audit function. This assists in its monitoring of systems of control and augments the examination carried out by the external auditors.

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.

Risk Management.

The Board is ultimately responsible for the Group's system of internal control, which covers all aspects of the business, and for reviewing its effectiveness. However, any such system can only be designed to manage, rather than eliminate, the risk of failure to achieve the Company's objectives and, therefore, is only able to provide reasonable, and not absolute, assurance against material misstatement or loss. The Directors regularly review the risks to which the Company is exposed, as well as the operation and effectiveness of the system of internal controls. This is an ongoing process, involving the identification, evaluation and management of the significant risks faced by the Company. Key systems of the internal control system, which have been in place during the whole of the period under review, are:-

- Board of Directors
  The Board takes a proactive approach to the management of all forms of risk, and views risk management as a vital constituent of its role. The Board holds five scheduled meetings a year. At each of these meetings the effectiveness of the controls relating to the most significant risks (i.e. those which may restrict the Company's ability to meet its objectives) are monitored and reviewed. Remedial action is determined where appropriate. For some key risks, where it is felt necessary, specialist advice is sought from external agencies and professional advisers. The Board also reviews, at least annually, the level and scope of insurance cover maintained within the business. The Board receives regular reports from Management on significant changes in the business and external environment which might affect the risk profile. It has also 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.

- Management Board
  The Management Board, answerable directly to the Managing Director, is responsible for implementing decisions of the Main Board and providing protection against the major risks by various techniques, including sharing best practice, monitoring, supervision and training.

CORPORATE GOVERNANCE

continued

- Risk Committee
  A Risk Committee, consisting of the heads of each management function within the business (including Health and Safety, Food Safety, Personnel, Production and Purchasing), has responsibility for analysing, assessing, measuring and understanding the Company's risk environment, as well as devising a sound risk management strategy for review and approval by the Board. The Risk Committee reports it findings and important changes to the Board on a regular basis through personal presentation, narrative reports and key performance indicators (internal and external to the organisation). The Risk Committee also feeds the results of its assessments back into the business planning for each division at least annually. The risks are assessed on a regular basis across all functional areas but, in particular, the areas of Food Safety, Health and Safety, information flow, asset protection and Regulatory Requirements.

- Policies and Procedures
  Policies and procedures, covering control issues across all aspects of the business, are defined and communicated to the respective managers and staff at all levels. Adherence is monitored and reported upon on an ongoing basis.

- Health and Safety
  The Company is committed to improving continuously the working environment with the objective that accidents and work related ill health should be substantially reduced. An occupational health strategy has been produced with Health and Safety Officers and Occupational Nurses appointed in every Division. Targets are set and programmes are devised to implement them. This approach involves a rigorous health assessment, during which hazards are identified, risks assessed, control measures applied and improvement actions agreed to manage residual risks to an acceptable level.

- Financial Reporting
  The Company operates a comprehensive financial control system that incorporates Divisional Financial Controllers who have responsibility for financial management within each Division. Each Divisional Financial Controller works closely with their respective Divisional Managing Director to monitor performance at Divisional Board level as against planned and prior year comparatives. In addition, assets and liabilities are scrutinised at several levels on a regular basis and remedial action taken where required. A comprehensive annual planning process is carried out which determines expected levels of performance for all aspects of the business. Each Divisional Financial Controller also reports directly to the Finance Director.

- Internal Audit
  The internal audit function visits every Division at least once in every financial year and reviews performance of the Division across a range of financial and non-financial requirements, reporting findings to the relevant senior managers and direct to the Audit Committee.

The Board confirms that it has reviewed the effectiveness of the system of internal control (covering all controls, including financial, operational, compliance and risk management), during the period under review.

CORPORATE SOCIAL RESPONSIBILITY

The Company has established an aspirational statement of values which clearly sets out behaviours that are embraced by the Board and expected of all colleagues.

"We will be enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect."

This has been communicated to all who work in the business and is becoming embedded in the Company's culture.

Our culture and values are built upon a foundation of awareness of our social responsibility. Greggs is committed to making a positive difference for our customers, our people, our suppliers and for the wider communities in which it operates.

Customers, people and suppliers

This positive difference will result from the increasing adoption of our values as a basis for all of our activities. Our people are expected to use them as a reference point in their relationships with each other and, in turn, with customers and suppliers.

Our values act as a framework within which the business seeks to manage its activities and are carefully considered in the setting of policies by which we operate and which, in turn, affect the way in which we operate.

In particular, this affects the areas of food safety and health and safety which are key areas of focus for Greggs' customers and people.

Wider Communities

Greggs also seeks to use these values in its relationships with the wider community and, by doing so, have a beneficial effect on the lives of people generally, for example:

