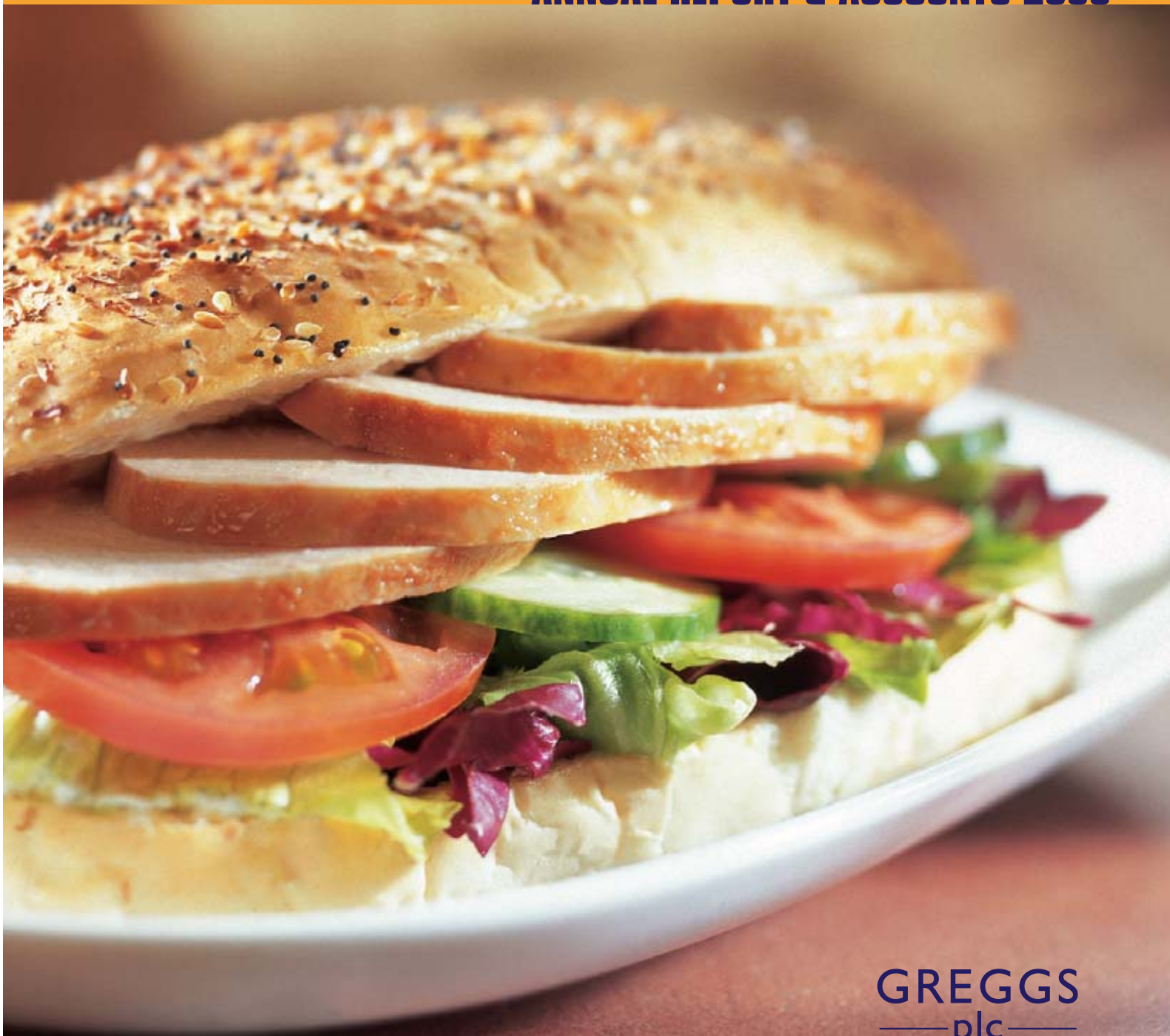


A SLICE OF OUR LIFE

ANNUAL REPORT & ACCOUNTS 2005



GREGGS
—plc—

Financial Highlights

	2005 £'m	2004 £'m
Turnover	533.4	504.2
Pre-tax profits	50.2	47.8
Post-tax profits	34.1	32.3
Shareholders' funds	181.5	157.2
Capital expenditure	41.7	25.1

	Pence	Pence
Earnings per share	282.1	270.5
Dividend per ordinary share	106.0	96.0

Contents

3	MISSION AND VALUES
4	CHAIRMAN'S STATEMENT
8	MANAGING DIRECTOR'S REPORT
16	DIRECTORS' REPORT
24	STATEMENT OF DIRECTORS' RESPONSIBILITIES
25	REPORT OF THE INDEPENDENT AUDITORS
27	CONSOLIDATED INCOME STATEMENT
27	CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
27	PARENT COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE
28	CONSOLIDATED BALANCE SHEET
29	PARENT COMPANY BALANCE SHEET
30	CONSOLIDATED STATEMENT OF CASHFLOWS
31	PARENT COMPANY STATEMENT OF CASHFLOWS
32	NOTES TO THE CONSOLIDATED ACCOUNTS
66	DIRECTORS' REMUNERATION REPORT
73	CORPORATE SOCIAL RESPONSIBILITY
74	TEN YEAR HISTORY
74	DIRECTORS & ADVISERS
75	SHOP ALLOCATION

Financial calendar

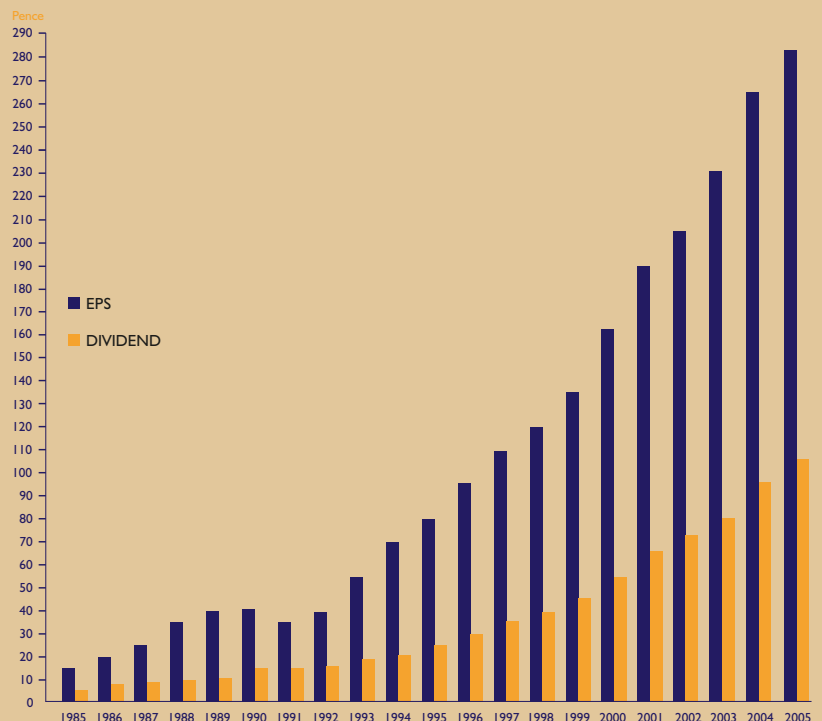
Announcement of results and dividends

Half year	Early August
Full year	Early March

Dividends

Interim	Mid October
Final	Late May

Annual report posted to shareholders	Early April
Annual General Meeting	10 May 2006



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 1,300 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, shareholders and the wider community.

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. This will be supported by working conditions that meet the needs of our present and future people.

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 continued emphasis on social responsibility will encourage even greater involvement in local charity activities and social projects, and a growing 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.

Our Culture

We are achievers! Working hard in a friendly and informal way, where everyone matters.



Derek Netherton
Chairman

As expected, we made modest progress this year in the face of an increasingly challenging trading environment and substantial cost pressures in the second half, particularly in energy. This is the Group's fourteenth consecutive year of profit, earnings and dividend increases, and our strategy remains focused on the delivery of continued growth in the longer term.

“We are extremely proud of the quality of the beef we supply to Greggs.”

Commitment to quality, always



CHAIRMAN'S STATEMENT

RESULTS

Group sales for the 52 weeks ended 31 December 2005 increased by 5.8 per cent to £533 million (2004: £504 million), including like-for-like sales growth of 4.0 per cent. Operating profit rose by 3.0 per cent to £47.1 million (2004: £45.8 million), representing an operating margin of 8.8 per cent (2004: 9.1 per cent). This reduction reflected the decline in our like-for-like sales growth as the year progressed, and significant cost increases particularly for shop wages and shop and bakery energy. Although this year included one fewer trading week than 2004, a more favourable pattern of shop holiday closures over the Christmas period meant that there was little net effect on profit.

After increased finance income of £3.0 million (2004: £2.0 million) as a result of higher average cash balances, pre-tax profit improved by 5.0 per cent to £50.2 million (2004: £47.8 million). Diluted earnings per share rose by 4.2 per cent to 278.9 pence (2004: 267.7 pence). Net cash in the balance sheet at the year end was £65.6 million (2004: £62.6 million), an increase of £3.0 million.

DIVIDEND

The Board recommends a final dividend of 70.0 pence per share (2004: 66.0 pence), an increase of 6.1 per cent. Together with the interim dividend of 36.0 pence (2004: 30.0 pence), paid in October 2005, this makes a total for the year of 106.0 pence

(2004: 96.0 pence). This is a rise of 10.4 per cent and the increased dividend is covered 2.6 times by diluted earnings per share.

This is our twenty-first consecutive year of dividend growth since Greggs came to the stock market in 1984, which reflects the Group's consistently strong cash generation, and our continued growth in earnings per share.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 25 May 2006 to shareholders on the register at 28 April 2006.

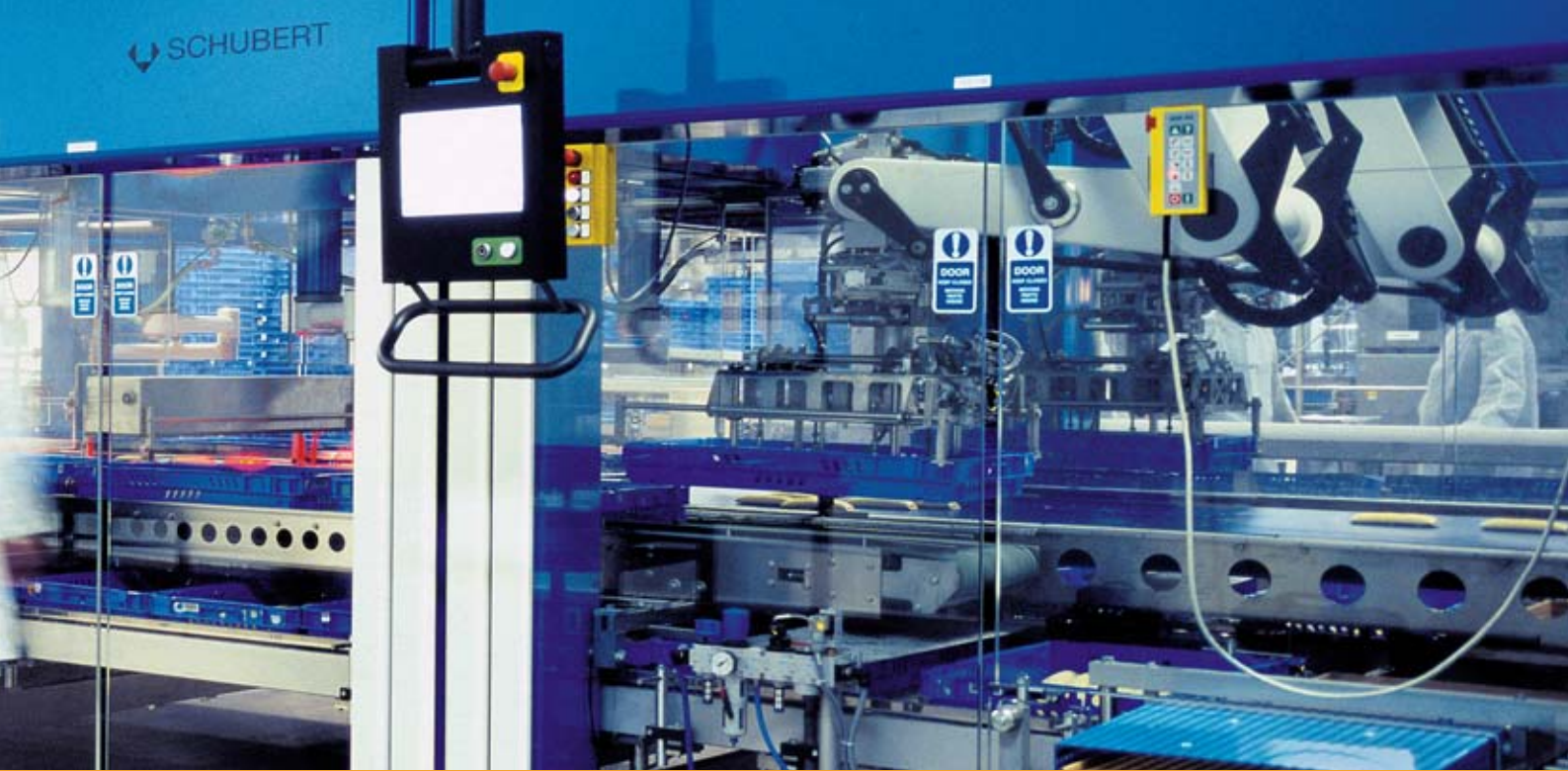
BUSINESS HIGHLIGHTS

Trading conditions grew more challenging as the year progressed, as growth in our market place slowed. Increasing pressure on consumer spending, reduced activity on the high street and increased competition were reflected in our performance across the country. We have focused on controlling our costs to cope with this demanding environment, while maintaining our high standards of product quality, presentation and service. New shop openings exceeded our target and we have continued to invest in brand advertising and shop refurbishments designed to increase consumer awareness and appeal. Mike Darrington provides a fuller commentary on these and other trading and business development issues in his Managing Director's Report on pages 8 - 14.



“Our savoury plant at Balliol Park allows us to control product quality while maximising efficiency.”

State-of-the-art production facilities



CHAIRMAN'S STATEMENT CONTINUED

THE BOARD

Malcolm Simpson, who reaches the age of 65 in October, has decided to retire as Finance Director after serving on the Board in that position since 1975. He will relinquish the finance role with effect from our AGM in May, though he will remain an Executive Director with continuing responsibility for our important IT function. I would like to record our appreciation of his exceptionally long, dedicated and effective service.

Richard Hutton FCA (37), who is currently Deputy Finance Director, is appointed to the Board as an Executive Director with effect from 13 March 2006, and will succeed Malcolm as Finance Director in May. Richard qualified as an accountant with KPMG and gained career experience with Procter & Gamble before joining Greggs in 1998. He is a Non-Executive Director of Northern Recruitment Group plc.

We are delighted to welcome Sir Ian Gibson CBE (59) who has agreed to join the Board as an additional Non-Executive Director with effect from 1 April 2006. Ian was Chief Executive of Nissan Europe, Senior Vice President of Nissan Motor Company (Japan), Deputy Chairman of Asda Group and Chairman of BPB plc. Ian is a Non-Executive Director of Northern Rock plc and of GKN plc. On appointment, Ian will become a member of the Company's Audit and Remuneration Committees.

