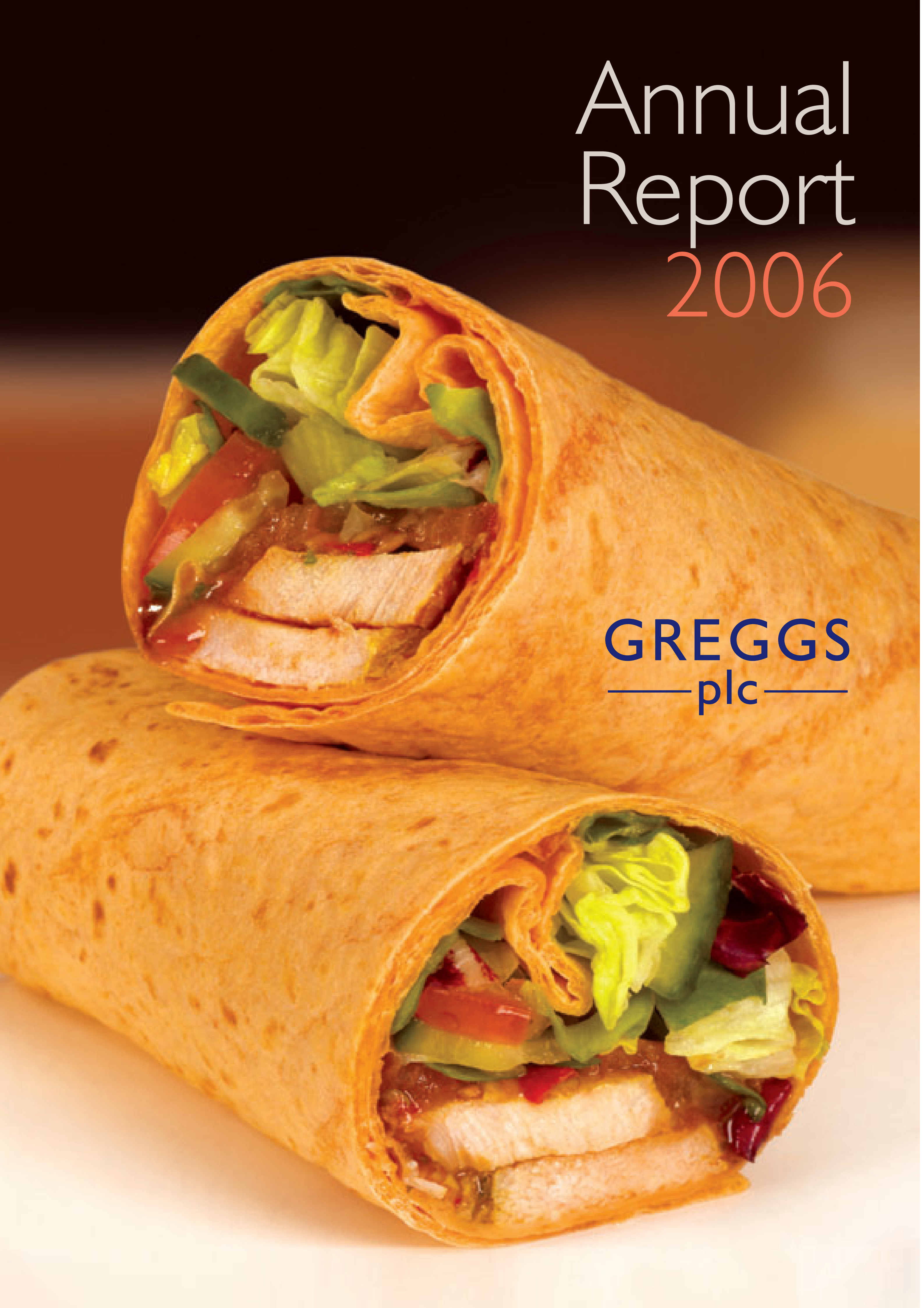
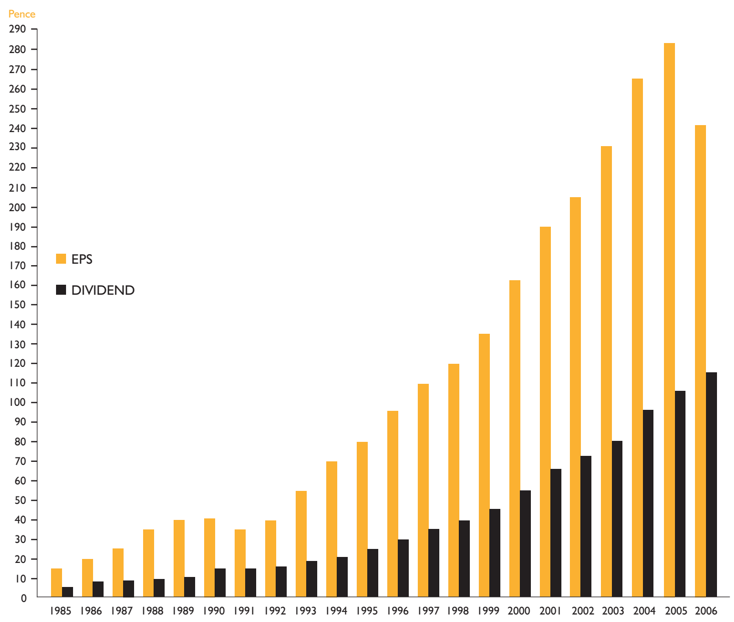
Annual Report 2006



GREGGS plc



FINANCIAL HIGHLIGHTS

	2006* **£'m**	2005 £'m
Turnover	**550.8**	533.4
Earnings before interest and tax	**38.7**	47.1
Pre-tax profits	**40.2**	50.2
Post-tax profits	**27.0**	34.1
Shareholders' funds	**144.9**	181.5
Capital expenditure	**30.0**	41.7

	Pence	Pence
Earnings per share	**241.2**	282.1
Dividend per ordinary share	**116.0**	106.0

*Includes £3.5m restructuring costs

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	14 May 2007

CONTENTS

Greggs the Bakers

OUR BUSINESS Greggs plc is the UK's leading bakery retailer, specialising in sandwiches, savouries and other baker-fresh food on the go. From humble beginnings as a single bakers shop, we now have over 1,300 shops throughout the UK, trading under our Greggs and Bakers Oven brands. Whilst our shops and products have evolved over time, we have remained loyal in our commitment to provide baker-fresh, quality food on the go.

OUR VISION We will be Europe's finest retail baker, growing, highly profitable and operating with integrity, for the benefit of our people, customers, shareholders and communities. Our medium term targets for the UK include growing to more than 1,700 shops; in the long term we believe that 2,000 shops is achievable.

A GREAT PLACE TO WORK We aspire to be a company with good, honest values and a 'can do' culture, that everyone is proud to work for.

- **Our Values:** We will be enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.
- **Our Culture:** We are achievers! Working hard together, in a friendly, informal way, where everyone matters.
- **Our Communities:** We will be responsible neighbours wherever we operate, supportive of our local communities and continually improving our impact on the environment.