Charities

- On a nationwide basis, Greggs is a member of the "Per Cent" Club and made charitable donations of £379,000 in 2002, the bulk of which was directed through Greggs Trust.
- Greggs Trust is a registered charity, founded by Ian Gregg in 1987. Its main objective is the alleviation of the effects of poverty and social deprivation in the areas where the Company trades. Its income in 2002 was £635,000, derived partly from the Greggs plc donation, staff fund-raising initiatives, (many staff fund raising activities, such as Bakery open days, direct the proceeds to Greggs Trust), and donations received from employees under Give As You Earn (the Company's Payroll Giving Scheme). The balance was received in the form of donations from major shareholders and income from investments (including shares in Greggs plc) held by the Trust. Funds are distributed by the Trustees and via the 13 staff Charity Committees operating across the country, offering support to good causes within our trading areas.
- The Greggs Breakfast Club scheme is designed to get children in selected primary schools off to a better start by providing them with free breakfasts. Greggs funds all of the food, including providing fresh bread from the local Greggs shop, together with the necessary equipment. Under the now well established model, Greggs staff work with school teachers to encourage parents, grandparents and others to run the clubs, including serving the breakfasts, thereby helping them to help others in their own communities. There are already over 40 Greggs Breakfast Clubs and it is intended that this will increase over time. The concept has been validated by external independent research, which has shown that breakfast club attendance encourages children to get to school on time and increases attentiveness in class.
- A group of dedicated staff work together for the benefit of the community by organising the major annual fun run sponsored by Greggs of Gosforth in aid of children's cancer research. This has raised well over £2 million since its inception in 1983. A similar run is due to take place for the first time in Manchester in 2003.
- The Company's investment of £500,000 in 2000 in the Newcastle Employment Bond for a five year period, which is secured as to repayment by Northern Rock plc. This investment is at zero rate of interest. The purpose of the investment is for all the interest foregone to be used to help tackle long term unemployment in the Newcastle area.

Although Greggs provides funding and makes time available for its staff to become engaged in these community activities, the real credit is due to the staff themselves, at all levels, for their voluntary commitment and for the inestimable benefit of what they achieve in Greggs' name.

The Environment

The Company recognises the importance of protecting our environment for future generations and is committed to carrying out its activities with due consideration for the adverse environmental impacts of its operations and in line with "Our Values".

Statement of Intent

Greggs plc has identified the key environmental impacts of its activities. We are committed to an ongoing programme of continual reduction of any adverse impacts and prevention of pollution consistent with our long term business objectives. In support of this policy the Company intends that it will:

- *Develop and implement a recognised Environmental Management System (EMS).*
- *Comply with all relevant environmental legislation, regulation and other requirements applicable to the Company or to which the Company subscribes.*
- *Endeavour to reduce waste at source via the efficient use of resources and encourage re-use and recycling of wastes.*
- *Work towards increasing energy efficiency at all its sites.*
- *Monitor and aim to improve the performance of vehicles owned by Greggs plc.*
- *Work towards ensuring that policies and procedures are in place so that accidents and incidents with potential adverse environmental impact are controlled as far as is reasonably practicable.*
- *Progressively make employees aware of the environmental issues relevant to their role within Greggs plc.*
- *Take into account the adverse impact on the environment of any capital expenditure project.*

In order to manage these commitments the Company intends to set appropriate objectives and targets, which will be monitored and reviewed regularly.

10 YEAR HISTORY

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Turnover (£'000)	110,426	167,851	219,514	238,465	265,941	291,420	308,678	339,008	377,556	422,600
Profit on ordinary activities before taxation (£'000)	9,019	12,017	13,056	15,673	18,035	20,214	21,520	26,356	32,742	36,666
Shareholders' funds (£'000)	30,475	36,591	41,219	48,107	58,384	69,585	80,896	88,169	103,554	119,965
Earnings per share (pence)	53.0	71.0	79.0	95.8	121.1	122.8	135.1	162.3	190.2	205.5
Adjusted earnings per share (pence)	53.0	71.0	79.0	95.8	111.2	122.8	135.1	162.3	190.2	205.5
Dividend per share (pence)	18.0	23.0	26.0	32.0	37.0	41.0	45.0	55.0	65.0	72.5
Cash generated by operations (£'000) (before dividends, tax and capital expenditure)	14,670	25,251	20,838	24,955	30,408	34,902	34,526	43,431	50,418	55,555
Capital expenditure (£'000)	5,643	15,008	11,931	15,669	24,364	26,204	22,403	21,397	27,385	42,143
Acquisition of Baker's Oven (£'000)	-	19,547	-	-	-	-	-	-	-	-
Number of shops in operation at year end	499	930	967	1,032	1,057	1,072	1,084	1,105	1,144	1,202

DIRECTORS

Derek Netherton (Non-executive chairman)†ø

Mike Darrington FCA (Managing)ø

Malcolm Simpson FCA (Financial)

Ian Gregg OBE (Non-executive)†

Steven Curran FCCA (Non-executive)*†

Sonia Elkin OBE (Non-executive)*†ø

Susan Johnson OBE (Non-executive)*

*Member of Audit Committee
†Member of Remuneration Committee
øMember of Nominations Committee

SECRETARY AND REGISTERED OFFICE

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Fernwood House
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Newcastle upon Tyne
NE3 1HA

Merchant Bankers
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Solicitors
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Central Square South
Orchard Street
Newcastle upon Tyne NE1 3XX

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham Kent BR3 4TU

NATIONWIDE COVERAGE

GREGGS

SHOP NUMBERS	2002	2001
Scotland	125	118
Gosforth	112	112
Cumbria	51	50
Yorkshire	112	102
North West	125	120
Midlands	129	119
Treforest	91	81
South East	228	203
TOTAL	973	905

BAKERS OVEN

SHOP NUMBERS	2002	2001
Scotland	32	33
North	49	51
Midlands	85	88
South	63	67
TOTAL	229	239

	2002	2001
TOTAL GROUP	1,202	1,144

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