PEOPLE

Perhaps our greatest competitive strength is the cheerfulness and dedication of our excellent team in our shops and bakeries, and their commitment to delivering customer satisfaction by providing excellent products and service. Once again I would like to express the Board's thanks for their hard work during the year.

PROSPECTS

The trends that emerged during the second half of 2005 have continued in the current year to date. Like-for-like sales in the first nine weeks are level with last year, and we are facing increases in the order of £5 million in our energy costs. This includes the full year impact of a new one year electricity supply agreement covering the majority of our shops, which took effect in autumn 2005; this winter has also brought significantly increased gas and power costs in our bakeries and some larger retail outlets not covered by our contract. We believe that it will prove difficult to recover these extra costs through higher selling prices, given the less buoyant consumer spending climate and increased competition.

We are taking action to ameliorate the effects of this more challenging trading climate by continuing to bear down on costs across the Group as well as finding more cost effective ways of increasing sales. However, profits in the first nine weeks are materially below the level of last year; whilst it is much too early to predict the performance of the business for the year as a whole, we believe that it is unlikely that we will attain the level of profit achieved in 2005. The business has great fundamental strengths in its brands, reputation, finances, management and people, and I am sure that these will continue to stand us in good stead during this testing period.

Derek Netherton

Chairman

10 March 2006

MANAGING DIRECTOR'S REPORT



Sir Michael Darrington
Managing Director

We have achieved another record result despite slowing sales growth and increasing cost pressures in the second half. This is a testimony to the strength of our proposition and above all to the quality of our excellent team of people. Their pride and confidence in the business, and their commitment to providing a friendly and efficient customer service, are our greatest assets for the future.

TRADING PERFORMANCE

As the Chairman has noted, trading conditions grew progressively more difficult during 2005. These affected our operations under both our brands, and in every part of the country. After a healthy start, with like-for-like sales growth of 5.8 per cent in the 19 weeks up to our AGM in May, growth slowed in the final weeks of the first half and remained under pressure for the remainder of the year. Following the 5.2 per cent uplift reported for the first half, which included core volume growth of 2.3 per cent, second half like-for-like sales increased by an underlying 2.0 per cent, increased to 3.0 per cent by the benefit of additional trading days over the Christmas holiday period. Core volume in the second half was level with last year. The like-for-like sales increase for the full 52 weeks was 4.0 per cent, including core volume growth of 1.0 per cent.

Taking the year as a whole, the weather was average for our business, and we do not believe that it had any appreciable effect on our performance. More important factors appear to have been a general slowing of growth in our market place, influenced by increasing pressure on consumer spending and reduced activity on

the high street. This has led to reduced demand from both shoppers and shop workers, while the proliferation of takeaway food outlets in recent years has created an increasingly competitive trading climate.

Our selling price inflation was 2.9 per cent in the first half and 3.0 per cent in the second, averaging 3.0 per cent for the year. Although this partly reflected our continuing programme to upgrade our products, we were able to recover some of our increased costs in wages and energy, though the major impact of higher electricity and gas prices came only in the final months of the year. The environment for ingredient costs was generally benign throughout the year, though our suppliers are now also coming under pressure from rising energy prices. We can be certain that energy will be a major inflationary element for the foreseeable future, with our total costs in this area in 2006 likely to be some £5 million higher than last year.

Including the benefit of new shop openings in the current and prior year, total sales rose by 5.8 per cent, comprising increases of 9.1 per cent in the first half and 3.3 per cent in the second.



National Baking Industry Awards Student Bakers of the Year

“Both Daniel and I would like to thank Greggs for providing us with the best training and guidance to help us get this far.”

MANAGING DIRECTOR'S REPORT CONTINUED

Operating profit grew by 8.7 per cent in the first half and 0.7 per cent in the second, making an increase of 3.0 per cent for the year. Pre-tax profit improved by 5.0 per cent to exceed £50 million for the first time.

GREGGS BRAND UK

The nine Greggs divisions in the UK account for over 80 per cent of our retail portfolio and are the main contributor to Group profits. Like-for-like sales for the year grew by 4.2 per cent, including core volume growth of 1.1 per cent. In the first half like-for-like sales increased by 5.5 per cent, including core volume growth of 2.3 per cent, while in the second half like-for-like sales advanced by 3.1 per cent.

We have trialled several new sales promotion activities to help drive core growth, and we plan to roll out the more successful of these as the year progresses.

BAKERS OVEN BRAND

The four Bakers Oven divisions grew more slowly than the Greggs brand, with like-for-like sales for the year increasing by 3.2 per cent, including core volume growth of 0.5 per cent. After a 3.9 per cent like-for-like uplift in the first half, including a core volume gain of 2.0 per cent, the second half produced a like-for-like increase of 2.7 per cent with nearly maintained volumes. Selling price inflation over the year as a whole was 2.7 per cent, compared with 3.1 per cent in Greggs.

Bakers Oven's seated catering business makes it more exposed than Greggs to the effects of reduced consumer activity on the high street, though its management has enjoyed considerable success in countering these trends by focusing and simplifying the catering

offer and improving products. Although the profit contribution from the brand was lower than in 2004, when a very significant improvement was achieved, I believe that the longer term trends in Bakers Oven are encouraging.

GREGGS CONTINENTAL EUROPE

We opened a third shop in Antwerp in September 2005 and continue to trade in two locations in Leuven, giving us a total of five shops in Belgium. Sales trends are positive and our knowledge of the market place is constantly improving. We expect to open a further two to three shops in Belgium over the next 12 months.

RETAIL PROFILE

We opened 72 new shops during the year and closed 16, giving us a net increase of 56 units to a total of 1,319 at the year end. This exceeded the target of 45 net openings that we set at the beginning of the year.

At 31 December 2005 there were 1,098 units under the Greggs brand in the UK, a net addition of 53; five under the Greggs fascia in Belgium, an increase of one; and 216 under the Bakers Oven brand, a net addition of two.

Work has continued to refine and develop the new Greggs shop format, so as to reinforce our bakery heritage and reduce the cost of refits. I am pleased to report that we have made significant progress in this area, reflected in an acceleration of our refurbishment programme during 2005, when we completed 34 comprehensive shop refurbishments and 15 minor refits.

We plan to add approximately 35 new shops to our portfolio in 2006, net of closures. These will be predominantly under the Greggs brand in the UK.

“The bread we use in our sandwiches is baked fresh every day.”

Baking on your doorstep

Bakery
baking every morning from 4am!



...y, Bakers Oven are creating fresh bread, cakes and pastries
...n. This ensures you have the freshest possible taste experience!



MANAGING DIRECTOR'S REPORT CONTINUED

PRODUCT PROFILE

Takeaway food categories continued to outperform other product groups under both our brands. Although they are now a small proportion of our sales, we were encouraged that our marketing focus on re-emphasising our bakery credentials helped to generate modest growth in sales of bread and rolls in the second half, for the first time in many years. During 2005 we have significantly strengthened our capability in the area of category management, in terms of both people and processes, allied to the substantial resources and facilities at our Group Technical Centre in Newcastle upon Tyne. We expect to see increasing benefit from our initiatives in both product development and range optimisation during 2006 and beyond. One important example of this will be the expansion and improvement of our healthier-eating range.

CAPITAL INVESTMENT

Capital expenditure during the year totalled £41.7 million, a substantial increase on the £25.0 million we invested in 2004, but below our previous budget of £47.0 million. The main components of our expenditure were £18.2 million (2004: £13.4 million) on new shops and refurbishments, £18.4 million (2004: £8.3 million) on land, buildings and plant, and £5.1 million (2004: £3.3 million) on vehicles.

The construction of our second central savouries unit at Balliol Park, Newcastle upon Tyne, is progressing on schedule and on budget. We expect to commission this major new plant, which has involved

a total investment of £13 million, during the current year, providing additional capacity for the future growth of the business, enhanced efficiencies and improved working conditions for our staff. We have nearly completed a new production and distribution facility for Bakers Oven at Balliol Park to replace the Carricks bakery in the city.

During 2006 we plan to invest £40 million in the business, with major projects including the relocation of our Rutherglen bakery in Glasgow to a new site at nearby Cambuslang, where we will construct a new plant delivering improved productivity and with the capacity to serve more shops in Scotland as our expansion continues.

CASH FLOW AND BALANCE SHEET

The business is consistently and strongly cash generative, and this has permitted us to increase dividends to shareholders by a total of 32.5 per cent over the last two years while maintaining an exceptionally strong balance sheet. We have also made an additional contribution of £4.0 million to our main pension scheme, notwithstanding which we have a deficit of £9.7 million measured under IAS 19 at 31 December 2005.

Net cash at the year end totalled £65.6 million, an increase of £3.0 million during the year, though our average cash balances were substantially higher than in 2004. We are currently considering plans for the use of our surplus cash.

Keeping it fresh

“Our sandwiches are made fresh in the shop every day with bread we baked. We even bake all our own pasties and muffins!”



MANAGING DIRECTOR'S REPORT CONTINUED

THE COMMUNITY AND THE ENVIRONMENT

Caring for the community is one of the most important of our values, which make Greggs such a special place to work. In May 2005 we passed an important milestone with the opening of our 100th Greggs Breakfast Club, and 113 of these now operate in primary schools in disadvantaged areas across the country, providing free, healthy breakfasts to children. Other charitable initiatives during the year included raising over £310,000 for children's cancer charities through regional fun runs, which attracted over 11,000 participants. Over £150,000 was distributed by our divisional charity committees, which receive around a third of their funding from employees' Give As You Earn donations, which are matched pound for pound by the Greggs Trust. The Trust remains our principal channel for the distribution of the Group's charitable donations, which last year totalled £609,000 (2004: £615,000), in line with our commitment as a founder member of the 'Per Cent' Club. We also remain an active supporter of Business in the Community.

As well as working to improve the lives of people in the communities where we operate, we aim to adopt a responsible approach to the environment. We continue to comply with all relevant legislation and regulations, and conduct regular environmental audits of all our operations. During 2005 we have paid particular attention to our SEBA (Save Energy Be Aware) initiative in all shops and factories, designed to reduce energy consumption. We have also introduced a waste management initiative designed to reduce the amount of food waste generated by our shops and bakeries, and to examine alternatives to landfill for its disposal. Efforts have continued

to maximise the recycling of packaging and other appropriate materials, and we are working on a further initiative to reduce the use of packaging at source.

PEOPLE

Our super team of people are critical to the business, and we have always been committed to treating them with fairness, consideration and respect. By treating our staff well, we believe we will ensure that they in turn will treat our customers well, which is one of the most important keys to business success. I am grateful to all our 18,833 employees for the hard work they have done to produce another record result for the Group, in an increasingly testing trading climate. I would also like to take this opportunity to record our appreciation of the particular contribution of Steve Smith, a member of our senior executive team who retired during the year after 27 years with Greggs, including 13 as managing director of our South West division.

THE FUTURE

As the Chairman has noted, 2006 looks set to be the most challenging year the Group has faced for some considerable time. We are doing all we can to continue driving the business forward without compromising our core values, or our commitment to excellent products and service. I am sure that these provide us with the firmest of foundations for the future, as we continue our drive to deliver long term growth as Europe's finest bakery-related retailer.

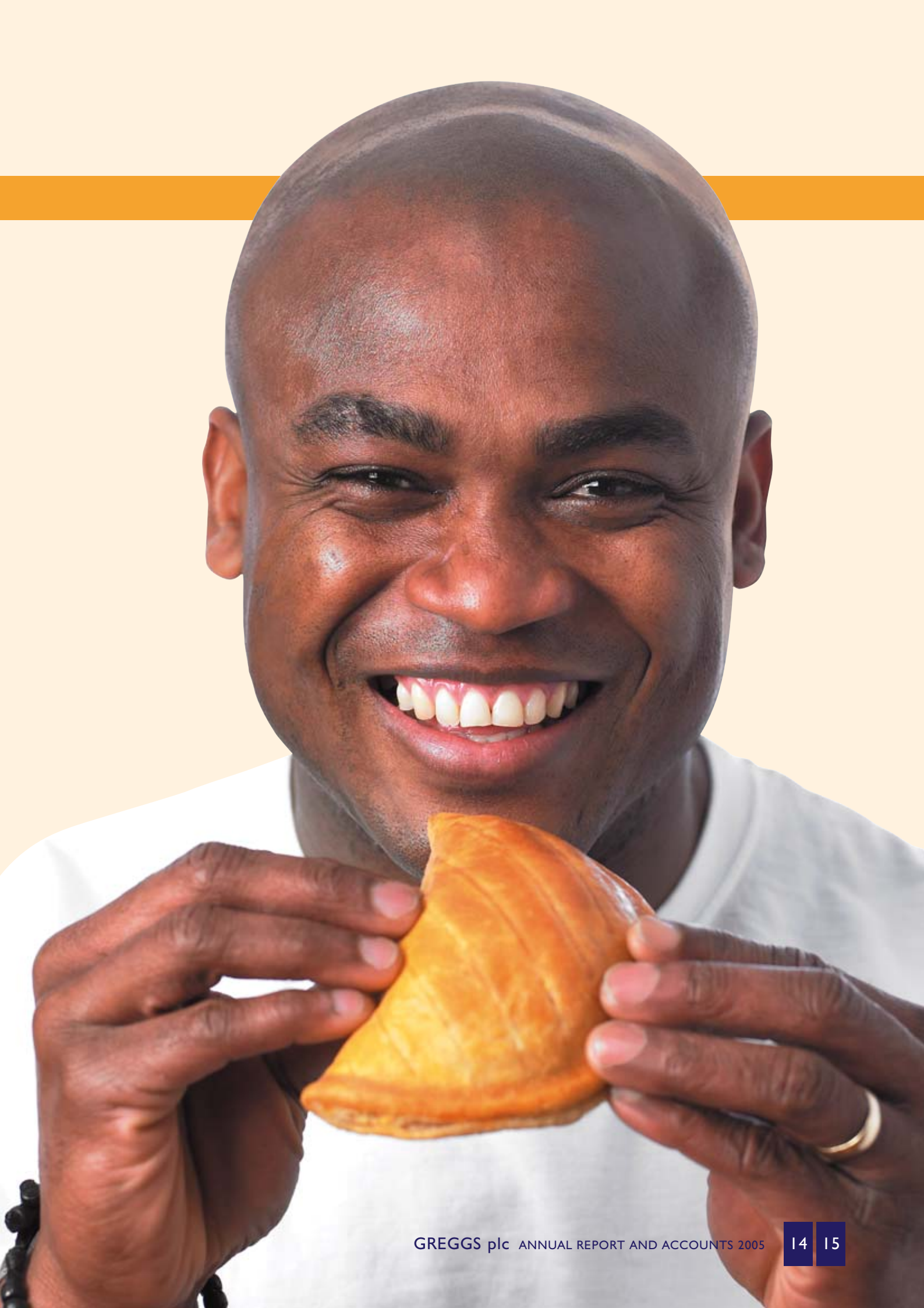
Sir Michael Darrington

Managing Director

10 March 2006

“Greggs pasties are the best. They really hit the spot.”

Satisfaction delivered daily



Directors' Report

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 31 December 2005.