Tribute to Ian Gregg and Malcolm Simpson by Sir Michael Darrington

The Greggs business was started by Ian's parents in the late 30s, selling yeast and eggs from a van. As a young boy, after his parents bought their first shop and bakery in 1951, Ian found himself helping with all the tasks in the bakery, as well as studying. Just as Ian qualified as a lawyer, his father died unexpectedly.
Ian agreed to help his mother with the business for a short period but, to his surprise, found he became enthused by it. At that time, the business comprised a bakery in Gosforth with one shop and seven delivery vans and, in those days, the business was mainly bread, rolls and cakes.

Ian progressively built the business over the next 20 years, growing it both organically and by acquisition. He developed the savoury business, putting ovens into all the shops and he found himself working bakers' hours. He also reintroduced the iconic Stottie Cake.

As those who know him understand, Ian loves working with people and is excellent at choosing them, which has contributed to the strong and stable team that was built. He has excellent personal values which he built into the business in the early days and which we have progressively developed as the business has grown. He is remarkable in that he has the vision of an entrepreneur but was never happier than when he went in to help out with a problem in the bakery.

In the early 80s, Ian decided he had done his bit in growing Greggs, which was still a private business, and he asked me to join and to continue the improvement and expansion of the business. I came to Greggs as MD in 1983 from a large public company, joining a relatively small family business, which was a bit of an act of faith. However, I had met Ian on a number of occasions and as we got to know each other I felt we shared lots of ideas and had a lot of values in common and that Ian was somebody to be trusted.

The business floated on the London Stock Exchange in May 1984 and we carried on growing and improving the business. Ian became progressively more non-executive in his Chairman's role. He retired as Chairman in 2002 but, fortunately for us, agreed to stay on for a few more years. Ian was amazing in that the understanding we had was that he would leave me to get on with doing things my way rather than getting involved himself. He did this even when, on a number of occasions, he must have felt pretty uncomfortable. I doubt that anyone else could have done this as well as Ian.

Even during his most frenetic times, Ian found time for the other passion in his life – salmon fishing. He has always been very involved in conservation – including being the Chairman of the River Tweed Commissioners and Tweed Foundation, for which he was awarded an OBE. He is also very generous and set up a significant charitable trust to help the disadvantaged. He has a large number of achievements, both in and out of the business, which have influenced a lot of people.

Ian is a very modest and unassuming man, with great strength of character. His retirement from Greggs is the end of an era.

The AGM also sees the retirement of another pillar of Greggs – Malcolm Simpson, who has been Financial Director of Greggs since 1975. He was a great help to Ian in the early days and, when I joined Greggs in 1983, Malcolm was particularly welcoming and supportive in what was initially a challenging time.

Ian Gregg

Malcolm Simpson

Malcolm steered us through our flotation in May 1984. He is a larger-than-life character who has had a wide-ranging involvement in most areas of our business and has made a major contribution to our success over many years. He is very strong minded and (most of the time!) I have appreciated both his challenging approach as well as his supportiveness.

Greggs have been very fortunate to have two such excellent people giving such long-term commitment to the very successful building of our business.

I know that I, and many others, will miss them tremendously and would like to wish them every success and happiness in the future.

Sir Michael Darrington
Managing Director
12 March 2007

Directors' Report and Business Review for the 52 weeks ended 30 December 2006

OUR BUSINESS The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 30 December 2006. The comparative period is the 52 weeks ended 31 December 2005.

The directors' report and business review is set out on pages 6 to 23.

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.

CHAIRMAN'S STATEMENT

As we had anticipated, 2006 proved to be a challenging year for the Group. During the year we conducted a comprehensive review of the business, which confirmed its fundamental strengths in terms of branding, shops, products and people, but also identified opportunities for improvement. We are therefore making changes to enable us to become even more focused on our customers, respond more rapidly to a fast-changing and increasingly competitive market place, and facilitate Greggs' continuing development as a powerful and innovative national brand.

RESULTS Total Group sales for the 52 weeks ended 30 December 2006 increased by 3.3 per cent to £551 million (2005: £533 million). After a flat first half, like-for-like sales performance improved towards the end of the year. The like-for-like sales improvement during the second half (28 weeks) was 0.9 per cent, making an increase for the year as a whole of 0.5 per cent.

Operating profit, excluding the costs of restructuring the Bakers Oven business in the North and Scotland, was £42.2 million (2005: £47.1 million), a reduction of 10.4 per cent giving an operating margin of 7.7 per cent (2005: 8.8 per cent) for the year. The principal factors here were the modest like-for-like sales progress, including a 2.5 per cent decline in core volumes, and a £4.5 million increase in energy costs. These were mitigated to some extent by efficiency improvements and a continuing effort to bear down on overheads.

Net finance income was reduced by 50 per cent to £1.5 million (2005: £3.0 million) as we returned surplus cash to our shareholders through increased dividends and share buybacks. In consequence, pre-tax profit before restructuring costs was £43.7 million (2005: £50.2 million), a reduction of 12.8 per cent. After the £3.5 million closure costs arising from the Bakers Oven restructuring pre-tax profit was 19.8 per cent lower than in 2005 at £40.2 million.

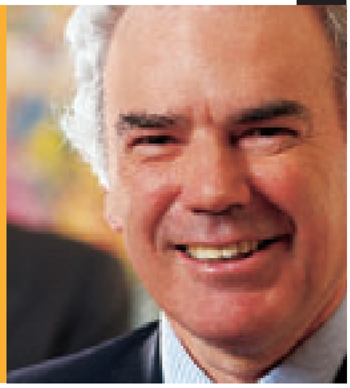
Before restructuring costs, diluted earnings per share were 262 pence (2005: 279 pence), a reduction of 6.2 per cent. This compared favourably with the 10.4 per cent decrease in operating profit, reflecting the benefit of share buybacks. After the impact of restructuring costs, diluted earnings per share were 240 pence (2005: 279 pence), a reduction of 14.0 per cent.

DIVIDEND The Board recommends a final dividend of 78.0 pence per share (2005: 70.0 pence), an increase of 11.4 per cent. Together with the interim dividend of 38.0 pence (2005: 36.0 pence), paid in October 2006, this makes a total for the year of 116.0 pence (2005: 106.0 pence). This is a rise of 9.4 per cent, making 2006 our twenty-second consecutive year of dividend growth since Greggs came to the stock market in 1984. The increased dividend is covered 2.3 times by diluted earnings per share before restructuring costs (2005: 2.6 times) and is consistent with our previously stated intention to progress towards cover of 2.0 times.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 25 May 2007 to shareholders on the register at close of business on 27 April 2007.

As announced in the interim report, we believe that our shareholders will benefit from a more efficient balance sheet. In addition to delivering value through increased dividends, the Company spent a total of £39.5 million during the year purchasing 1,036,479 of its ordinary shares for cancellation, at an average price of £37.87 per share. The trustees of the Greggs Employee Benefit Trust purchased a further 438,829 shares at a cost of £16.4 million for the future satisfaction of employee share options. The combined effect of these purchases, totalling £55.9 million, is seen in the reduction of net cash on our balance sheet from £65.6 million to £19.6 million during 2006.

Derek Netherton,
Chairman



It is the Board's intention to renew its authority to buy back shares at the Annual General Meeting, and to continue to buy back shares when it is in the interests of our shareholders to do so.

RESULTS OF STRATEGIC REVIEW During 2006 we completed a thorough review, looking at all aspects of our business, to ensure that it continues to develop in line with our customers' needs. In order to accelerate the implementation of initiatives to extend the appeal and availability of products under the Greggs brand we are creating a new management structure. Key priorities will include the improvement of our product range to enhance its appeal as the mass market becomes more aspirational, and the development of formats and opening hours that can satisfy demand for food on the go throughout the day. Action in these areas will be backed by significantly increased investments in research, advertising and promotion, and in improving the retail environment through refits and refurbishments. This programme of change is intended to drive a progressive acceleration of both top and bottom line growth. Profitability is also expected to benefit in the medium term from cost reductions as best practice is implemented across the business. Mike Darrington discusses these changes in more detail in his report on pages 8 to 11.

THE BOARD Raymond Reynolds (47) was appointed to the Board as an executive director in the new role of Retail Director for the Greggs brand on 18 December 2006. He is charged with the development of a stronger, more unified and customer-focused Greggs brand throughout the UK.

Two directors who have made truly exceptional contributions to the business will retire at our AGM in May. Ian Gregg (67), who has continued to serve as a non-executive director since August 2002, was Executive Chairman and Managing Director from 1964-84, then Executive Chairman 1984-93 and Non-Executive Chairman 1993-2002. Greggs is a unique business in many ways, one of which is the integrity of its values and the way in which these are embedded throughout the company. Ian was the inspiration for this as well as many other strengths of the business. On a personal note I am also very grateful for all the help that he has given to me since I took over from him as Chairman. Malcolm Simpson (65), retired as Financial Director in May 2006 after 31 years on the Board in that role. For the last year he has served as an executive director in charge of our IT function. His contribution to the business cannot be overestimated. Mike Darrington pays tribute to Ian and Malcolm on pages 4 and 5.

PEOPLE This has been a challenging year for all at Greggs, and I would like to express the thanks of the Board to every member of our team for their continued commitment to delivering excellent customer service, and for their positive response to the necessary changes we have made during the year.

PROSPECTS The more positive sales trend which developed in the final weeks of 2006 has continued in the current year to date. Like-for-like sales in the nine weeks to 3 March 2007 have increased by 3.9 per cent, broadly in line with inflation. Operating profit is in line with our budget and ahead of the comparable period last year. In our programme to strengthen and develop the Greggs brand, the emphasis this year will be very much on evaluating and learning from the results of our trials, along with the progressive adoption of best practice across the business. Although we expect to see some near term benefits from this work, its real objective is to enhance the growth potential of the Group over the next two to three years. While additional costs will be incurred as we reorganise and develop the Greggs brand, overall we expect that 2007 will be a year of progress for the Group.

Derek Netherton,
Chairman
12 March 2007

Directors' Report and Business Review

(continued)

MANAGING DIRECTOR'S REPORT

We are significantly increasing our customer focus to enable us to drive a stronger and more unified Greggs brand that can respond more rapidly and effectively to changing needs and tastes. We are taking major initiatives in the areas of management, customers, products, shops and marketing. These actions will create a more streamlined Group with the capability to deliver progressively improving performance through a focus on innovation and best practice.

TRADING PERFORMANCE Trading conditions during 2006 were the most demanding that we have encountered for well over a decade, and these were reflected in our disappointing like-for-like sales performance. The flat like-for-like sales trend of the first half (24 weeks) continued for longer than we had expected in the second half, partly because of the effects of an exceptionally hot summer. Real improvements were achieved, against progressively easier comparatives, in the final two months of the year, with like-for-like sales in the six weeks to 9 December growing by 2.0 per cent and in the final three weeks to 30 December by 3.3 per cent. As the Chairman has noted, these delivered an uplift of 0.9 per cent over the second half as a whole, making an increase of 0.5 per cent for the year. With our selling price inflation averaging 3.0 per cent, this represented a 2.5 per cent decline in core volumes year-on-year.

The market in which we operate has become progressively more competitive, with the proliferation of high street convenience formats operated by the major supermarket groups, and the growth of numerous specialist takeaway food chains. This has occurred at a time when high street footfall has in any case been under pressure. The high operational gearing of the business makes it sensitive to changes in like-for-like sales.

In 2006, we faced an exceptional increase in energy costs following the end of a long term electricity supply agreement and significant hikes in gas and other power costs. In total, the Group's energy bill rose by £4.5 million compared with 2005, and this was the largest single contributor to the £4.9 million reduction in operating profit before restructuring costs. Through forward buying we managed to avoid the peak of the energy cost spike and, as a consequence, these costs in 2007 are likely to be at a similar level to 2006.

Advantageous forward buying also enabled us to mitigate the effects of a significant increase in the market price of flour, our most important ingredient, from autumn 2006, as poor harvests worldwide resulted in a shortage of good quality milling wheat. Labour, our largest single cost, reflected underlying wage inflation of just under 4 per cent, partially offset by improved scheduling of shop staff hours and a continued drive to enhance efficiency. We also robustly challenged all spending as part of a determined focus on tighter cost management across the Group.

Greggs brand UK. The Greggs brand in the UK recorded a like-for-like sales decline of 0.3 per cent in the first half and an improvement of 1.2 per cent in the second half, making an increase of 0.5 per cent for the year. Selling price inflation averaged 3.1 per cent, once again reflecting improvements to our product offer as well as the recovery of cost increases.

Bakers Oven brand. Like-for-like sales under the Bakers Oven brand grew by 0.8 per cent in the first half and recorded a marginal decline of 0.1 per cent in the second half, making an increase of 0.4 per cent for the year as a whole. Selling price inflation averaged 2.6 per cent.

Greggs Continental Europe. Our Belgian business is now trading from six shops in Antwerp and Leuven, which are achieving good core sales growth. We plan to open at least two more shops in Belgium during 2007.

Sir Michael Darrington
Managing Director

STRUCTURE AND STRATEGY: GREGGS As the Chairman has noted, we have conducted a comprehensive review of our structure and strategy during 2006. Whilst confirming the fundamental strengths of the business, it has made us even more determined to drive harder in those areas where there are opportunities for improvement.

Management. We operate in an increasingly fast-moving market place, and it is essential that we have the capacity to react quickly to changing consumer demands and tastes. Following our review, the Board concluded that the previous management structure, which allowed considerable autonomy to the eight Greggs divisions in the UK, could no longer meet this key requirement. Raymond Reynolds was therefore appointed Retail Director in December 2006 to unify the Greggs brand and to drive an improvement programme based on an even greater understanding of our customers and their needs.