The comparative period is the 53 weeks ended 1 January 2005.

Principal activity

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 £533,435,000, an increase of £29,249,000, or 5.8% over the previous financial year. Group profit before taxation amounted to £50,159,000, an increase of 5.0% over the previous financial year.

An interim dividend of 36.0p per ordinary share was paid on 3 October 2005 and the directors propose a final dividend of 70.0p payable on 25 May 2006.

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.

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 31 December 2005 and 1 January 2005 (or at date of appointment if later) are set out in note 24 to the accounts. Details of directors' share options are set out in the Directors' Remuneration Report on pages 66 to 72.

On 1 March 2005, Julie Baddeley was appointed a non-executive director.

In accordance with the Company's Articles of Association, Stephen Curran, Ian Gregg, Sir Michael Darrington, Bob Bennett and Julie Baddeley retire from the Board and, being eligible, offer themselves for re-election.

Substantial shareholdings

At 10 March 2006, the only notified interests of substantial shareholdings in the issued share capital of the Company were:

	Number of shares held	Percentage of issued share capital
Aberforth Partners LLP	1,279,404	10.49%
A.J. Davison (as trustee of various settlements)	1,151,365	9.44%
FMR Corporation	589,091	4.83%
Aegon Asset Management UK plc	541,950	4.44%
M&G Investment Management Limited	512,400	4.20%
Barclays plc	487,906	4.00%
Mrs G.V. Richardson and family	467,447	3.83%
Standard Life	459,141	3.76%

Various trustees jointly hold shares with A.J. Davison above, some of whom, by reason of such joint holdings and other holdings in their own name, have declarable interests as follows: Mrs F.M.E. Nicholson (7.69% jointly held with A.J. Davison and others plus 0.04% in other holdings), Mrs F.K. Deakin (7.69% jointly held with A.J. Davison and others plus 0.03% in other holdings) and Mr J.A. Wardropper (5.93% jointly held with A.J. Davison and others).

Employment policies

We are committed to promoting policies which are designed to 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 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 31 December 2005 was 39 days (2004: 41 days).

Charitable contributions

The Group is a member of the 'Per Cent' Club. Charitable donations of £609,000 (representing 1.2% of profit before tax) were made by the Group during the year, including £350,000 to Greggs Trust. More details about Greggs Trust can be found on page 73.

Authority to purchase shares

At the AGM on 17 May 2005, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 607,095 ordinary shares of 20p each. That authority has not been used and remains in force until the conclusion of the AGM in 2006 or 16 August 2006, whichever is the earlier.

Corporate Governance

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 year under review with the principles of governance set out in Section I of the Combined Code on corporate governance published by the Financial Reporting Council (the 'Combined Code') effective during the financial year.

The following statements, together with the Directors' Remuneration Report on pages 66 to 72, describe how the relevant principles and provisions of the Combined Code were applied to the Company in 2005 and will be relevant to the Company for the 2006 financial year.

Directors' Report *continued*

Corporate Governance *continued*

The Board

Composition

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

Derek Netherton (Chairman), 61, spent his career in investment banking and retired in 1996 from his position as joint head of corporate finance at J Henry Schroder & Co Limited. He is a non-executive director of Next plc, Hiscox plc and St James's Place Capital plc. He was appointed to the Board on 1 March 2002 and was appointed Chairman in August of the same year. There have been no significant changes to the Chairman's other commitments during 2005. He is Chairman of the Nominations Committee.

Sir Michael Darrington (Managing Director), 64, 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), 64, 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 Finance Director in 1975.

Stephen Curran, 62, 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. In 2004 he was appointed as the Senior Independent Non-Executive Director.

Ian Gregg OBE, 66, 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, which role he handed over to Derek Netherton in August 2002.

Susan Johnson OBE, 48, 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 was an Executive Director of Yorkshire Forward until her appointment in 2005 as Chief Executive of County Durham and Darlington Fire and Rescue Service.

Bob Bennett, FCA, 58, was appointed to the Board in December 2003. He trained as a Chartered Accountant with Spicer & Pegler and has, since 1993, been Group Finance Director of Northern Rock plc. He has been Chairman of the Audit Committee since 2004.

Julie Baddeley, 54, was appointed to the Board in March 2005. She has held senior executive roles in the Woolwich plc (where she was responsible for Information Technology and Human Resources), Accenture and Sema Consulting. Julie is a non-executive director of Yorkshire Building Society, Computerland UK and the Pension Client Group within the Government's Department of Works and Pensions. Julie was appointed as Chair of the Remuneration Committee in 2005.

Effectiveness

The Board, under the chairmanship of Derek Netherton, meets regularly to discharge its duties. At these meetings, it reviews Group strategy, performance, resources, risk management procedures and other 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 ensure that the strategies proposed by the executive directors are fully discussed and critically examined prior to adoption. During 2005, the Board met five times. All directors attended all meetings, save that Julie Baddeley and Stephen Curran were each unable to attend one meeting.

The Board has adopted a paper identifying the separation of the roles of the Chairman and the Managing Director. The Chairman sets the agenda for Board meetings and ensures that 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. The Board considers that it effectively leads and controls the Company. All directors take decisions objectively and in the interests of the Company. The non-executive directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. All directors receive induction training on joining the Board and regularly update and refresh their knowledge through reading, attendance on relevant courses and/or activities outside the Company.

The Board meets with the Management Board at a different operating division each year. In addition, as part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, several members of the senior management team are invited to attend Board meetings and/or to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

The Board is satisfied that a strategy is in place for orderly succession to the Board and to positions of senior management so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

After carefully reviewing the guidance in the Combined Code, all of the non-executive directors are considered by the Board to be independent in character and judgement and to be free from any business or other relationship or circumstance which is likely to affect or to interfere with the exercise of their independent judgement. The following relationships might appear to be capable of affecting the individual non-executive director's independence. However, having considered these relationships carefully, the Board is of the view that they do not and that the individuals concerned are of sufficient strength of character to avoid allowing their independence to be so compromised:

- Ian Gregg is a member of the Company's pension scheme and a former employee, Managing Director and Chairman of the Company.
- Stephen Curran and Ian Gregg have both served on the Board for more than nine years from the date of their first election.

The Board is grateful for the continued involvement of Ian and Stephen, who bring considerable experience and insight to Board discussions. Both are now required by the Company's Articles of Association to seek re-election to the Board by shareholders annually (see below).

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

Directors' Report *continued*

Corporate Governance continued

AGMs must seek re-election at each AGM. Any non-executive director who has served on the Board for more than nine years must seek re-election annually.

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, who is responsible for advising the Board, through the Chairman, on all governance matters.

During the year, the Chairman met with the non-executive directors without the executive directors present. The Senior Independent Director meets the non-executive directors without the Chairman present annually to appraise the Chairman's performance. The performance of the Board, its Committees and of all directors is evaluated annually by a formal and rigorous process. Each director completes a questionnaire. The results are fed back to the Chairman and the Senior Independent Director and then to the Board for discussion. These discussions are used to identify actions to improve effectiveness and also to identify individual and collective training needs.

Board Committees

The Board delegates some of its activities to the following committees, each of which has written terms of reference, which are available on request. The Company Secretary acts as secretary to each of these Committees.

The Audit Committee currently consists of four independent non-executive directors (Bob Bennett - Chairman, Susan Johnson, Stephen Curran and Julie Baddeley). During 2005 it met three times. All Committee members attended all meetings in the period they were members, save that Julie Baddeley and Stephen Curran were each unable to attend one meeting. The Committee's main functions are to endeavour (i) to ensure that the accounting and financial policies of the Company are proper and effective; (ii) to monitor the integrity of the financial statements and information published by the Company; (iii) to review the internal financial controls and the Group's approach to risk management; and (iv) to monitor compliance with the Listing Rules and the recommendations of the Combined Code.

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 Audit 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 and with the internal auditors, in each case in the absence of all executive directors, and the Committee has the power to engage outside advisers if it sees fit. The Committee also monitors and reviews the effectiveness of the internal audit activities.

The Remuneration Committee currently consists entirely of independent non-executive directors (Julie Baddeley - Chair, Stephen Curran, Bob Bennett and Ian Gregg). During 2005 it met six times. All Committee members attended all meetings in the period they were members, save that Bob Bennett, Julie Baddeley and Stephen Curran were each unable to attend one meeting. The Committee's 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 and the Chairman on behalf of the Board. The Committee is also responsible for the operation of the Company's share option schemes and, when requested by the Board or by the Managing Director, for monitoring and making recommendations in respect of the level and structure of remuneration for senior management. A separate Executive Director Committee sets, after discussion with the Chairman, the fees for the non-executive directors so as to ensure that no director is involved in setting his or her own remuneration. The Directors' Remuneration Report is set out on pages 66 to 72 of this Annual Report.

The Nominations Committee currently comprises Derek Netherton - Chairman, all of the non-executive directors and Mike Darrington. During 2005 it met formally only twice (with all Committee members present except that Julie Baddeley and Susan Johnson were each unable to attend one meeting) but held several informal discussions during the year. The Committee's 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 on the basis of merit and compliance with objective criteria in respect of all new Board appointments.

Each of the Committees is provided with sufficient resources to undertake its duties.

Relations with shareholders

The Chairman ensures that there is effective communication with individual and institutional shareholders through the announcement of regular trading updates, as well as general presentations after announcement of the interim and preliminary results and the posting of results on the Company's website. The Board receives reports on any comments received from shareholders following these presentations.

The Board considers that the AGM is the main forum for communication with investors, with the Chairmen of the Board and its committees available to answer any issues raised and any newly appointed non-executive directors being available to meet shareholders. In addition, the Company Secretary and the Company's Brokers draw the attention of the Board to all relevant shareholder communications. The Board also reviews briefings and comments by analysts in order to maintain an understanding of market perceptions of the Company. The Senior Independent Director is available to shareholders if they have concerns which contact

through the normal channels of the Chairman, Managing Director or Finance Director have failed to resolve or for which such contact is not appropriate.

At the AGM, the balance of proxy votes cast for and against each resolution and the number of abstentions is displayed. All substantial issues, including the receipt of the annual report and accounts, are proposed at the AGM as separate resolutions.

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 which accords with the guidance in the Turnbull report, involving the identification, evaluation and management of the significant risks faced by the Company. Key elements of the internal control system, which have been in place during the whole of the year under review and up to the date of approval of the annual report and accounts, 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. At each Board meeting, 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. The Audit Committee, on behalf of the Board, conducts a formal review of risks and risk management procedures and reports its findings to the Board. 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

Directors' Report *continued*

Corporate Governance *continued*

scope of insurance cover maintained within the business. The Board receives 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 Senior Executive Team and the wider Management Board, answerable directly to the Managing Director, are 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.

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 its 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) and through the Audit Committee. 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 appropriate 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 progressively 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 on technical matters.

Whistle Blowing

The Company has adopted "whistle blowing" procedures enabling employees to bring matters to the attention of the senior management and for the confidential, proportionate and independent consideration and follow-up of any matter so raised. The "whistle blowing" procedures are reviewed regularly by the Audit Committee.

Internal Audit

The internal audit function visits every Division on an annual basis 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 material controls, including financial, operational, compliance and risk management systems) during the year under review and up to the date of approval of the annual report and accounts.

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 24. A statement of auditors' responsibilities is given in the report of the auditors on pages 25-26.

Auditor Independence

The Audit Committee has reviewed whether, 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 £98,000 during 2005 and related to taxation compliance services and pensions advice). The Audit Committee's policy to ensure that the auditor's objectivity is not impaired by non-audit work is that the Company should be able to incur fees of up to £100,000 per year on non-audit work (inclusive of tax compliance advice). Any fees in excess of this must be discussed in advance with the Chairman of the Audit Committee. The Company's internal audit function assists in the monitoring of systems of control and augments the examination carried out by the external auditors.

Going Concern

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

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

10 March 2006

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and the group and parent company accounts, in accordance with applicable law and regulation.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law the directors are required to prepare the group accounts in accordance with IFRSs as adopted by the EU and have elected also to prepare the parent company accounts in accordance with IFRSs.

The group and parent company accounts are required by law and by IFRSs as adopted by the EU to present fairly the financial position and performance of the group and parent company. Provision has been made within the Companies Act 1985 such that references to a true and fair view are deemed to have the same meaning as 'present fairly' in order that the accounts are in compliance with all relevant legislation.

In preparing the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 1985. They 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.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Report of the Independent Auditors to the Members of Greggs plc

We have audited the group and parent company accounts (the 'accounts') of Greggs plc for the 52 weeks ended 31 December 2005 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cashflow statements, the consolidated and parent company statements of recognised income and expense and the related notes. The accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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' responsibilities for preparing the Annual Report and the group and parent company accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' responsibilities on page 24.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group accounts, Article 4 of IAS Regulation. 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Reporting Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' Remuneration Report, 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. Our responsibilities do not extend to any other information.

Report of the Independent Auditors to the Members of Greggs plc *continued*

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. 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 and parent company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group accounts give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the 52 weeks then ended;
- the parent company accounts give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs for the 52 weeks ended 31 December 2005; and
- the group and parent company accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group accounts, Article 4 of the IAS Regulations.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Newcastle upon Tyne

10 March 2006

Consolidated Income Statement

for the 52 weeks ended 31 December 2005

(2004: 53 weeks ended 1 January 2005)

	Note	2005 £'000	2004 £'000
Revenue	1	533,435	504,186
Cost of sales	2	(203,346)	(192,860)
Gross profit		330,089	311,326
Distribution and selling costs	2	(247,188)	(229,510)
Administrative expenses	2	(35,758)	(36,053)
Operating profit		47,143	45,763
Finance income	5	3,106	2,003
Finance expenses	6	(90)	(15)
Profit before tax	3-4	50,159	47,751
Income tax	8	(16,085)	(15,474)
Profit for the financial year attributable to equity holders of the parent		34,074	32,277
Basic earnings per share	9	282.1p	270.5p
Diluted earnings per share	9	278.9p	267.7p

Consolidated Statement of Recognised Income and Expense

for the 52 weeks ended 31 December 2005

(2004: 53 weeks ended 1 January 2005)

	Note	2005 £'000	2004 £'000
Actuarial losses on defined benefit pension plans	19	(2,345)	(903)
Tax on items taken directly to equity	8	704	271
Net expense recognised directly in equity		(1,641)	(632)
Profit for the financial year		34,074	32,277
Total recognised income and expense for the financial year attributable to equity holders of the parent	20	32,433	31,645

Parent Company Statement of Recognised Income and Expense

for the 52 weeks ended 31 December 2005

(2004: 53 weeks ended 1 January 2005)

	Note	2005 £'000	2004 £'000
Actuarial losses on defined benefit pension plans	19	(2,345)	(903)
Tax on items taken directly to equity	8	704	271
Net expense recognised directly in equity		(1,641)	(632)
Profit for the financial year	7	34,226	33,608
Total recognised income and expense for the financial year	20	32,585	32,976

Consolidated Balance Sheet

at 31 December 2005

(2004: 1 January 2005)