Customers. Our market research has confirmed the great loyalty of the million customers who visit Greggs each day. It has also highlighted clear opportunities to strengthen engagement with our existing customers and to extend our appeal to new groups of consumers. Our objective is to develop the Greggs brand to deliver quality food on the go to customers throughout the day, with a range that is capable of satisfying their varying lifestyles and preferences.

Products. While maintaining our focus on delivering great taste and enjoyment at competitive prices, we will develop our offer to cater for more aspirational demands. We will continue to offer iconic bakery products such as our sausage rolls and doughnuts. These will be complemented by more adventurous new products and by further expansion and development of our Healthier Options range of wraps, rolls and sandwiches, which currently comprises seven lines. Each product contains less than 400 Kcalories, less than 10g of fat, less than 4g of saturated fat and less than 2g of salt. The range is complemented by a healthy fruit salad pot. Together, Healthier Options products already account for over 10 per cent of our sandwich sales.

Shops. The strategic review has confirmed the fundamental strength of our retail property portfolio. We are now seeking to develop our range of outlets and opening times so that they are appropriately geared to each meal occasion and to local demand for food on the go. In developing our retail estate, we will progressively focus on new types of locations where there is demand for high quality takeaway food, as well as on the traditional high street. We will also put increasing emphasis on capital investment devoted to enhancing the appeal of our existing shops through refits and refurbishments.

Marketing. All these changes will be supported by a significant increase in our marketing expenditure, including a campaign to promote awareness of the Greggs brand. We will place particular emphasis on the freshness, quality and enjoyability of our products, including the excellent provenance of our ingredients.

As our new structure becomes established, we will speed up the adoption of best practice throughout the Greggs business, both in the product range we offer and in the way it is produced and sold. This will help us to drive down costs as well as building Greggs' reputation as a consistent, national brand.

STRUCTURE AND STRATEGY: BAKERS OVEN In August we announced the restructuring of Bakers Oven in the North and Scotland, involving the closure of these two divisions and the transfer of 49 of their shops either to the Greggs brand or the successful Bakers Oven Midlands operation. A further 14 poorly performing shops were closed. These changes have

Directors' Report and Business Review
(continued)

MANAGING DIRECTOR'S REPORT
CONTINUED

been implemented in accordance with our plans, and will deliver the projected profit enhancement of £1.25 million per annum from 2007.

We incurred total restructuring costs of £3.5 million, slightly below our revised estimate but exceeding our original budget of £2.5 million owing to higher than expected property costs. Since the beginning of the current year we have completed the sale of the Carricks bakery site in Newcastle upon Tyne, formerly the headquarters of Bakers Oven North. As we have previously disclosed, the property profit on this sale will help to mitigate the costs of closure.

Bakers Oven in the South and Midlands remains a successful and profitable business, delivering good returns on our investment, and we remain committed to its future growth and development.

RETAIL PROFILE We opened 48 new shops during the year and closed 31, giving us a net increase of 17 units to a total of 1,336 at 30 December 2006. There were a larger number of closures than usual as a result of the restructuring of Bakers Oven in the North and Scotland. Following these changes, our portfolio at the year end comprised 1,165 shops (2005: 1,098) under the Greggs brand in the UK, an increase of 67; 165 (2005: 216) under the Bakers Oven brand, a reduction of 51; and six under the Greggs brand in Belgium, an increase of one.

We completed 29 comprehensive shop refurbishments and 24 minor refits during the year.

During 2007, we expect to add a net 20 – 25 new shops to our portfolio, after a continuing programme of action to weed out underperforming outlets. As part of our drive to enhance the customer appeal of our stores, we will accelerate the pace of our programme of refurbishments and refits during the year.

CAPITAL INVESTMENT Capital expenditure during the year was £30.0 million (2005: £41.7 million). This was significantly below our original budget of £40 million, principally as the result of site problems which delayed the start of work on our new Glasgow bakery, and the scaling back of planned shop openings. We plan to invest some £39 million in the business during 2007, which will include the Glasgow bakery construction; the completion of a smaller scale expansion of our South Wales facility; and a substantial increase in our expenditure on shop refits and refurbishments.

CASH FLOW AND BALANCE SHEET The business remains consistently highly cash generative, underpinning the Board's strategic decision to maintain our long-established, progressive dividend policy, reduce dividend cover and conduct a continuing share buyback programme. During the year the Company and the Greggs Employee Benefit Trust together spent £55.9 million on the purchase of shares; the Company paid dividends to shareholders totalling £12.1 million; and we made an additional contribution of £5.5 million to our main pension scheme, reducing its deficit under IAS19 to £1.9 million at 30 December 2006 (2005: £9.7 million).

Despite these substantial outlays, we ended the year with net cash on the balance sheet of £19.6 million, a reduction of £46.0 million since our previous year end.

COMMUNITY AND ENVIRONMENT We are proud to have maintained our commitment to the communities in which we operate during 2006, both through the Company's continued charitable donations and the efforts of our employees. In total Greggs gave £548,000 to charities during the year (2005: £609,000), amounting to 1.3 per cent of our pre-tax profit. This was directed principally through the Greggs Trust and our Greggs Breakfast Clubs scheme, where the number of clubs operating in primary schools in disadvantaged areas rose from 113 to 124. In addition to this our staff helped to raise £345,000 for children's cancer charities through regional fun runs and over £70,000 for the BBC Children In Need appeal.

We have maintained our drive to improve energy efficiency and reduce carbon emissions through our SEBA (Save Energy Be Aware) initiative in all our shops and bakeries. I am pleased to report that this delivered a 10 per cent reduction in our energy usage in production during 2006. We have also continued to pursue various initiatives to increase recycling and reduce the amount of food waste going to landfill.

PEOPLE Our excellent people have again demonstrated their dedication to the business, and have worked hard to overcome the challenges created by a more demanding market place. I would like to record my special appreciation of the way those affected by the restructuring of Bakers Oven pulled together to help us to make those changes as quickly and smoothly as possible. I would also like to thank and send our good wishes for the future to two senior members of our management team who retired this year after long periods of service: Ian Edgeworth, who had been Personnel Director at our Group head office in Newcastle upon Tyne since 1983; and Peter Rossi, who joined the business in 1988 and had been Managing Director of Greggs of Yorkshire since 1997. In addition we have two other significant retirements coming in 2007 and, as the Chairman has noted, a personal tribute from me to Ian Gregg and Malcolm Simpson appears on pages 4 and 5.

THE FUTURE We are taking clear steps to address the difficulties we encountered in 2006, and have initiated a programme of change that will build on the enormous fundamental strengths of the Group. This will help us to develop an even more responsive and cost-effective business that can satisfy the needs of customers, employees and shareholders alike. We will do so without compromising our core values or our commitment to delivering excellent products and service. I am confident that this will provide the most solid of foundations for the delivery of our vision of long term growth as Europe's finest bakery-related retailer.

Sir Michael Darrington
Managing Director
12 March 2007

Directors' Report and Business Review
(continued)

KEY PERFORMANCE INDICATORS

KPI	Definition	2002	2003	2004	2005	2006
Like for like sales growth	(a)	6.4%	3.3%	5.1%	4.0%	**0.5%**
Total sales growth	(b)	11.9%	8.1%	10.3%	5.8%	**3.3%**
Total number of shops	(c)	1,202	1,231	1,263	1,319	**1,336**
Capital expenditure	(d)	£42.1m	£32.4m	£25.1m	£41.7m	**£30.0m**
Earnings before interest and tax (EBIT)	(e)	£35.3m	£39.2m	£44.7m	£47.1m	**£42.2m***
Earnings per share (basic)	(f)	209.2p	230.5p	270.5p	282.1p	**263.0p†**

DEFINITIONS:

(a) Like-for-like sales growth compares year-on-year cash sales in our 'core' shops, i.e. it is not distorted by shop openings or closures. Refitted shops are included in the like-for-like comparison unless there has been a significant change in the trading space. Like-for-like sales growth includes selling price inflation.

(b) Total sales growth is the percentage year-on-year change in total sales for the Group.

(c) Total number of shops represents the total number of shops in operation at the end of the year.

(d) Capital expenditure is the total cash spent in the year on investment in tangible fixed assets.

(e) EBIT reflects the performance of the business before financing and taxation impacts.

(f) Earnings per share is calculated by dividing profit attributable to shareholders (i.e. profit after taxation) by the weighted average number of ordinary shares outstanding during the year after adjusting for the effect of own shares held.

* Before cost of Bakers Oven restructuring (£3.5m), 2006 EBIT after restructuring £38.7m

† 2006 earnings per share after restructuring costs 241.2p

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 1 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 58 to 64, describe how the relevant principles and provisions of the Combined Code were applied to the Company in 2006 and will be relevant to the Company for the 2007 financial year.

THE BOARD

Composition

The Board currently comprises the Chairman, 4 executive and 5 non-executive directors as follows:

Derek Netherton (Chairman), 62, 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 and St James's Place 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 2006. He is Chairman of the Nominations Committee.

Sir Michael Darrington FCA (Managing Director), 65, 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.

Richard Hutton FCA (Finance Director), 38, was appointed to the Board on 13 March 2006. He qualified as a Chartered Accountant with KPMG and gained career experience with Procter & Gamble before joining Greggs in 1998. He was appointed Finance Director on 10 May 2006. Richard is also a non-executive director of Northern Recruitment Group plc.

Malcolm Simpson FCA (IT Director), 65, qualified as a Chartered Accountant with what is now known as KPMG. He then worked for eight years within the finance department of Procter and Gamble. He joined the Company in 1973 and was appointed Finance Director in 1975. He stepped down from this role in May 2006 and is now responsible for the IT operations of the Company.

Raymond Reynolds (Retail Director), 47, was appointed to the Board on 18 December 2006. He joined Greggs in retail management in 1986. During the late 1990s, as General Manager he built a significant new business for Greggs in the Edinburgh region, and in 2002 he was appointed Managing Director of Greggs of Scotland.

Stephen Curran, 63, joined the Board in 1981. He was Chairman of Candover Investments plc from 1999 to 2006, having previously been Chief Executive of Candover since January 1991. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an investment manager with what is now Cinven. He remains a director of Candover Investments plc and is a non-executive director of Copthorne Holdings Limited, O.X.I.P. and the Dakota, Minnesota and Eastern Railroad Corporation. In 2004 he was appointed as the Senior Independent Non-Executive Director.

Ian Gregg OBE, 67, 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,

Directors' Report and Business Review
(continued)

CORPORATE GOVERNANCE CONTINUED

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.

Bob Bennett, 59, was appointed to the Board in December 2003. He trained as a Chartered Accountant with Spicer & Pegler and was Group Finance Director of Northern Rock plc from 1993 until his retirement at the end of January 2007. He has been Chairman of the Audit Committee since 2004.

Julie Baddeley, 55, 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 is an Associate Fellow of the Said Business School, Oxford. Julie was appointed as Chair of the Remuneration Committee in 2005.

Sir Ian Gibson CBE, 60, was appointed to the Board on 1 April 2006. He was Chief Executive of Nissan Europe N.V., Senior Vice President of Nissan Motor Company (Japan), Deputy Chairman of Asda Group and Chairman of BPB plc. He is now a non-executive director of Northern Rock plc and GKN plc and Chairman of Trinity Mirror plc.

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 2006, the Board met five times and the number of meetings attended by each director was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	**5**	**3**	**6**	**2**
Derek Netherton	5	-	-	2
Mike Darrington	5	-	-	2
Malcolm Simpson	5	-	-	-
Richard Hutton (appointed 13 March 2006)	4	-	-	-
Raymond Reynold (appointed 18 December 2006)	-	-	-	-
Ian Gregg (retired from the Remuneration Committee 9 March 2006)	5	-	1	2
Stephen Curran	4	2	5	2
Julie Baddeley	5	3	6	2
Ian Gibson (appointed 1 April 2006, appointed to the Remuneration Committee 10 May 2006)	4	2	4	1
Bob Bennett	5	3	6	2
Susan Johnson (resigned 30 September 2006)	3	2	-	1

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 senior management 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 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.

Directors' Report and Business Review (continued)

CORPORATE GOVERNANCE CONTINUED

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 the Company's website. 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, Stephen Curran, Julie Baddeley and Ian Gibson). 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 accounts 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 accounts 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 Combined Code requires the Board to be satisfied that at least one member of the Audit Committee has recent and relevant financial experience – the Board is satisfied in this respect.

The Remuneration Committee currently consists entirely of independent non-executive directors (Julie Baddeley – Chair, Stephen Curran, Bob Bennett and Ian Gibson). 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 58 to 64 of this Annual Report.

The Nominations Committee currently comprises Derek Netherton - Chairman, all of the non-executive directors and Mike Darrington. 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 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 this 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 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.

Operating Board

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

Risk Committee

A Risk Committee, consisting of the heads of each management function within the business, 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 process at least annually.

Directors' Report and Business Review
(continued)

CORPORATE GOVERNANCE CONTINUED

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.

The Board considers the key risks to the Group to be as follows:

External factors
Changes in the retail trading environment or in customer preferences will clearly have an effect on the business. The Company continually monitors market trends, the performance of its competitors and the performance of its own products and retail formats. Consumer research is carried out and key market reports are monitored.

Operational
The safety of our products, employees and customers is paramount. Detailed systems are in place to ensure that we are operating safely and these systems are subject to regular audit to ensure compliance. High priority is given to implementing any resulting recommendations.

Detailed plans are in place for all our major production facilities to maintain business continuity in the event of any potentially disruptive occurrence.