	Note	2005 £'000	2004 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	180,826	163,832
Current assets			
Inventories	13	7,713	7,283
Trade and other receivables	14	15,861	13,949
Cash and cash equivalents	15	65,602	62,601
		89,176	83,833
Total assets		270,002	247,665
LIABILITIES			
Current liabilities			
Trade and other payables	16	(58,686)	(59,204)
Current tax liabilities	17	(8,086)	(7,685)
		(66,772)	(66,889)
Non-current liabilities			
Defined benefit pension liability	19	(9,730)	(11,052)
Other payables	18	(98)	(105)
Deferred tax liability	12	(11,927)	(12,463)
		(21,755)	(23,620)
Total liabilities		(88,527)	(90,509)
Net assets		181,475	157,156
EQUITY			
Capital and reserves			
Issued capital	20	2,439	2,428
Share premium account	20	13,440	12,217
Retained earnings	20	165,596	142,511
Total equity attributable to equity holders of the parent		181,475	157,156

The accounts on pages 27 to 65 were approved by the Board of Directors on 10 March 2006 and were signed on its behalf by

M.J. Darrington }
M. Simpson } Directors

Parent Company Balance Sheet

at 31 December 2005

(2004: 1 January 2005)

	Note	2005 £'000	2004 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	150,922	131,923
Investments	11	5,190	5,190
		156,112	137,113
Current assets			
Inventories	13	7,713	7,283
Trade and other receivables	14	38,006	38,777
Cash and cash equivalents	15	65,823	62,381
		111,542	108,441
Total assets		267,654	245,554
LIABILITIES			
Current liabilities			
Trade and other payables	16	(58,686)	(59,204)
Current tax liabilities	17	(7,524)	(7,084)
		(66,210)	(66,288)
Non-current liabilities			
Defined benefit pension liability	19	(9,730)	(11,052)
Other payables	18	(98)	(105)
Deferred tax liability	12	(4,852)	(5,816)
		(14,680)	(16,973)
Total liabilities		(80,890)	(83,261)
Net assets		186,764	162,293
EQUITY			
Capital and reserves			
Issued capital	20	2,439	2,428
Share premium account	20	13,440	12,217
Retained earnings	20	170,885	147,648
Total equity attributable to equity holders		186,764	162,293

The accounts on pages 27 to 65 were approved by the Board of Directors on 10 March 2006 and were signed on its behalf by

M.J. Darrington }
M. Simpson } Directors

Consolidated Statement of Cashflows

for the 52 weeks ended 31 December 2005

(2004: 53 weeks ended 1 January 2005)

	Note	2005 £'000	2004 £'000
Cash flows from operating activities			
Profit for the financial year		34,074	32,277
Depreciation	10	22,038	21,003
Loss on sale of property, plant and equipment		484	358
Release of government grants		(7)	(7)
Share based payment expenses	19	557	124
Finance income	5	(3,106)	(2,003)
Finance expenses	6	90	15
Income tax expense	8	16,085	15,474
Increase in inventories		(430)	(157)
Increase in debtors		(1,912)	(912)
(Decrease) / increase in creditors		(517)	4,287
Increase / (decrease) in pension liability		333	(198)
Cash from operating activities		67,689	70,261
Interest paid	6	(90)	(15)
Income tax paid		(14,625)	(14,150)
Net cash inflow from operating activities		52,974	56,096
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	(41,687)	(25,090)
Proceeds from sale of property, plant and equipment		2,171	1,348
Interest received	5	3,106	2,003
Net cash outflow from investing activities		(36,410)	(21,739)
Cash flows from financing activities			
Proceeds from issue of share capital	20	1,234	686
Sale of own shares	20	3,695	3,200
Purchase of own shares	20	(2,173)	(941)
Dividends paid	20	(12,319)	(10,059)
Defined benefit pension scheme special contribution		(4,000)	(1,000)
Net cash outflow from financing activities		(13,563)	(8,114)
Net increase in cash and cash equivalents		3,001	26,243
Cash and cash equivalents at the start of the year		62,601	36,358
Cash and cash equivalents at the end of the year	15	65,602	62,601

Parent Company Statement of Cashflows

for the 52 weeks ended 31 December 2005

(2004: 53 weeks ended 1 January 2005)

	Note	2005 £'000	2004 £'000
Cash flows from operating activities			
Profit for the financial year	7	34,226	33,608
Depreciation	10	21,118	20,178
Loss on sale of property, plant and equipment		507	844
Release of government grants		(7)	(7)
Share based payment expenses	19	557	124
Finance income		(4,549)	(3,105)
Finance expenses		90	15
Income tax expense		14,224	12,603
Increase in inventories		(430)	(157)
Increase in debtors		2,174	2,651
(Decrease) / increase in creditors		(517)	4,287
Increase / (decrease) in pension liability		333	(198)
Cash from operating activities		67,726	70,843
Interest paid	6	(90)	(15)
Income tax paid		(13,153)	(14,120)
Net cash inflow from operating activities		54,483	56,708
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	(41,682)	(25,054)
Proceeds from sale of property, plant and equipment		1,101	609
Interest received		3,103	2,018
Net cash outflow from investing activities		(37,478)	(22,427)
Cash flows from financing activities			
Proceeds from issue of share capital	20	1,234	686
Sale of own shares	20	3,695	3,200
Purchase of own shares	20	(2,173)	(941)
Dividends paid	20	(12,319)	(10,059)
Defined benefit pension scheme special contribution		(4,000)	(1,000)
Net cash outflow from financing activities		(13,563)	(8,114)
Net increase in cash and cash equivalents		3,442	26,167
Cash and cash equivalents at the start of the year		62,381	36,214
Cash and cash equivalents at the end of the year	15	65,823	62,381

Notes to the Consolidated Accounts

Significant accounting policies

Greggs plc ("the Company") is a company incorporated in the UK. The Group accounts consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company accounts present information about the Company as a separate entity and not about its Group.

The accounts were authorised for issue by the directors on 10 March 2006.

(a) Statement of compliance

Both the parent company accounts and the Group accounts have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). On publishing the parent company accounts here together with the Group accounts, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved accounts.

(b) Basis of preparation

The accounts are presented in pounds sterling, rounded to the nearest thousand, and are prepared on the historical cost basis.

Both the Group and the Company are preparing their accounts in accordance with adopted IFRSs for the first time and consequently both have applied IFRS 1.

An explanation of how the transition to adopted IFRSs has affected the previously reported financial position, financial performance and cash flows of the Group and parent company is provided in note 26.

IFRS 1 grants certain exemptions from the full reporting requirements of IFRSs in the transition year. The following exemptions have been taken in these accounts:

- (i) Employee benefits: All cumulative actuarial gains and losses have been recognised in equity at the transition date. This is to maintain consistency with Group policy, whereby all actuarial gains and losses are recognised directly via the statement of recognised income and expense.
- (ii) Share based payments: The Group has elected to apply IFRS 2 *Share based payments* only to relevant share based payment transactions granted after 7 November 2002 as permitted under IFRS 1.
- (iii) Business combinations: The Group has chosen not to restate business combinations prior to the transition date on an IFRS basis, as no significant acquisitions have taken place for the past 10 years. The Group's policy up to and including 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.
- (iv) Fair value as deemed cost: The Group has adopted the exemption which allows the restatement of certain items of property, plant and equipment to fair value at the transition date.

The amendment to IAS 19 has been adopted early in these accounts.

The preparation of financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The accounting policies set out below have been applied consistently to all years presented in these consolidated accounts and in preparing the opening IFRS balance sheet at 28 December 2003 for the purpose of the transition to IFRSs.

The accounting policies have been applied consistently throughout the Group.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 31 December 2005. The comparative period is the 53 weeks ended 1 January 2005.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounts of subsidiaries are included in the consolidated accounts from the date control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated accounts.

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

(e) Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following conditions:

- (i) they include no contractual obligations upon the Company (or Group) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company;
- (ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these accounts for called up share capital and share premium exclude amounts in relation to these shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments that are associated with financial instruments that are classified as equity are dividends and are recorded directly in equity.

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that have been revalued to fair value on or prior to 28 December 2003, the date of transition to IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied within the item can be measured reliably. All other costs are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold and long leasehold properties are depreciated by equal instalments over a period of 40 years. Land is not depreciated. The depreciation rates are as follows:

Short leasehold properties	10%
Plant:	
General	10%
Computers	20% - 33 1/3%
Motor vehicles	20% - 25%
Delivery trays	33 1/3%
Shop fixtures and fittings:	
General	10%
Electronic equipment	20%

The residual value, if not insignificant, is reassessed annually.

(iv) Assets in the course of construction

Depreciation on these assets commences when the assets are ready for their intended use.

Notes to the Consolidated Accounts

continued

Significant accounting policies *continued*

(g) Investments

Investments in subsidiaries are carried at cost less impairment.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average cost formula.

(i) Cash and cash equivalents

'Cash and cash equivalents' comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's value is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(k) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are held in the Employee Share Ownership Plan are classified as treasury shares and are presented as a deduction from total equity.

(ii) Dividends

Dividends are recognised as a liability in the year in which they are approved by the shareholders.

(l) Employee share ownership plan

The Group accounts include the assets and related liabilities of the Greggs Employee Benefit Trust ("EBT"). In both the Group and parent company accounts the shares held by the EBT are stated at cost and deducted from shareholders' funds.

(m) Segment reporting

The consolidated entity operates in one business segment being that of retailing of sandwiches, savouries and other bakery-related products (primary segment). As a result no additional business segment information is required to be provided. The consolidated entity operates principally in one geographic segment (secondary segment), the United Kingdom.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's obligation in respect of defined benefit post-employment plans, including pension plans, is calculated by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The Group recognises actuarial gains and losses in full in the year in which they occur in the statement of recognised income and expense.

(iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model, taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For options granted before 7 November 2002 the recognition and measurement principles of IFRS 2 have not been applied in accordance with the transitional provisions in IFRS 1.

(o) Revenue

(i) Goods sold

Revenue from the sale of goods is recognised as income on receipt of cash.

(ii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is a reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement over the useful life of the asset.

(p) Expenses

(i) Operating lease payments

Payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(q) Finance income and expense

(i) Finance income

Finance income comprises interest receivable on funds invested and foreign exchange gains relating to those funds. Interest income is recognised in the income statement as it accrues using the effective interest method.

(ii) Finance expenses

Finance expenses comprise interest payable on borrowings and related foreign exchange losses.

Notes to the Consolidated Accounts

continued

Significant accounting policies *continued*

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is probable that the related deferred tax benefit will be realised.

(s) IFRSs available for early adoption not yet applied

The following IFRSs, which will have an impact for the Group, were available for early adoption but have not been applied in these accounts:

- Amendment to IAS 1: '*Presentation of Financial Statements*' applicable for years commencing on or after 1 January 2007; and
- IFRS 7: '*Financial instruments: Disclosure*' applicable for years commencing on or after 1 January 2007.

The application of Amendment to IAS 1 and IFRS 7 in the current year would not have affected the balance sheets or income statement as the standards are concerned only with disclosure. The Group plans to apply these IFRSs in 2007.

All other standards that are available for early adoption currently have no impact for the Group.

1. Segment analysis

Business is the basis of the Group's primary segmentation. The Group operates in one business segment being the retailing of sandwiches, savouries and other bakery-related products. As a result no additional business segment information is required to be provided. The Group's secondary segment is geography. It operates in one geographical segment, the United Kingdom, as the Group has no material operations outside the UK, and, therefore, no additional geographical segment information is required to be provided.

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:

	2005 £'000	2004 £'000
Cost of sales	1,445	1,424
Distribution and selling costs	3,320	3,240
Administrative expenses	672	730
	5,437	5,394

3. Profit before tax

	2005 £'000	2004 £'000
Profit before tax is stated after charging/(crediting):		
Depreciation on owned property, plant and equipment	22,038	21,003
Loss on disposal of fixed assets	484	358
Release of government grants	(7)	(7)
Auditors' remuneration (Group and Parent Company)		
audit services		
- annual audit	151	99
- IFRS conversion project	43	-
non audit fees paid to the auditor and its associates		
- corporation tax compliance		
- current year	28	27
- prior year	3	31
- other taxation services	17	24
- pension scheme audits & advisory	40	9
- other advisory	10	-
Payments under operating leases - property rents	32,568	30,971

Notes to the Consolidated Accounts

continued

4. Personnel expenses

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

	Group and parent company	
	2005	2004
	Number	Number
Management	687	651
Administration	355	337
Production	2,766	2,697
Shop	15,296	14,555
	19,104	18,240

The aggregate personnel costs of these persons were as follows:

	Note	Group and parent company	
		2005	2004
		£'000	£'000
Wages and salaries		199,208	181,346
Compulsory social security contributions		14,951	13,664
Contributions to defined contribution plans	19	1,598	1,234
Increase in liability for defined benefit plans	19	2,133	2,092
Equity settled transactions	19	557	124
		218,447	198,460

5. Finance income

	2005	2004
	£'000	£'000
Interest income	3,106	2,003

6. Finance expenses

	2005	2004
	£'000	£'000
Interest expense	(50)	-
Foreign exchange loss	(40)	(15)
	(90)	(15)

7. Profit attributable to Greggs plc

Of the Group profit for the year, £34,226,000 (2004: £33,608,000) 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 income statement.