Organisational
The success of the Company is dependent upon the efforts and abilities of its employees. The Company has established remuneration packages that will attract, retain and motivate individuals with appropriate skills and experience. A senior management executive training programme is in place together with group-wide processes for the training and development of all employees.

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 progressively be 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.

Financial Reporting
The Company operates a comprehensive financial control system that incorporates Divisional Financial Controllers who have responsibility for implementation of the Company's financial management policies 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 page 25.

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.

FIXED ASSETS

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

DIRECTORS AND THEIR INTERESTS

The names of the directors in office during the year together with their relevant interests in the share capital of the Company (as defined in the Companies Act 1985) at 30 December 2006 and 31 December 2005 (or at date of appointment if later) are set out in note 26 to the accounts. Details of directors' share options are set out in the Directors' Remuneration Report on pages 58 to 64.

On 13 March 2006, 1 April 2006 and 18 December 2006 Richard Hutton, Sir Ian Gibson and Raymond Reynolds were respectively appointed as additional directors and on 30 September 2006, Susan Johnson retired as a non-executive director.

In accordance with the Company's Articles of Association, Stephen Curran, Ian Gregg, Raymond Reynolds, Derek Netherton, Malcolm Simpson, Richard Hutton and Bob Bennett retire from the Board. All, except Ian Gregg and Malcolm Simpson who have decided not to seek re-election, being eligible, offer themselves for re-election.

DIRECTORS' INDEMNITIES As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by law, in respect of losses arising out of or in connection with the execution of their duties, powers or responsibilities as directors of the Company. The indemnities do not apply in situations where the relevant director has been guilty of fraud or wilful misconduct.

Directors' Report and Business Review (continued)

SUBSTANTIAL SHAREHOLDINGS

At 12 March 2007, 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	1,231,091	11.03%
A.J. Davison (as trustee of various settlements)	949,763	8.51%
Baillie Gifford & Co	873,700	7.83%
Schroders	572,421	5.13%
Aegon Asset Management UK plc	541,950	4.86%
F.K. Deakin*	529,036	4.74%
Prudential plc	487,516	4.36%
Standard Life	459,141	4.11%
FMR Corporation	446,509	4.00%
F.M.E. Nicholson*	375,868	3.37%
Aviva plc	363,975	3.26%
Legal and General Investment Management Limited	395,527	3.54%
Mrs G.V. Richardson and family	360,449	3.23%

* Each of F.K. Deakin and F.M.E. Nicholson holds 375,868 shares jointly with A.J. Davison as trustees of various settlements within the numbers noted above. Various other 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: K.C. McCann (3.66% jointly held with A.J. Davison and others) and N.A. Instone (3.66% jointly held with A.J. Davison and others).

AUTHORITY TO PURCHASE SHARES

At the AGM on 10 May 2006, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 1,219,521 ordinary shares of 20p each. That authority has been used as to 676,479 shares as at 30 December 2006. The balance remains in force until the conclusion of the AGM in 2007 or 8 August 2007, whichever is the earlier.

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:

OUR 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.

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.

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.

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 30 December 2006 was 36 days (2005: 39 days).

WIDER COMMUNITIES In 2006, Greggs plc directly donated 1.3% 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 2006 was £760,484, 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 2006, the number of Breakfast Club schemes increased from 113 to 124. 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 Greggs Cancer Run is an annual event which has raised over £3 million since its inception in 1983. In 2006, Cancer Runs took place in six divisions raising a total of £345,000.

The Company's five year investment in the Newcastle Employment Bond matured in the summer of 2006 after helping hundreds of people into jobs and creating many successful new enterprises. The investment of £500,000 has been rolled over into the North East Enterprise Bond for a further five year period. This bond is also secured as to repayment by Northern Rock plc. The investment is at zero rate interest, with the interest foregone to be used to fund a major private sector initiative to trigger and encourage new business start-ups and to evoke a change in the enterprise culture over the long-term across the North East.

On a nationwide basis, Greggs made charitable donations of £548,000 in 2006, a significant proportion of which was directed through the Greggs Trust.

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 names, 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.

Directors' Report and Business Review
(continued)

CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

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 We are committed to an on-going programme of continual reduction of any adverse impacts of our operations in achieving our long-term business objectives. To manage this, the Company is continuing to progress 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 reuse and recycling of waste;
- 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.

PROGRESS DURING 2006 Over the past 12 months we have made good progress against our environmental policy and commitment. Carbon reduction through our SEBA energy efficiency drive has led to achieving our business plan target of 10% reduction in energy usage from production operations. Partnership work has been carried out with the Carbon Trust to identify carbon reduction measures in both production sites and shops and as a result of this work monitoring and targeting systems are being trialled in two parts of the country as an introduction to full energy targeting.

Recognised externally trained environmental managers are now in place across the business and this has led to increased activity across the Group relating to recycling and waste reduction. For example, the Greggs of Yorkshire recycling centre in Leeds has led to a reduction in waste to landfill (£45,000 annual saving) and resulted in fewer collections at shop level also assisting in reducing damage via transport emissions. We are exploring the possibility of waste to energy technology, and how we might develop this in the future.

AUDITORS

AUDITOR INDEPENDENCE AND POLICY ON THE USE OF THE AUDITORS FOR NON-AUDIT WORK

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 £78,000 during 2006 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.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he/she is individually aware, there is no relevant audit information of which the Company's auditors are unaware; and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

12 March 2007

Statement of Directors' responsibilities in respect of the annual report and accounts

The directors are responsible for preparing the annual report and the accounts, in accordance with applicable law and regulations.

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

The group and parent company accounts are required by law and by IFRSs as adopted by the EU to present fairly the financial position of the group and parent company and the performance for that period; the Companies Act 1985 provides in relation to such accounts that references in the relevant part of that Act to accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of 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.

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 a 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.

Independent auditors' report 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 30 December 2006 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 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, the Directors' Remuneration Report and the 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 the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the accounts.

In addition we report to you if, in our opinion, 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 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 the other information contained in the Annual 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.

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.