8. Income tax expense

Recognised in the income statement

	2005 £'000	2004 £'000
Current tax expense		
Current year	15,729	14,874
Adjustments for prior years	-	(223)
	15,729	14,651
Deferred tax expense		
Origination and reversal of temporary differences	937	615
Adjustment for prior years	(581)	208
	356	823
Total income tax expense in income statement	16,085	15,474

Reconciliation of effective tax rate

	2005	2005 £'000	2004	2004 £'000
Profit before tax		50,159		47,751
Income tax using the domestic corporation tax rate	30.0%	15,048	30.0%	14,325
Non-deductible expenses	1.2%	613	0.5%	249
Non-qualifying depreciation	2.0%	1,005	1.8%	836
Other	0.0%	-	0.1%	79
Adjustment for over provision in prior years	(1.1%)	(581)	(0.0%)	(15)
Total income tax expense in income statement	32.1%	16,085	32.4%	15,474

Tax recognised directly in equity

	2005 Income tax £'000	2005 Deferred tax £'000	2005 Total £'000	2004 Total £'000
Relating to equity-settled transactions	(404)	(488)	(892)	(145)
Relating to defined benefit plans				
- special contribution	(300)	300	-	-
- actuarial losses (SORIE)	-	(704)	(704)	(271)
	(704)	(892)	(1,596)	(416)

Notes to the Consolidated Accounts

continued

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2005 was based on profit attributable to ordinary shareholders of £34,074,000 (2004: £32,277,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 12,080,526 (2004: 11,931,728), calculated as follows:

Weighted average number of ordinary shares

	2005 Number	2004 Number
Issued ordinary shares at start of year	12,141,892	12,109,483
Effect of own shares held	(79,333)	(195,196)
Effect of shares issued	17,967	17,441
Weighted average number of ordinary shares during the year	12,080,526	11,931,728

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2005 was based on profit attributable to ordinary shareholders of £34,074,000 (2004: £32,277,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 12,215,800 (2004: 12,055,134), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2005 Number	2004 Number
Weighted average number of ordinary shares during the year	12,080,526	11,931,728
Effect of share options on issue	135,274	123,406
Weighted average number of ordinary shares (diluted) during the year	12,215,800	12,055,134

10. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
Cost					
Balance at 28 December 2003	73,504	71,541	103,713	-	248,758
Additions	4,477	7,237	13,376	-	25,090
Disposals	(761)	(7,586)	(7,996)	-	(16,343)
Balance at 1 January 2005	77,220	71,192	109,093	-	257,505
Balance at 2 January 2005	77,220	71,192	109,093	-	257,505
Additions	1,040	11,460	18,218	10,969	41,687
Disposals	(1,236)	(4,499)	(3,458)	-	(9,193)
Reclassification	(187)	180	7	-	-
Balance at 31 December 2005	76,837	78,333	123,860	10,969	289,999
Depreciation					
Balance at 28 December 2003	12,698	39,432	35,177	-	87,307
Depreciation charge for the year	1,589	7,813	11,601	-	21,003
Disposals	(359)	(7,304)	(6,974)	-	(14,637)
Balance at 1 January 2005	13,928	39,941	39,804	-	93,673
Balance at 2 January 2005	13,928	39,941	39,804	-	93,673
Depreciation charge for the year	1,587	8,051	12,400	-	22,038
Disposals	(185)	(3,401)	(2,952)	-	(6,538)
Balance at 31 December 2005	15,330	44,591	49,252	-	109,173
Carrying amounts					
At 28 December 2003	60,806	32,109	68,536	-	161,451
At 1 January 2005	63,292	31,251	69,289	-	163,832
At 2 January 2005	63,292	31,251	69,289	-	163,832
At 31 December 2005	61,507	33,742	74,608	10,969	180,826

Notes to the Consolidated Accounts

continued

10. Property, plant and equipment (continued)

Parent company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
Cost					
Balance at 28 December 2003	41,058	72,074	104,201	-	217,333
Additions	4,441	7,237	13,376	-	25,054
Intra group transfers	(8,494)	-	-	-	(8,494)
Disposals	(392)	(7,586)	(7,996)	-	(15,974)
Balance at 1 January 2005	36,613	71,725	109,581	-	217,919
Balance at 2 January 2005	36,613	71,725	109,581	-	217,919
Additions	1,035	11,460	18,218	10,969	41,682
Intra group transfers	43	-	-	-	43
Disposals	(18)	(4,499)	(3,458)	-	(7,975)
Reclassification	(187)	180	7	-	-
Balance at 31 December 2005	37,486	78,866	124,348	10,969	251,669
Depreciation					
Balance at 28 December 2003	5,238	39,702	35,568	-	80,508
Depreciation charge for the year	764	7,813	11,601	-	20,178
Intra group transfers	(169)	-	-	-	(169)
Disposals	(243)	(7,304)	(6,974)	-	(14,521)
Balance at 1 January 2005	5,590	40,211	40,195	-	85,996
Balance at 2 January 2005	5,590	40,211	40,195	-	85,996
Depreciation charge for the year	667	8,051	12,400	-	21,118
Intra group transfers	-	-	-	-	-
Disposals	(14)	(3,401)	(2,952)	-	(6,367)
Balance at 31 December 2005	6,243	44,861	49,643	-	100,747
Carrying amounts					
At 28 December 2003	35,820	32,372	68,633	-	136,825
At 1 January 2005	31,023	31,514	69,386	-	131,923
At 2 January 2005	31,023	31,514	69,386	-	131,923
At 31 December 2005	31,243	34,005	74,705	10,969	150,922

Land and buildings

The carrying amount of land and building comprises:

		Group		Parent company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Freehold property	Shops	13,252	14,644	7,449	7,650
	Bakeries	41,798	41,955	17,978	17,341
	Other	5,559	5,710	5,652	5,803
		60,609	62,309	31,079	30,794
Long leasehold property	Bakeries	751	759	17	5
Short leasehold property	Shops	147	224	147	224
		61,507	63,292	31,243	31,023

Property, plant and equipment under construction

Assets under construction at 31 December 2005 comprise a distribution centre, a savoury factory and an extension to the head office building.

11. Investments

Parent company

Cost	Shares in subsidiary undertakings £'000
As at 28 December 2003, 1 January 2005 and 31 December 2005	5,828
Impairment	
As at 28 December 2003, 1 January 2005 and 31 December 2005	638
Carrying amount	
As at 28 December 2003, 1 January 2005 and 31 December 2005	5,190

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

	Principal activity	Country of incorporation
Charles Bragg (Bakers) Limited	Non-trading	England and Wales
Greggs (Leasing) Limited	Dormant	England and Wales
Thurston Parfitt Limited	Non-trading	England and Wales
Greggs Properties Limited	Property holding	England and Wales
Olivers (U.K.) Limited	Dormant	Scotland
Olivers (U.K.) Developments Limited*	Non-trading	Scotland
Birketts Holdings Limited	Dormant	England and Wales
J.R Birkett and Sons Limited*	Non-trading	England and Wales
Greggs Trustees Limited	Trustees	England and Wales

* held indirectly

Notes to the Consolidated Accounts

continued

12. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Property, plant and equipment	-	-	17,376	15,949	17,376	15,949
Employee benefits	(4,645)	(3,486)	-	-	(4,645)	(3,486)
Short term timing differences	(804)	-	-	-	(804)	-
Tax (assets) / liabilities	(5,449)	(3,486)	17,376	15,949	11,927	12,463

The movements in temporary differences during the year ended 1 January 2005 were as follows:

	Balance at 28 December 2003 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 1 January 2005 £'000
Property, plant and equipment	15,485	464	-	15,949
Employee benefits	(3,429)	359	(416)	(3,486)
	12,056	823	(416)	12,463

The movements in temporary differences during the year ended 31 December 2005 were as follows:

	Balance at 2 January 2005 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31 December 2005 £'000
Property, plant and equipment	15,949	1,427	-	17,376
Employee benefits	(3,486)	(267)	(892)	(4,645)
Short term timing differences	-	(804)	-	(804)
	12,463	356	(892)	11,927

Parent company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Property, plant and equipment	-	-	10,301	9,302	10,301	9,302
Employee benefits	(4,645)	(3,486)	-	-	(4,645)	(3,486)
Short term timing differences	(804)	-	-	-	(804)	-
Tax (assets) / liabilities	(5,449)	(3,486)	10,301	9,302	4,852	5,816

The movements in temporary differences during the year ended 1 January 2005 were as follows:

	Balance at 28 December 2003 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 1 January 2005 £'000
Property, plant and equipment	11,149	(1,847)	-	9,302
Employee benefits	(3,429)	359	(416)	(3,486)
	7,720	(1,488)	(416)	5,816

The movements in temporary differences during the year ended 31 December 2005 were as follows:

	Balance at 2 January 2005 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31 December 2005 £'000
Property, plant and equipment	9,302	999	-	10,301
Employee benefits	(3,486)	(267)	(892)	(4,645)
Short term timing differences	-	(804)	-	(804)
	5,816	(72)	(892)	4,852

Notes to the Consolidated Accounts

continued

13. Inventories

	Group		Parent company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Raw materials and consumables	5,289	5,322	5,289	5,322
Work in progress	2,424	1,961	2,424	1,961
	7,713	7,283	7,713	7,283

14. Trade and other receivables

	Group		Parent company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade receivables	514	665	514	665
Amounts owed by subsidiary undertakings	-	-	22,204	24,828
Other receivables	4,747	5,320	4,688	5,320
Prepayments	10,600	7,964	10,600	7,964
	15,861	13,949	38,006	38,777

All amounts fall due within one year.

15. Cash and cash equivalents

	Group		Parent company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank balances	59,192	18,199	59,413	17,979
Call deposits	6,410	44,402	6,410	44,402
Cash and cash equivalents in the cash flow statements	65,602	62,601	65,823	62,381

16. Trade and other payables

	Group		Parent company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade payables	25,599	25,467	25,599	25,467
Other taxes and social security	5,862	5,502	5,862	5,502
Other payables	15,220	16,440	15,220	16,440
Accruals and deferred income	12,005	11,795	12,005	11,795
	58,686	59,204	58,686	59,204

17. Current tax liability

The current tax liability of £8,086,000 in the group and £7,524,000 in the parent company (2004: group £7,685,000, parent company £7,084,000) represents the amount of income taxes payable in respect of current and prior years.

18. Other payables

	Group		Parent company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Deferred government grants	98	105	98	105

19. Employee benefits

Defined benefit plan

The Group makes contributions to a defined benefit plan that provides pension benefits for employees upon retirement.

	Group and parent company	
	2005 £'000	2004 £'000
Present value of funded obligations	(69,538)	(58,283)
Fair value of plan assets	59,808	47,231
Recognised liability for defined benefit obligations	(9,730)	(11,052)

Liability for defined benefit obligations

Changes in the present value of the defined benefit obligation are as follows:

	Group and parent company	
	2005 £'000	2004 £'000
Opening defined benefit obligation	58,283	51,106
Service cost	2,144	2,088
Interest cost	3,194	2,807
Actuarial losses	6,414	2,613
Benefits paid	(1,402)	(1,249)
Contributions by employees	905	918
	69,538	58,283

Notes to the Consolidated Accounts

continued

19. Employee benefits (continued)

Changes in the fair value of plan assets are as follows:

	Group and parent company	
	2005	2004
	£'000	£'000
Opening fair value of plan assets	47,231	39,759
Expected return	3,205	2,803
Actuarial gains	4,069	1,710
Contributions by employer	5,800	3,290
Contributions by employee	905	918
Benefits paid	(1,402)	(1,249)
Closing fair value of plan assets	59,808	47,231

The amounts recognised in the income statement are as follows:

	Group	
	2005	2004
	£'000	£'000
Current service cost	2,144	2,088
Interest on obligation	3,194	2,807
Expected return on plan assets	(3,205)	(2,803)
Total included in employee benefit expense	2,133	2,092

The expense is recognised in the following line items of the income statement:

	Group	
	2005	2004
	£'000	£'000
Cost of sales	150	261
Distribution and selling costs	1,022	710
Administrative expenses	961	1,121
	2,133	2,092

Cumulative actuarial gains and losses reported in the statement of recognised income and expenses since 28 December 2003, the transition date to IFRSs, for the Group and the parent company are £3,248,000 (2004: £903,000).

The fair value of the plan assets and the return on those assets were as follows:

	Group and parent company	
	2005	2004
	£'000	£'000
Equities	46,324	33,039
Bonds	1,641	2,055
Property	552	-
Cash/other	11,291	12,137
	59,808	47,231
Actual return on plan assets	7,274	4,513

The plan assets include ordinary shares issued by the Company with a fair value of £2,468,000 (2004: £2,012,000).

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages):

	Group and parent company	
	2005	2004
Discount rate	4.9%	5.4%
Expected rate of return on plan assets	6.8%	6.7%
Future salary increases	4.1%	4.4%
Future pension increases	2.7%	2.7%

Mortality rate assumptions have been taken from the A92 pre-retirement and AP92c2025 post-retirement tables.

History of plan

The history of the plan for the current and prior years is as follows:

	Group and parent company		
	2005	2004	2003
	£'000	£'000	£'000
Present value of defined benefit obligation	(69,538)	(58,283)	(51,106)
Fair value of plan assets	59,808	47,231	39,759
Deficit	(9,730)	(11,052)	(11,347)

Notes to the Consolidated Accounts

continued

19. Employee benefits (continued)

Experience adjustments

	Group and parent company			
	2005		2004	
	£'000		£'000	
Experience adjustments on plan liabilities	(6,414)	9.2%	(2,613)	4.5%
Experience adjustments on plan assets	4,069	6.8%	1,710	3.6%
Net actuarial experience adjustments	(2,345)		(903)	

The Group expects to contribute £1,872,000 to its defined benefit plan in 2006.

Defined contribution plan

The Group also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £1,598,000 (2004: £1,234,000) in the year.

Share-based payments - Group and parent company

The Group has established a Savings Related Share Option Scheme, which granted options in April 2003, September 2004 and September 2005, and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004 and September 2004.

Both of these schemes also made grants of options prior to 7 November 2002. The recognition and measurement principles of IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 5	September 1996	Senior employees	1355p	115,000	Three years' service and EPS growth of 2-4% over RPI on average over those three years	7 to 10 years
Executive Share Option Scheme 6	March 1999	Senior employees	2687 1/2p	100,250	Three years' service and EPS growth of 2-4% over RPI on average over those three years	7 to 10 years
Executive Share Option Scheme 7	March 2000	Senior employees	1701 1/2p	150,200	Three years' service and EPS growth of 2% over RPI on average over those three years	7 to 10 years
Savings Related Share Option Scheme 5	April 2002	All employees	2821p	126,949	Three years' service	3.5 years
Executive Share Option Scheme 8	April 2002	Senior employees	3526p	8,800	Three years' service and EPS growth of 2-4% over RPI on average over those three years	7 to 10 years
Savings Related Share Option Scheme 6	April 2003	All employees	2700p	58,315	Three years' service	3.5 years
Executive Share Option Scheme 9	September 2003	Senior employees	3104 1/2p	8,250	Three years' service and EPS growth of 2% over RPI on average over those three years	10 years
Executive Share Option Scheme 10	March 2004	Senior employees	3388p	7,500	Three years' service and EPS growth of 2% over RPI on average over those three years	7 years
Executive Share Option Scheme 11	August 2004	Senior employees	3400p	93,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	7 to 10 years
	September 2004	Senior employees	3485p	2,400	Three years' service and EPS growth of 3-5% over RPI on average over those three years	7 to 10 years
Savings Related Share Option Scheme 7	September 2004	All employees	3098p	71,796	Three years' service	3.5 years
Savings Related Share Option Scheme 8	September 2005	All employees	4116p	64,148	Three years' service	3.5 years

Notes to the Consolidated Accounts

continued

19. Employee benefits (continued)

The number and weighted average exercise price of share options is as follows:

	2005		2004	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	2785p	474,964	2375p	539,684
Lapsed during the year	2014p	(13,172)	2614p	(52,411)
Exercised during the year	2569p	(190,652)	2101p	(187,005)
Granted during the year	4116p	64,148	3277p	174,696
Outstanding at the end of the year	3151p	335,288	2785p	474,964
Exercisable at the end of the year	1951p	50,942	2126p	140,358

The options outstanding at 31 December 2005 have an exercise price in the range of £13.55 to £41.16 and have a weighted average contractual life of 4.42 years. The options exercised during the year had a weighted average market value of £45.96 (2004: £33.76).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2005	2004		Savings Related Share Option Scheme 7	
	Savings Related Share Option Scheme 8	Executive Share Option Scheme 10	Executive Share Option Scheme 11		
	September 2005	March 2004	August 2004	September 2004	September 2004
Fair value at measurement date	£9.87	£7.19	£6.55	£6.71	£8.84
Share price	£47.00	£33.88	£34.00	£34.85	£36.95
Exercise price	£41.16	£33.88	£34.00	£34.85	£30.98
Expected volatility	17.3%	21.3%	19.6%	19.5%	19.5%
Option life	3.25 years	5 years	5 years	5 years	3 years
Expected dividends	2.1%	2.3%	2.7%	2.7%	2.3%
Risk free rate	4.1%	4.6%	4.9%	4.9%	4.5%

The expected volatility is based on historic volatility, adjusted for any expected changes to future volatility due to publicly available information. The historic volatility is calculated using a weekly rolling share price for the three year period immediately prior to the option grant date.