Independent auditors' report to the members of Greggs plc (continued)

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 30 December 2006 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 Companies Act 1985, of the state of the parent company's affairs as at 30 December 2006;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the provisions of the Companies Act 1985 and, as regards the group accounts, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Newcastle upon Tyne

12 March 2007

Consolidated Income Statement

for the 52 weeks ended 30 December 2006

(2005: 52 weeks ended 31 December 2005)

	Note	2006 £'000 Excluding Bakers Oven restructuring costs	2006 £'000 Bakers Oven restructuring costs (Note 4)	**2006 £'000 Total**	2005 £'000 Total
Revenue	1	550,849	-	**550,849**	533,435
Cost of sales	2	(209,455)	(68)	**(209,523)**	(203,346)
Gross profit		341,394	(68)	**341,326**	330,089
Distribution and selling costs	2	(262,917)	(2,947)	**(265,864)**	(247,188)
Administrative expenses	2	(36,232)	(483)	**(36,715)**	(35,758)
Operating profit		42,245	(3,498)	**38,747**	47,143
Finance income	6	1,579	-	**1,579**	3,106
Finance expenses	7	(87)	-	**(87)**	(90)
Profit before tax	3-5	43,737	(3,498)	**40,239**	50,159
Income tax	9	(14,227)	1,049	**(13,178)**	(16,085)
Profit for the financial year attributable to equity holders of the parent		29,510	(2,449)	**27,061**	34,074
Basic earnings per share	10			**241.2p**	282.1p
Diluted earnings per share	10			**239.9p**	278.9p

Consolidated Statement of Recognised Income and Expense

for the 52 weeks ended 30 December 2006

(2005: 52 weeks ended 31 December 2005)

	Note	**2006 £'000**	2005 £'000
Actuarial gains / (losses) on defined benefit pension plans	21	**2,741**	(2,345)
Tax on items taken directly to equity	9	**(822)**	704
Net income /(expense) recognised directly in equity		**1,919**	(1,641)
Profit for the financial year		**27,061**	34,074
Total recognised income and expense for the financial year attributable to equity holders of the parent	22	**28,980**	32,433

Parent Company Statement of Recognised Income and Expense

for the 52 weeks ended 30 December 2006

(2005: 52 weeks ended 31 December 2005)

	Note	**2006 £'000**	2005 £'000
Actuarial gains / (losses) on defined benefit pension plans	21	**2,741**	(2,345)
Tax on items taken directly to equity	9	**(822)**	704
Net income / (expense) recognised directly in equity		**1,919**	(1,641)
Profit for the financial year	8	**26,332**	34,226
Total recognised income and expense for the financial year	22	**28,251**	32,585

Consolidated Balance Sheet

at 30 December 2006

(2005: 31 December 2005)

	Note	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**184,325**	180,826
Current assets			
Inventories	14	**8,429**	7,713
Trade and other receivables	15	**16,026**	15,861
Cash and cash equivalents	16	**19,585**	65,602
Asset held for sale	17	**275**	-
		44,315	89,176
Total assets		**228,640**	270,002
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(61,295)**	(58,686)
Current tax liabilities	19	**(5,467)**	(8,086)
		(66,762)	(66,772)
Non-current liabilities			
Defined benefit pension liability	21	**(1,883)**	(9,730)
Other payables	20	**(90)**	(98)
Deferred tax liability	13	**(15,014)**	(11,927)
		(16,987)	(21,755)
Total liabilities		**(83,749)**	(88,527)
Net assets		**144,891**	181,475
EQUITY			
Capital and reserves			
Issued capital	22	**2,232**	2,439
Share premium account	22	**13,533**	13,440
Capital redemption reserve	22	**207**	-
Retained earnings	22	**128,919**	165,596
Total equity attributable to equity holders of the parent		**144,891**	181,475

The accounts on pages 27 to 57 were approved by the Board of Directors on 12 March 2007 and were signed on its behalf by

M.J. Darrington
R.J. Hutton } Directors

Parent Company Balance Sheet

at 30 December 2006

(2005: 31 December 2005)

	Note	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**154,994**	150,922
Investments	12	**5,190**	5,190
		160,184	156,112
Current assets			
Inventories	14	**8,429**	7,713
Trade and other receivables	15	**38,920**	38,006
Cash and cash equivalents	16	**19,036**	65,823
		66,385	111,542
Total assets		**226,569**	267,654
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(61,284)**	(58,686)
Current tax liabilities	19	**(5,546)**	(7,524)
		(66,830)	(66,210)
Non-current liabilities			
Defined benefit pension liability	21	**(1,883)**	(9,730)
Other payables	20	**(90)**	(98)
Deferred tax liability	13	**(8,315)**	(4,852)
		(10,288)	(14,680)
Total liabilities		**(77,118)**	(80,890)
Net assets		**149,451**	186,764
EQUITY			
Capital and reserves			
Issued capital	22	**2,232**	2,439
Share premium account	22	**13,533**	13,440
Capital redemption reserve	22	**207**	-
Retained earnings	22	**133,479**	170,885
Total equity attributable to equity holders		**149,451**	186,764

The accounts on pages 27 to 57 were approved by the Board of Directors on 12 March 2007 and were signed on its behalf by

M.J. Darrington
R.J. Hutton
} Directors

Consolidated Statement of Cashflows

for the 52 weeks ended 30 December 2006

(2005: 52 weeks ended 31 December 2005)

	Note	2006 £'000	2005 £'000
Operating activities			
Cash generated from operations (see below)		66,185	67,689
Income tax paid		(13,600)	(14,625)
Net cash inflow from operating activities		52,585	53,064
Investing activities			
Acquisition of property, plant and equipment	11	(30,023)	(41,687)
Proceeds from sale of property, plant and equipment		1,599	2,171
Interest received		1,579	3,106
Net cash outflow from investing activities		(26,845)	(36,410)
Financing activities			
Defined benefit pension scheme special contribution		(5,500)	(4,000)
Interest paid		(74)	(90)
Proceeds from issue of share capital	22	93	1,234
Sale of own shares	22	1,809	3,695
Purchase of own shares	22	(16,436)	(2,173)
Shares purchased and cancelled	22	(39,544)	-
Dividends paid	22	(12,105)	(12,319)
Net cash outflow from financing activities		(71,757)	(13,653)
Net (decrease) / increase in cash and cash equivalents		(46,017)	3,001
Cash and cash equivalents at the start of the year		65,602	62,601
Cash and cash equivalents at the end of the year	16	19,585	65,602

Cash flow statement – cash generated from operations

	Note	2006 £'000	2005 £'000
Profit for the financial year		27,061	34,074
Depreciation	11	23,884	22,038
Loss on sale of property, plant and equipment		753	484
Release of government grants		(8)	(7)
Share-based payment expenses	21	687	557
Finance income	6	(1,579)	(3,106)
Finance expenses	7	87	90
Income tax expense	9	13,178	16,085
Increase in inventories		(716)	(430)
Increase in debtors		(165)	(1,912)
Increase / (decrease) in creditors		2,609	(517)
Increase in pension liability		394	333
Cash from operating activities		66,185	67,689

Parent Company Statement of Cashflows

for the 52 weeks ended 30 December 2006

(2005: 52 weeks ended 31 December 2005)

	Note	2006 £'000	2005 £'000
Operating activities			
Cash generated from operations (see below)		62,385	67,726
Income tax paid		(12,536)	(13,153)
Net cash inflow from operating activities		49,849	54,573
Investing activities			
Acquisition of property, plant and equipment	11	(29,414)	(41,682)
Proceeds from sale of property, plant and equipment		1,518	1,101
Interest received		3,017	3,103
Net cash outflow from investing activities		(24,879)	(37,478)
Financing activities			
Defined benefit pension scheme special contribution		(5,500)	(4,000)
Interest paid		(74)	(90)
Proceeds from issue of share capital	22	93	1,234
Sale of own shares	22	1,809	3,695
Purchase of own shares	22	(16,436)	(2,173)
Shares purchased and cancelled	22	(39,544)	-
Dividends paid	22	(12,105)	(12,319)
Net cash outflow from financing activities		(71,757)	(13,653)
Net (decrease) / increase in cash and cash equivalents		(46,787)	3,442
Cash and cash equivalents at the start of the year		65,823	62,381
Cash and cash equivalents at the end of the year	16	19,036	65,823