Share options are granted under a service condition and, for grants to senior employees, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The costs charged to the income statement relating to share based payments were as follows:

	2005	2004
	£'000	£'000
Share options granted in 2003	155	61
Share options granted in 2004	367	63
Share options granted in 2005	35	-
Total expense recognised as employee costs	557	124

20. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Group

	Issued capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 28 December 2003	2,422	11,537	118,397	132,356
Shares issued in the year	6	680	-	686
Total recognised income and expense	-	-	31,645	31,645
Purchase of own shares	-	-	(941)	(941)
Sale of own shares	-	-	3,200	3,200
Share-based payments	-	-	124	124
Dividends	-	-	(10,059)	(10,059)
Tax items taken directly to reserves	-	-	145	145
Balance at 1 January 2005	2,428	12,217	142,511	157,156
	Issued capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 2 January 2005	2,428	12,217	142,511	157,156
Shares issued in the year	11	1,223	-	1,234
Total recognised income and expense	-	-	32,433	32,433
Purchase of own shares	-	-	(2,173)	(2,173)
Sale of own shares	-	-	3,695	3,695
Share-based payments	-	-	557	557
Dividends	-	-	(12,319)	(12,319)
Tax items taken directly to reserves	-	-	892	892
Balance at 31 December 2005	2,439	13,440	165,596	181,475

Notes to the Consolidated Accounts

continued

20. Capital and reserves (continued)

Parent company

	Issued capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 28 December 2003	2,422	11,537	122,203	136,162
Shares issued in the year	6	680	-	686
Total recognised income and expense	-	-	32,976	32,976
Purchase of own shares	-	-	(941)	(941)
Sale of own shares	-	-	3,200	3,200
Share-based payments	-	-	124	124
Equity dividends	-	-	(10,059)	(10,059)
Tax items taken directly to reserves	-	-	145	145
Balance at 1 January 2005	2,428	12,217	147,648	162,293

	Issued capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 2 January 2005	2,428	12,217	147,648	162,293
Shares issued in the year	11	1,223	-	1,234
Total recognised income and expense	-	-	32,585	32,585
Purchase of own shares	-	-	(2,173)	(2,173)
Sale of own shares	-	-	3,695	3,695
Share-based payments	-	-	557	557
Equity dividends	-	-	(12,319)	(12,319)
Tax items taken directly to reserves	-	-	892	892
Balance at 31 December 2005	2,439	13,440	170,885	186,764

Share capital and share premium

	Ordinary shares	
	2005 Number	2004 Number
In issue and fully paid at start of year	12,141,892	12,109,483
Issued for cash	52,065	32,409
In issue and fully paid at the end of the year	12,193,957	12,141,892

At 31 December 2005 the authorised share capital comprised 25,000,000 ordinary shares (2004: 25,000,000) with a par value of 20p each.

Own shares held

Deducted from retained earnings is £1,265,000 (2004: £2,787,000) in respect of own shares held by the Greggs Employee Benefit Trust. The Trust, which was established during 1988 to act as a repository of issued Company shares, holds 48,924 shares (2004: 138,439 shares) with a market value at 31 December 2005 of £2,299,000 (2004: £5,064,000) which have not vested unconditionally in employees.

The shares held by the Greggs Employee Benefit Trust can be purchased either by employees on the exercise of an option under the Greggs Executive Share Option Schemes or by the trustees of the Greggs Employee Share Scheme.

Dividends

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

	2005 Per share pence	2004 Per share pence
2003 final dividend	-	54.5p
2004 interim dividend	-	30.0p
2004 final dividend	66.0p	-
2005 interim dividend	36.0p	-
	102.0p	84.5p

The proposed final dividend in respect of 2005 amounts to 70.0 pence per share (£8,536,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2005 £'000	2004 £'000
2003 final dividend	-	6,457
2004 interim dividend	-	3,602
2004 final dividend	7,959	-
2005 interim dividend	4,360	-
	12,319	10,059

Notes to the Consolidated Accounts

continued

21. Financial instruments

All the Group's surplus cash is invested as cash placed on deposit.

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 below there are no financial instruments, derivatives or commodity contracts used.

Financial assets and liabilities

The Group's main financial asset comprises cash and cash equivalents. Other financial assets include trade receivables arising from the Group's activities.

Other than trade and other payables, the Group had no financial liabilities within the scope of IAS 39 as at 31 December 2005 (2004: £nil). The Group has an overdraft facility of £10,000,000 of which £10,000,000 was undrawn at 31 December 2005 (2004: £10,000,000 undrawn).

Fair values

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

Interest rate, credit and foreign currency risk

The Group has not entered into any hedging transactions during the year and considers interest rate, credit and foreign currency risks not to be significant.

Effective interest rates

In respect of income-earning financial assets the following table indicates their effective interest rates at the balance sheet date.

	2005		Group		2004
	Effective interest rate	£'000	Effective interest rate	£'000	£'000
Cash and cash equivalents	4.5%	65,602	4.8%	62,381	

22. Operating leases

Total amounts payable under non-cancellable operating lease rentals are payable as follows:

	2005	2004
	£'000	£'000
Operating leases which expire:		
In less than one year	762	958
Between one and five years	23,528	23,297
After more than five years	139,442	145,252
	163,732	169,507

The Group leases the majority of its shops under operating leases. The leases typically run for a period of 10 years, with an option to renew the lease after that date. Lease payments are generally increased every five years to reflect market rentals. For a small number of the leases the rental is contingent on the level of turnover achieved in the relevant unit.

23. Capital commitments

During the year ended 31 December 2005, the Group entered into contracts to purchase property, plant and equipment for £8,067,000 (2004: £1,867,000).

These commitments are expected to be settled in the following financial year.

24. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 11) and its directors and executive officers.

Trading transactions with subsidiaries - Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

Trading transactions with subsidiaries - Parent company

	Rent paid		Interest received		Amounts owed by related parties		Amounts owed to related parties	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Greggs Properties Limited	(3,122)	(2,968)	1,443	1,105	-	-	28,620	31,244
Dormant subsidiaries	-	-	-	-	6,416	6,416	-	-

The Greggs Trust is also a related party and during the year the Company made a donation to the Greggs Trust of £350,000 (see Corporate Social Responsibility on page 73).

Transactions with key management personnel

The directors are the key management personnel of the Group. The interests of the directors who served during the year (including those of their immediate families) in the share capital of the Company, according to the register of directors' interests are as follows:

	Ordinary Shares of 20p (Beneficial interest)		Ordinary shares of 20p (Trustee holding with no beneficial interest)	
	2005	2004	2005	2004
Mike Darrington	57,970	70,650	-	138,354
Malcolm Simpson	40,010	85,722	13,000	166,955
Ian Gregg (non-executive)	144,835	154,655	-	138,354
Stephan Curran (non-executive)	3,700	3,700	-	-
Susan Johnson (non-executive)	-	-	-	-
Derek Netherton (non-executive)	-	-	-	-
Bob Bennett (non-executive)	-	-	-	-
Julie Baddeley (non-executive)	-	-	-	-

Details of directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration Report on pages 66 to 72. Total remuneration is included in personnel expenses (see note 4).

There have been no changes since 31 December 2005 in the Directors' interests noted above.

Notes to the Consolidated Accounts

continued

25. Accounting estimates and judgements

Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements made in applying the Group's accounting policies are described below:

Finance and operating leases

The inception of the shop leases has taken place over a long period of time and many date back a significant number of years. They are combined leases of land and buildings. It is not possible to obtain a reliable estimate of the split of the fair values of the lease interest between land and buildings at inception. Therefore, in determining lease classification the Group evaluated whether both parts are clearly an operating lease or a finance lease. Firstly, land title does not pass. Secondly, because the rent paid to the landlord for the buildings is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building it is judged that substantially all the risks and rewards of the building are with the landlord. Based on these qualitative factors it is concluded that the leases are operating leases.

26. Explanation of transition to IFRSs

As stated in section (b) of the significant accounting policies, these are the Group's first consolidated accounts prepared in accordance with IFRSs. The significant accounting policies set out on pages 32 to 36 have been applied in preparing the accounts for the 52 weeks ended 31 December 2005, the comparative information presented in these accounts for the 53 weeks ended 1 January 2005 and in the preparation of an opening IFRS balance sheet at 28 December 2003 (the Group's date of transition). In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in accounts prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

An explanation of how the transition from UK GAAP to IFRSs has affected the Group's financial position, financial performance and cashflows is set out in the following tables and notes.

Reconciliation of the consolidated income statement for the 53 weeks ended 1 January 2005

	UK GAAP		IFRS adjustments			IFRS
		Revaluation (a)	Employee benefits (b)	Share-based payments (c)	Dividends (d)	
Revenue	504,186	-	-	-	-	504,186
Cost of sales	(193,009)	-	149	-	-	(192,860)
Gross profit	311,177	-	149	-	-	311,326
Distribution and selling costs	(228,891)	(25)	406	-	-	(228,510)
Administrative costs	(37,572)	-	643	(124)	-	(37,053)
Operating profit	44,714	(25)	1,198	(124)	-	45,763
Finance income	2,003	-	-	-	-	2,003
Finance expenses	(15)	-	-	-	-	(15)
Profit before tax	46,702	(25)	1,198	(124)	-	47,751
Income tax	(15,115)	-	(359)	-	-	(15,474)
Profit for the year financial attributable to equity shareholders	31,587	(25)	839	(124)	-	32,277
Net expense recognised directly in equity	-	-	(632)	-	-	(632)
Total recognised income and expense attributable to equity shareholders	31,587	(25)	207	(124)	-	31,645
Dividends	(11,524)	-	-	-	11,524	-

Reconciliation of parent company profit for the 53 weeks ended 1 January 2005

	UK GAAP £'000	IFRS adjustments			IFRS £'000
		Employee benefits (b) £'000	Share-based payments (c) £'000	Dividends (d) £'000	
Profit for the financial year attributable to equity shareholders	32,893	839	(124)	-	33,608
Dividends	(11,524)	-	-	11,524	-

Explanation of the IFRS adjustments to the income statement for the 53 weeks ended 1 January 2005

(a) Fair value of freehold property as deemed cost

Principal difference

Under the transitional rules of IFRS 1 the fair value items of property, plant and equipment can be used as the deemed cost at the date of transition. The items are then depreciated based on the deemed cost over their remaining useful economic lives. This has been adopted in respect of one freehold property.

Impact

Under UK GAAP the depreciation charge in respect of the asset was £9,000 and under IFRS the charge is £34,000 resulting in an increased charge to operating profit of £25,000.

(b) Employee benefits

Principal difference

Under UK GAAP, the Group measures pension commitments and other related benefits in accordance with SSAP 24 Accounting for Pension Costs. Additional disclosures were given in accordance with the transitional requirements of FRS 17 Retirement Benefits. Under IFRS, the Group measures pension commitments in accordance with the amended IAS 19 Employee Benefits. IAS 19 is similar to FRS 17 in that it adopts a balance sheet approach, bringing the surplus/deficit of the pension scheme onto the balance sheet. However, FRS 17 dictates that all actuarial gains and losses are to be recognised directly in reserves, whereas IAS 19 also includes an alternative option allowing actuarial gains and losses to be held on the balance sheet and released to the income statement over a period of time. Greggs has elected not to adopt this alternative option.

Impact

Under SSAP 24, a pension charge of £3,290,000 was recognised in operating profit in 2004. Under IFRS a charge of £2,092,000 is recognised. Therefore there is a net credit to operating costs of £1,198,000. The actuarial loss of £903,000 is recognised in the statement of recognised income and expenses.

Due to the deferred tax impact the income statement tax adjustment is a charge of £359,000, resulting in an overall credit of £839,000 to profit for the year. The deferred tax credit that relates to the actuarial loss of £271,000 is recognised in the statement of recognised income and expenses resulting in an overall charge of £632,000.

(c) Share-based payments

Principal difference

The Group operates a number of share-based incentive schemes that are impacted by IFRS 2 Share-based payments. Under UK GAAP no expense has been recognised for awards under the Executive Share Option Scheme as the intrinsic value (the difference between the exercise price and the market value at the date of grant) was nil or for awards under the SAYE scheme as this was exempt under UITF 17. Under IFRS, an expense is recognised in the income statement for all share-based payments. This expense has been calculated based on the fair value at the date of the awards using pricing models appropriate to the schemes.

Impact

This has resulted in a charge for the full year of £124,000, recognised within operating costs.

(d) Dividends

Principal difference

Under UK GAAP, the dividend charge is recognised in the profit and loss account. Under IFRS, the dividend is not recognised in the income statement but is recognised directly in reserves.

Impact

Both the interim and the final dividend for 2004 have been reversed from the income statement with an impact of £11,524,000.

Notes to the Consolidated Accounts

continued

26. Explanation of transition to IFRSs (continued)

Reconciliation of the consolidated balance sheet as at 1 January 2005

	UK GAAP	IFRS adjustments						IFRS
		Rolled over gains (a)	Revaluation (b)	Employee benefits (c)	Share-based payments (d)	Dividends (e)	Reclassification	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS								
Non-current assets								
Property, plant and equipment	163,110	-	722	-	-	-	-	163,832
Current assets								
Inventories	7,283	-	-	-	-	-	-	7,283
Trade and other receivables	13,949	-	-	-	-	-	-	13,949
Cash and cash equivalents	62,601	-	-	-	-	-	-	62,601
	83,833	-	-	-	-	-	-	83,833
Total assets	246,943	-	722	-	-	-	-	247,665
LIABILITIES								
Current liabilities								
Trade and other payables	(74,811)	-	-	-	-	7,922	7,685	(59,204)
Current tax liability	-	-	-	-	-	-	(7,685)	(7,685)
	(74,811)	-	-	-	-	7,922	-	(66,889)
Non-current liabilities								
Defined benefit pension liability	-	-	-	(11,052)	-	-	-	(11,052)
Other payables	(105)	-	-	-	-	-	-	(105)
Deferred tax liability	(14,869)	(856)	(224)	3,316	170	-	-	(12,463)
	(14,974)	(856)	(224)	(7,736)	170	-	-	(23,620)
Total liabilities	(89,785)	(856)	(224)	(7,736)	170	7,922	-	(90,509)
Net assets	157,158	(856)	498	(7,736)	170	7,922	-	157,156
EQUITY								
Capital and reserves								
Issued capital	2,428	-	-	-	-	-	-	2,428
Share premium account	12,217	-	-	-	-	-	-	12,217
Retained earnings	142,513	(856)	498	(7,736)	170	7,922	-	142,511
Total equity attributable to equity holders of the parent	157,158	(856)	498	(7,736)	170	7,922	-	157,156

Reconciliation of the consolidated balance sheet as at 28 December 2003

	UK GAAP	IFRS adjustments						IFRS
		Rolled over gains (a)	Revaluation (b)	Employee benefits (c)	Share-based payments (d)	Dividends (e)	Reclassification	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS								
Non-current assets								
Property, plant and equipment	160,704	-	747	-	-	-	-	161,451
Current assets								
Inventories	7,126	-	-	-	-	-	-	7,126
Trade and other receivables	13,037	-	-	-	-	-	-	13,037
Cash and cash equivalents	36,358	-	-	-	-	-	-	36,358
	56,521	-	-	-	-	-	-	56,521
Total assets	217,225	-	747	-	-	-	-	217,972
LIABILITIES								
Current liabilities								
Trade and other payables	(68,558)	-	-	-	-	6,457	7,183	(54,918)
Current tax liability	-	-	-	-	-	-	(7,183)	(7,183)
	(68,558)	-	-	-	-	6,457	-	(62,101)
Non-current liabilities								
Defined benefit pension liability	-	-	-	(11,347)	-	-	-	(11,347)
Other payables	(112)	-	-	-	-	-	-	(112)
Deferred tax liability	(14,405)	(856)	(224)	3,404	25	-	-	(12,056)
	(14,517)	(856)	(224)	(7,943)	25	-	-	(23,515)
Total liabilities	(83,075)	(856)	(224)	(7,943)	25	6,457	-	(85,616)
Net assets	134,150	(856)	523	(7,943)	25	6,457	-	132,356
EQUITY								
Capital and reserves								
Issued capital	2,422	-	-	-	-	-	-	2,422
Share premium account	11,537	-	-	-	-	-	-	11,537
Retained earnings	120,191	(856)	523	(7,943)	25	6,457	-	118,397
Total equity attributable to equity holders of the parent	134,150	(856)	523	(7,943)	25	6,457	-	132,356

Notes to the Consolidated Accounts

continued

26. Explanation of transition to IFRSs (continued)

Reconciliation of the parent company balance sheet as at 1 January 2005

	UK GAAP	IFRS adjustments					IFRS
		Rolled over gains (a)	Employee benefits (c)	Share-based payments (d)	Dividends (e)	Reclassification	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Non-current assets							
Property, plant and equipment	131,923	-	-	-	-	-	131,923
Investments	5,190	-	-	-	-	-	5,190
	137,113	-	-	-	-	-	137,113
Current assets							
Inventories	7,283	-	-	-	-	-	7,283
Trade and other receivables	38,777	-	-	-	-	-	38,777
Cash and cash equivalents	62,381	-	-	-	-	-	62,381
	108,441	-	-	-	-	-	108,441
Total assets	245,554	-	-	-	-	-	245,554
LIABILITIES							
Current liabilities							
Trade and other payables	(74,210)	-	-	-	7,922	7,084	(59,204)
Current tax liability	-	-	-	-	-	(7,084)	(7,084)
	(74,210)	-	-	-	7,922	-	(66,288)
Non-current liabilities							
Defined benefit pension liability	-	-	(11,052)	-	-	-	(11,052)
Other payables	(105)	-	-	-	-	-	(105)
Deferred tax liability	(9,007)	(295)	3,316	170	-	-	(5,816)
	(9,112)	(295)	(7,736)	170	-	-	(16,973)
Total liabilities	(83,322)	(295)	(7,736)	170	7,922	-	(83,261)
Net assets	162,232	(295)	(7,736)	170	7,922	-	162,293
EQUITY							
Capital and reserves							
Issued capital	2,428	-	-	-	-	-	2,428
Share premium account	12,217	-	-	-	-	-	12,217
Retained earnings	147,587	(295)	(7,736)	170	7,922	-	147,648
Total equity attributable to equity holders	162,232	(295)	(7,736)	170	7,922	-	162,293

Reconciliation of the parent company balance sheet as at 28 December 2003

	UK GAAP	IFRS adjustments					IFRS
	£'000	Rolled over gains (a) £'000	Employee benefits (c) £'000	Share-based payments (d) £'000	Dividends (e) £'000	Reclassification £'000	£'000
ASSETS							
Non-current assets							
Property, plant and equipment	136,825	-	-	-	-	-	136,825
Investments	5,190	-	-	-	-	-	5,190
	142,015	-	-	-	-	-	142,015
Current assets							
Inventories	7,126	-	-	-	-	-	7,126
Trade and other receivables	32,017	-	-	-	-	-	32,017
Cash and cash equivalents	36,214	-	-	-	-	-	36,214
	75,357	-	-	-	-	-	75,357
Total assets	217,372	-	-	-	-	-	217,372
LIABILITIES							
Current liabilities							
Trade and other payables	(68,488)	-	-	-	6,457	7,113	(54,918)
Current tax liability	-	-	-	-	-	(7,113)	(7,113)
	(68,488)	-	-	-	6,457	-	(62,031)
Non-current liabilities							
Defined benefit pension liability	-	-	(11,347)	-	-	-	(11,347)
Other payables	(112)	-	-	-	-	-	(112)
Deferred tax liability	(10,854)	(295)	3,404	25	-	-	(7,720)
	(10,966)	(295)	(7,943)	25	-	-	(19,179)
Total liabilities	(79,454)	(295)	(7,943)	25	6,457	-	(81,210)
Net assets	137,918	(295)	(7,943)	25	6,457	-	136,162
EQUITY							
Capital and reserves							
Issued capital	2,422	-	-	-	-	-	2,422
Share premium account	11,537	-	-	-	-	-	11,537
Retained earnings	123,959	(295)	(7,943)	25	6,457	-	122,203
Total equity attributable to equity holders	137,918	(295)	(7,943)	25	6,457	-	136,162

Notes to the Consolidated Accounts

continued

26. Explanation of transition to IFRSs (continued)

Notes to the reconciliation of the balance sheets

(a) Deferred tax on rolled over gains

Principal difference

Under IAS 12 a deferred tax provision must be made in respect of all taxable temporary differences including rolled over capital gains. Under UK GAAP deferred tax was not provided in respect of these rolled over gains.

Transition impact

A deferred tax liability has been included in the transition consolidated balance sheet of £856,000 (parent company £295,000).

Impact as at 1 January 2005

There is no movement on the deferred tax liability during the 53 weeks ended 1 January 2005 and therefore no further impact on the balance sheet as at 1 January 2005.

(b) Fair value of freehold property as deemed cost (consolidated balance sheet only)

Principal difference

Under the transitional rules of IFRS 1 the fair value of items of property, plant and equipment can be used as the deemed cost at the date of transition. This has been adopted in respect of one freehold property.

Transition impact

The freehold property has been included in the transition balance sheet at its deemed cost of £1,020,000. This has resulted in an increase to non-current assets and to retained earnings of £747,000. In accordance with IAS 12 a provision for deferred tax is required in respect of the increased deemed cost which increases the deferred tax liability by £224,000. The net impact on retained earnings is therefore an increase of £523,000, which is not distributable.

Impact as at 1 January 2005

The freehold property has been depreciated throughout the 53 weeks ended 1 January 2005. At 1 January 2005 the balance sheet reflects the closing net book value of the asset of £986,000. This has resulted in an increase in non-current assets and to retained earnings of £722,000. The property was sold in the first half of 2005. There is no movement in the deferred tax liability during the year in respect of this asset.

(c) Employee benefits

Principal difference

Under UK GAAP any (liability) / asset on the balance sheet represented the timing difference between the SSAP 24 charge and the payments made to the pension scheme. Under IFRS, the (liability) / asset on the balance sheet represents the (deficit) / surplus on the defined benefit pension scheme.

Transition impact

A pension scheme liability of £11,347,000 has been recognised at the transition date. There is a corresponding positive deferred tax adjustment of £3,404,000 resulting from this recognition. The net effect is a reduction of shareholders' funds of £7,943,000 on transition.

Impact as at 1 January 2005

Throughout the year all movements in the deficit on the pension scheme are recognised against the liability. At 1 January 2005 the liability on the balance sheet reflects the closing deficit of the pension scheme. This has been adjusted to reflect the actuarial loss for the year of £903,000 that has been recognised directly in reserves. The movement in the deferred tax asset arising from this liability was an £88,000 decrease.

(d) Share-based payments

Principal difference

Under UK GAAP no liability was recognised in respect of share awards as for the executive share options the intrinsic value was nil and the SAYE scheme was exempt under UITF 17. Under IFRS 2, as all of the share awards are equity settled, the balance sheet entry, based on the fair value of the awards is a credit direct to equity reserves.

Transition impact

A deferred tax asset of £25,000 has been recognised on transition at 28 December 2003.

Impact as at 1 January 2005

The deferred tax asset has been increased by £145,000 as at 1 January 2005.

(e) Dividends

Principal difference

Under UK GAAP, the practice is to recognise dividends in the year to which they relate, whereas under IFRS the dividend is recognised in the year in which it is declared. As a result, the dividend creditor is not recognised until the dividend is declared and therefore at each year end needs to be adjusted accordingly.

Transition impact

As the 2003 interim dividend had been paid and the 2003 final dividend had not been declared at 28 December 2003, there is no dividend creditor in the transition balance sheet. The opening creditor of £6,457,000 has been reversed.

Impact as at 1 January 2005

At the year end the 2004 interim dividend had been paid and the final dividend had not been declared. The closing dividend creditor of £7,922,000 under UK GAAP has been reversed.

Group cashflow statement

For the 53 weeks ended 1 January 2005

The move from UK GAAP to IFRS does not change the cashflow of the Group. The IFRS cashflow statement is similar to UK GAAP but presents various cashflows in different categories and in a different order from the UK GAAP cashflow statement.

Parent company cashflow statement

For the 53 weeks ended 1 January 2005

Under UK GAAP, the parent company was not required to, and did not, prepare a cashflow statement.

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). This report has, therefore, been divided into separate sections for audited and unaudited information.

Unaudited information

The Remuneration Committee of the Board (the "Committee") sets the remuneration and terms of appointment of the executive directors and the Chairman on behalf of the Board. The names of the directors who have served on the Committee during the year are Ian Gregg (who was Chairman until 3 August 2005), Julie Baddeley (who joined the Committee in May 2005 and assumed the Chair from 3 August 2005), Stephen Curran and Bob Bennett. Mike Darrington, Andrew Davison (the Company Secretary) and Nicola Instone (the Company's People Director) have assisted the Committee in their deliberations. The Committee received independent external advice from Monks Partnership (who were appointed by the Committee). Monks Partnership also assisted the Executive Director Committee by producing comparative information to assist in determining the fees payable to non-executive directors and assisted the Company generally in determining the remuneration of its senior management team, but otherwise had no connection with the Company.

General Policy on Directors' Remuneration

The Committee's policy is to establish competitive remuneration packages 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.

Where possible, the Committee will also seek to structure bonus arrangements in a manner that will align the interests of executive directors with those of shareholders.

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, to recognise the unusually complex nature of the combined retail, manufacturing and distribution operations of the Greggs business and so as to take into account levels of remuneration paid to others within the Company.

Basic salaries for executive directors should be 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 benchmarked every three years unless a material change in the business warrants earlier review.

Between major reviews, basic salaries will normally rise in line with rates of increase adopted elsewhere in the Greggs business. Basic salaries and other benefits were last benchmarked in 2005, on the basis of advice provided by Monks Partnership. This advice indicated that the fees payable to the Chairman, the basic salary of the Chief Executive, the annual bonus arrangements for the executive directors and share-based/long term incentive schemes for the executive directors had all fallen some way behind the Company's stated policy. Acting on this advice, the Remuneration Committee has adjusted the fees payable to the Chairman and the basic salary of the Chief Executive. The annual bonus formula for executive directors has also been altered so that during 2005, this scheme (when combined with the All Employee Profit Sharing Scheme, which distributes 10% of profits half-yearly to all employees on the basis of a formula related to the profitability of their relevant division, length

of service and salary levels) could, subject to Remuneration Committee discretion, deliver a cash bonus (non-pensionable) of 3% of basic salary for every 1% increase in the net profit (excluding property profit and adjusted for the issue of any shares during the year) over a level fixed by the Committee in the light of economic and market conditions. The aggregate of these bonuses is subject to a cap of 60% of basic salary. In addition, the Committee is recommending the adoption of a new Long Term Incentive Plan ("LTIP"). This LTIP will be proposed for shareholders to vote upon at the Annual General Meeting and details of it are set out in the circular to shareholders accompanying the Notice of that meeting. If approved by shareholders, the Committee intends that the LTIP will be used for the first time in 2007. The Committee's policy is that bonus payments to executive directors should not be pensionable.

There have been occasional grants to the executive directors of options over shares in the Company, pursuant to one or more of the share option schemes operated through the 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 institutional investor guidelines, the total number of new shares and shares held in treasury 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 or shares held in treasury available to be allocated under the discretionary Senior Executive Share Option Schemes under which the last grant of options (in which no executive director participated) was made in September 2004. Any future grants of executive share options to executive directors will be based upon the need to secure individuals of appropriate calibre, having regard to prevailing market conditions at the date of appointment, or to help to align the interests of executive directors with those of

shareholders, especially if the proposed new LTIP is not available to a particular individual, or where the Committee considers it appropriate.

Unless granted pursuant to the all-employee Savings Related Share Option Scheme (under which options may be offered at a discount to market price), the Committee intends that all options granted to executive directors in respect of shares in the Company (except those relating to "matching" shares under the LTIP) 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 Committee considers that, although the non-performance related elements of the executive directors' remuneration packages are substantial, the performance related elements are significant in terms of providing motivation to the executive directors to improve shareholder value.

In order to ensure that no director is involved in deciding his/her own remuneration, the fees payable to non-executive directors (other than the Chairman) are set, after consultation with the Chairman, 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 obtained in 2005 from Monks Partnership.

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 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 Committee intends that performance conditions will continue to be settled on this basis and applied to any future grants of options to 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 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. 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 Committee each year in accordance with the general remuneration policy set out above. If approved by shareholders, the Committee will offer participation in the proposed new LTIP in accordance with the provisions set out in the circular to shareholders proposing its adoption.

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. Any non-executive director who has served on the Board for over nine years must seek re-election annually. 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.

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.

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.

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 dated 7 March 2003. His continuous period of service with the Company commenced on 15 July 1983.

Malcolm Simpson has a service contract with the Company dated 7 March 2003. 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 or by the executive on six 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.

In addition to the above arrangements, for 2006, the executive directors will receive 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 based upon net profit achieved by the Company, subject to confirmation by the Remuneration Committee. Total bonus payments are capped at 60% of basic salary.

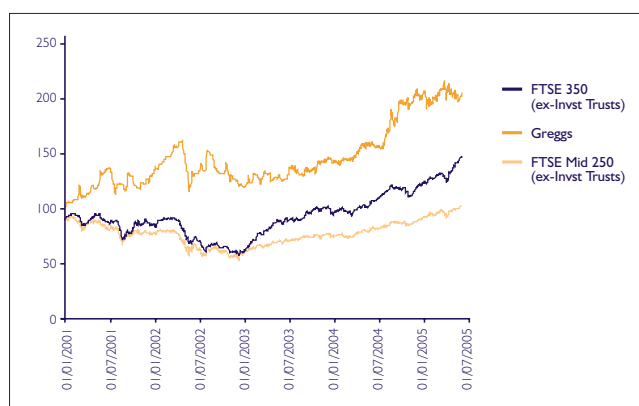
Non-executive Directors

The non-executive directors do not have service contracts with the Company. However, each of them does have a letter 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.

Performance Graph

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE Mid 250 Index (excluding Investment Trusts) and the FTSE 350 (excluding Investment Trusts).

These indices were chosen for this comparison because they include companies of broadly similar size to the Company.



Directors' Remuneration Report

continued

Audited Information

Directors' emoluments and compensation

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

	Salary / fees set for 2006 £	Salary / fees paid in 2005 £	Estimated value of benefits 2005 £	Annual bonus and profit share 2005 £	Total 2005 £	Total 2004 £
Executive						
Mike Darrington	420,000	380,833	23,441	73,291	477,565	440,264
Malcolm Simpson	235,000	225,000	18,684	43,301	286,985	294,110
Chairman						
Derek Netherton	101,000	95,125	-	-	95,125	88,000
Non-executive						
Stephen Curran	31,000	25,000	-	-	25,000	23,500
Sonia Elkin	-	-	-	-	-	9,617
Ian Gregg	27,500	26,167	-	-	26,167	25,000
Susan Johnson	27,500	25,000	-	-	25,000	23,500
Bob Bennett	34,000	28,000	-	-	28,000	25,500
Julie Baddeley	33,000	22,500	-	-	22,500	-
Total	909,000	827,625	42,125	116,592	986,342	929,491

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

The fees payable to the non-executive directors reflect their respective membership and chairmanship of the relevant Board Committees and, in the case of Stephen Curran, his role as Senior Independent Director.

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				Exercise price £	Market price at date of exercise £	Gain on exercise £	Date of grant	Date from which exercisable	Expiry date	Scheme
	At 01/01/05 Number	Granted Number	Exercised Number	At 31/12/05 Number							
Mike Darrington	18,000	-	18,000	-	26.875	330,750	Mar 99	Mar 02	Mar 06	Executive	
	27,900	-	7,900}	12,000	17.015	223,056	Mar 00	Mar 03	Mar 07	Executive	
			8,000}			45,000					
Malcolm Simpson	12,000	-	12,000	-	26.875	220,500	Mar 99	Mar 02	Mar 06	Executive	
	12,400	-	2,400	10,000	17.015	67,764	Mar 00	Mar 03	Mar 07	Executive	

The aggregate gains on exercise of share options were £1,065,950 (2004: £5,039), including £777,686 (2004: £2,557) in respect of the highest paid director.

The executive directors also have a potential beneficial interest in the Greggs Employee Benefit Trust.

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 basic 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 basic earnings per share of the Company being at least 10% above the median basic 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 31 December 2005 was £47.00. The highest and lowest mid-market prices of ordinary shares during the financial year were £49.50 and £36.20 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 year under review. This scheme, which currently requires a contribution of 6.6% of pensionable salaries from members, provides for up to two-thirds of final pensionable salary, dependant on length of pensionable service. Both of the executive directors also received contributions into the Company's money purchase defined contributions pension schemes during the year under review. No pension benefits were earned or accrued in respect of any non-executive director. The Finance Act 2004 has led to changes in the tax treatment of the current UK pension regime which are effective from 6 April 2006. These changes are not expected to have any material effect on the Company.

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 31 December 2005 £	Accrued annual pension entitlement at age 65 as at 1 January 2005 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 2.4% £	Transfer value of increase in accrued pension entitlement for the year £
Mike Darrington	8/3/42	15/8/83	132,370	117,892	14,478	11,649	119,533
Malcolm Simpson	15/10/41	24/4/73	125,591	114,021	11,570	8,833	87,228

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 2.4% 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 1 January 2005 £	Cash equivalent transfer value as at 31 December 2005 £	Increase in the cash equivalent transfer value since 1 January 2005 £
Mike Darrington	1,862,841	1,982,373	96,820
Malcolm Simpson	1,751,283	1,838,511	72,258

Note: cash equivalent transfer values have been calculated in accordance with Actuaries Guidance Note GNI 1 and the increase is stated net of contributions made by the director. 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.

Directors' Remuneration Report

continued

Money purchase schemes

The Company has paid the contributions set out below 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.

	Contribution in respect of 2005 £	Total contributions made during 2004 £
Executive Director		
Mike Darrington	3,333	76,868
Malcolm Simpson	60,500	10,500

Approval by Shareholders

At the Annual General Meeting of the Company to be held on 10 May 2006, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 10 March 2006.

Signed on behalf of the Board

Julie Baddeley

Director

Chair of Remuneration Committee

10 March 2006

Corporate Social Responsibility

Greggs plc believes that as a major employer, a provider of food products to the public, and a plc with obligations to its shareholders, the Company has a responsibility to conduct its business with integrity, to act responsibly, to address the impacts of our business on the environment, and to give something back to the wider communities in which we operate.

This responsibility is delivered through the following:

Customers, People and Suppliers

"Our Values" 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."

Our Values are a basis for all of our activities. Our employees are expected to use them in their relationships with each other and with customers and suppliers. Our Values are our 'code of conduct' and are the framework within which the business manages its activities and operates.

Food Safety and Health & Safety are at the forefront of how we operate. We insist on providing our customers with good quality food products and assurances of food safety. Our robust systems also seek to protect the health & safety of Greggs' customers and its employees.

Wider Communities

In 2005, Greggs plc directly donated 1.2% of pre-tax profit to charity.

- 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 2005 was £909,757, derived from the Greggs plc donation, from employees under the Give As You Earn Scheme and staff fund raising activities. 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 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 a nutritious breakfast, including provision of fresh bread from local Greggs or Bakers Oven shops, together with the necessary equipment. Greggs and Bakers Oven staff work with school teachers to encourage parents, grandparents and other volunteers to run the clubs, including serving the breakfasts, thereby helping them to help others in their own communities. In 2005, the number of Breakfast Club schemes increased from 82 to 113. 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. The scheme received the Business in the Community 'Big Tick' award for Excellence in 2003, which ran for 2 years.
- The Greggs Cancer Run is an annual event which has raised over £3 million since its inception in 1983. The Cancer Run originated in Greggs North East, organised each year by a group of dedicated staff. In 2005 Cancer Runs took place at Greggs North East; Greggs North West; Greggs of Scotland and Greggs South East. The event is growing and will take place in 6 divisions in 2006.
- 2005 was Year 5 of the Company's investment of £500,000 in the 5-year Newcastle Employment Bond, which is secured as to repayment by Northern Rock plc. The investment is at zero rate interest, with the interest foregone to be used to help tackle long-term unemployment in the Newcastle upon Tyne area.
- On a nationwide basis, Greggs made charitable donations of £609,000 in 2005, the bulk of which was directed through the Greggs Trust.

Greggs plc has employed a full-time dedicated Community Initiatives Manager since January 2005. This role oversees our work in the wider communities, in particular to accelerate further roll-out of the Greggs Breakfast Clubs. This appointment is testament to Greggs' ongoing commitment to the communities in which we operate.

In addition to the schemes listed above, Greggs plc staff throughout the country participate voluntarily in a wide range of charity fund raising, which makes an additional meaningful contribution to the wider communities in which we operate. By their dedication and devotion, our employees are a true credit to the Greggs and Bakers Oven name, and the real benefits of what they achieve are inestimable. It is thanks to these employees and their efforts that as a Company we are able to make a significant contribution to the communities in which we operate.

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 environmental impacts of its operations and in line with Our Values.

Environment Policy

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. To manage this, the Company is progressively introducing an Environmental Management System (EMS) in each Division, which will seek the following:

- Compliance with all relevant environmental legislation, regulation and other requirements applicable to the Company or to which the Company subscribes;
- Reduction of waste at source via the efficient use of resources and encourage re-use and recycling of waste;
- Working towards increasing energy efficiency at all its sites;
- Monitoring and improving the performance of vehicles owned by Greggs plc;
- Working towards ensuring that policies and procedures are in place so that accidents/incidents with potential adverse environmental impact are controlled as far as is reasonably practicable;
- Progressively making employees aware of the environmental issues relevant to their role within Greggs plc;
- Taking into account the adverse impact on the environment of any capital expenditure project.

During 2005, progress has been made as follows:

- Continuation of environmental audits of all divisions.
- Introduction of a waste management initiative;
 - Reduce the amount of food waste generated by our shops and bakeries;
 - Looking at alternatives to landfill disposal of food waste that is generated;
 - Using the Greggs productivity system to help reduce waste at source.
- Certified environmental training being carried out with divisional representatives.
- EMS review at Balliol to bring it in line with revised environmental standard ISO14001.
- Second central savouries plant is being built IPPC compliant from commission, hence will become a low environmental risk plant.
- Introduction of Greggs building standards meaning risk reduction measures against environmental impact.
- Continuation of the SEBA (Save Energy Be Aware) initiative in all shops and factories to reduce energy consumption by the Company, to meet the Company targets for reduction set out in the plc Business Plan.
- Working to introduce a packaging environmental impact measurement into the business, reducing packaging at source.

In 2005, the Company has taken steps towards meeting its environmental commitments and will continue to grow this commitment during 2006.

10 Year History

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
									(as restated)*	
Turnover (£'000)	238,465	265,941	291,420	308,678	339,008	377,556	422,600	456,978	504,186	533,435
Profit on ordinary activities before taxation (£'000)	15,673	18,035	20,214	21,520	26,356	32,742	36,666	40,472	47,751	50,159
Shareholders' funds (£'000)	48,107	58,384	69,585	80,896	88,169	103,554	119,965	134,150	157,156	181,475
Earnings per share (pence)	95.8	121.1	122.8	135.1	162.3	190.2	209.2	230.5	270.5	282.1
Dividend per share (pence)	32.0	37.0	41.0	45.0	55.0	65.0	72.5	80.0	96.0	106.0
Cash generated by operations (£'000) (before dividends, tax and capital expenditure)	24,955	30,408	34,902	34,526	43,431	50,418	55,555	57,722	69,261	63,689
Capital expenditure (£'000)	15,669	24,364	26,204	22,403	21,397	27,385	42,143	32,361	25,090	41,687
Number of shops in operation at year end	1,032	1,057	1,072	1,084	1,105	1,144	1,202	1,231	1,263	1,319

*restated for the transition to IFRSs

DIRECTORS

Derek Netherton (Non-executive chairman)†ø

Sir Michael Darrington FCA (Managing)ø

Malcolm Simpson FCA (Finance)

Ian Gregg OBE (Non-executive)†ø

Stephen Curran FCCA (Non-executive)*†ø

Susan Johnson OBE (Non-executive)*ø

Bob Bennett FCA (Non-executive)*†ø

Julie Baddeley (Non-executive)*†ø

*Member of Audit Committee

† Member of Remuneration Committee

ø Member of Nominations Committee

SECRETARY AND REGISTERED OFFICE

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

Bankers

Royal Bank of Scotland plc
149 High Street
Gosforth
Newcastle upon Tyne
NE3 1HA

Auditors

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Solicitors

Robert Muckle LLP
Norham House
12 New Bridge Street West
Newcastle upon Tyne
NE1 8AS

Stockbrokers

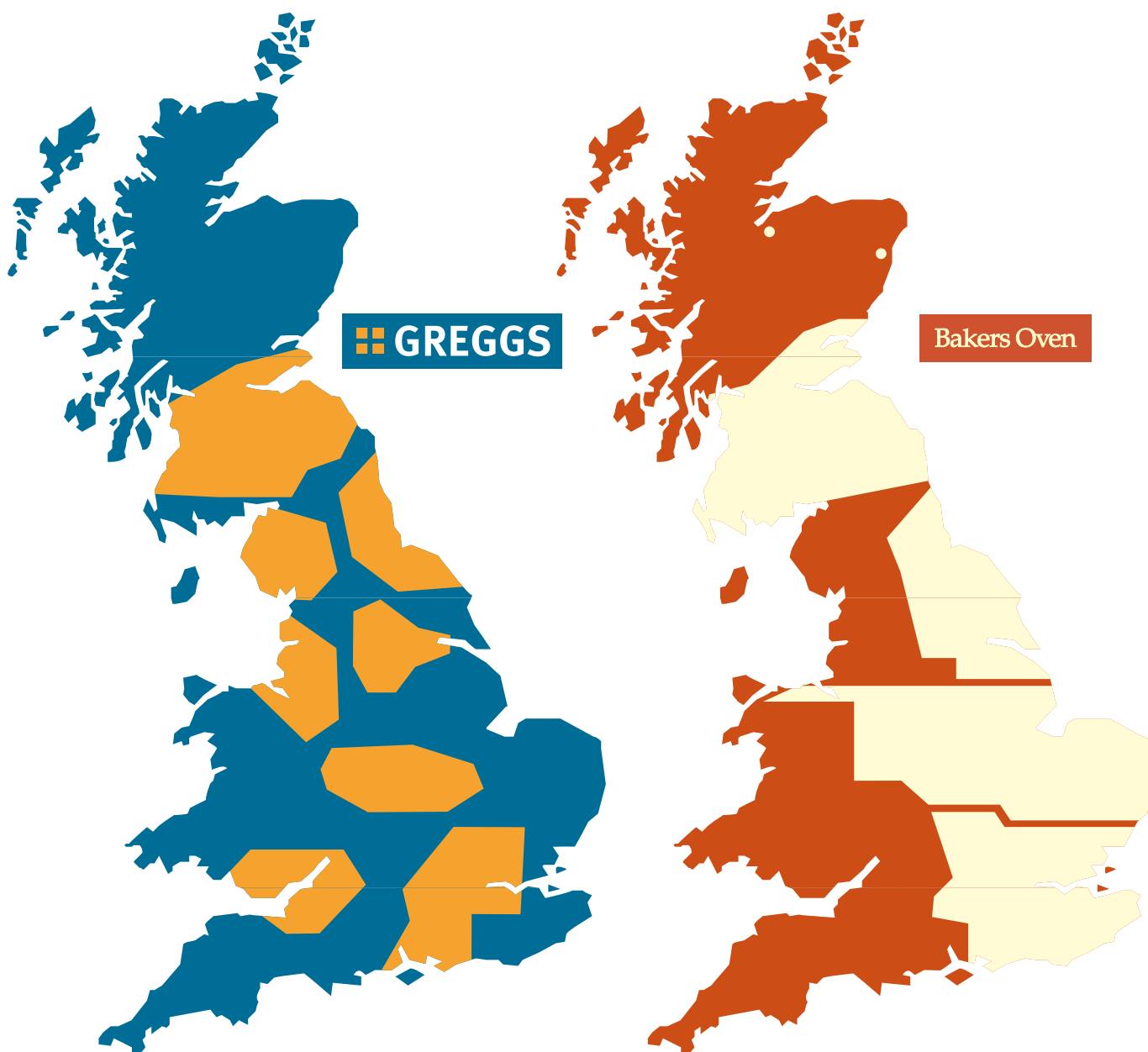
UBS
1 Finsbury Avenue
London
EC2M 2PA

Brewin Dolphin Securities Ltd
Commercial Union House
39 Pilgrim Street
Newcastle upon Tyne
NE1 6RQ

Registrars

Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Nationwide Coverage



GREGGS		
SHOP NUMBERS	2005	2004
Scotland	147	139
North East	117	114
Cumbria	46	49
Yorkshire	128	119
North West	133	129
Midlands	153	144
South West	107	102
South East	267	249
GREGGS	1,098	1,045

BAKERS OVEN		
SHOP NUMBERS	2005	2004
Bakers Oven Scotland	18	19
Bakers Oven North	48	48
Bakers Oven Midlands	85	84
Bakers Oven South	65	63
BAKERS OVEN	216	214
Greggs Belgium	5	4
TOTAL	1,319	1,263

GREGGS
—plc—

Fernwood House, Clayton Road, Jesmond, Newcastle upon Tyne NE2 1TL.
www.greggs.plc.uk