Cash flow statement – cash generated from operations

	Note	2006 £'000	2005 £'000
Profit for the financial year		26,332	34,226
Depreciation	11	22,938	21,118
Loss on sale of property, plant and equipment		873	507
Release of government grants		(8)	(7)
Share-based payment expenses	21	687	557
Finance income		(3,017)	(4,549)
Finance expenses		87	90
Income tax expense		13,131	14,224
Increase in inventories		(716)	(430)
(Increase) / decrease in debtors		(914)	2,174
Increase / (decrease) in creditors		2,598	(517)
Increase in pension liability		394	333
Cash from operating activities		62,385	67,726

Notes to the Consolidated Accounts

Significant accounting policies

Greggs plc ("the Company") is a company incorporated and domiciled 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 12 March 2007.

(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. Non-current assets held for resale are stated at the lower of carrying amount and fair value less cost to sell.

The Group chose not to restate business combinations prior to the transition date on an IFRS basis, as no significant acquisitions had taken place during the previous 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 remains eliminated against reserves.

The preparation of financial information in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect 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.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the accounts are described in the following notes:

- Note 21 – measurement of defined benefit obligation
- Note 21 – measurement of share-based payments
- Note 24 – lease classification

The accounting policies set out below have been applied consistently to all years presented in these consolidated accounts and are unchanged from previous years.

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 30 December 2006. The comparative period is the 52 weeks ended 31 December 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; and

(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 contractual 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 of 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.

(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 will flow to the Group and its cost 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%

Depreciation methods, useful lives and residual values (if not insignificant) are reassessed annually.

(iv) Assets in the course of construction

Depreciation on these assets commences when the assets are brought into 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 recoverable amount 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. Impairment losses recognised in prior years are assessed at each reporting date and 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) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

(l) 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 deduction from 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.

(m) Employee share ownership plan

The Group and parent company 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.

(n) 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.

(o) Employee benefits

(i) Defined contribution plans

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

(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 any unrecognised past service costs, 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. In addition, deferred taxation has not been recognised on these options.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(q) Revenue

(i) Goods sold

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

Notes to the Consolidated Accounts

continued

Significant accounting policies (continued)

(r) 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 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.

(s) 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 over the term of the lease.

(t) 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.

(u) Income tax

Income tax 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 recognised 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 recognised is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates that are expected to apply when the temporary differences reverse, based on rates enacted or substantively enacted at the balance sheet date.

Temporary differences relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for, other than in a business combination, to the extent that they will probably not reverse in the foreseeable future.

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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related deferred tax benefit will be realised.

(v) IFRSs available for early adoption not yet applied

The following standards and amendments to standards 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;
- IFRS 7: *Financial instruments: Disclosure* applicable for years commencing on or after 1 January 2007; and
- IFRIC 8: *Scope of IFRS 2 Share-based Payment* applicable for years commencing on or after 1 May 2006.

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 standards and amendments to standards in 2007.

All other amendments to standards and interpretations 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:

	2006	2005
	£'000	£'000
Cost of sales	1,299	1,445
Distribution and selling costs	2,852	3,320
Administrative expenses	711	672
	4,862	5,437

3. Profit before tax

Profit before tax is stated after charging/(crediting):	2006 £'000	2005 £'000
Depreciation on owned property, plant and equipment	23,884	22,038
Loss on disposal of fixed assets	753	484
Release of government grants	(8)	(7)
Payments under operating leases – property rents	35,650	32,568
Auditors' remuneration		
Audit of these accounts	153	146
Audit of subsidiaries' accounts pursuant to legislation	5	5
Other services pursuant to such legislation	5	43
Audit of pension schemes' accounts	10	9
Other services relating to taxation	51	48
All other services	17	41

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's accounts, have not been disclosed as the information is required instead to be presented on a consolidated basis.

4. Bakers Oven restructuring costs

During the year the Bakers Oven divisions in the North of England and Scotland were restructured to integrate them with the Greggs brand. The costs of this restructuring have been presented separately on the face of the consolidated income statement in order to show separately the underlying trading performance of the Group.

The restructuring costs incurred relate to the costs of closing 14 shops and the transfer of 49 shops from Bakers Oven to other divisions within the Group.

Notes to the Consolidated Accounts

continued

5. Personnel expenses

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

	Group and parent company	
	2006	2005
	Number	Number
Management	671	687
Administration	367	355
Production	2,851	2,766
Shop	15,085	15,296
	18,974	19,104

The aggregate personnel costs of these persons were as follows:

		Group and parent company	
		2006	2005
	Note	£'000	£'000
Wages and salaries		205,024	199,208
Compulsory social security contributions		15,856	14,951
Pension costs - defined contribution plans	21	1,780	1,598
Pension costs - defined benefit plans	21	2,116	2,133
Equity settled transactions	21	687	557
		225,463	218,447

6. Finance income

	2006	2005
	£'000	£'000
Interest income	1,579	3,106

7. Finance expenses

	2006	2005
	£'000	£'000
Interest expense	(62)	(50)
Foreign exchange loss	(25)	(40)
	(87)	(90)

8. Profit attributable to Greggs plc

Of the Group profit for the year, £26,332,000 (2005: £34,226,000) 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.

9. Income tax expense

Recognised in the income statement

	2006 £'000	2005 £'000
Current tax expense		
Current year	13,372	15,729
Adjustment for prior years	(194)	-
	13,178	15,729
Deferred tax expense		
Origination and reversal of temporary differences	201	937
Adjustment for prior years	(201)	(581)
	-	356
Total income tax expense in income statement	13,178	16,085

Reconciliation of effective tax rate

	2006	2006 £'000	2005	2005 £'000
Profit before tax		40,239		50,159
Income tax using the domestic corporation tax rate	30.0%	12,072	30.0%	15,048
Non-deductible expenses	0.9%	361	1.2%	613
Non-qualifying depreciation	2.8%	1,140	2.0%	1,005
Adjustment for over provision in prior years	(1.0%)	(395)	(1.1%)	(581)
Total income tax expense in income statement	32.7%	13,178	32.1%	16,085

Tax recognised directly in equity

		2006 Current tax £'000	2006 Deferred tax £'000	2006 Total £'000	2005 Total £'000
Relating to equity-settled transactions		(247)	315	68	(892)
Relating to defined benefit plans	- special contribution (SORIE)	(1,950)	1,950	-	-
	- actuarial gains / (losses) (SORIE)	-	822	822	(704)
		(2,197)	3,087	890	(1,596)

Notes to the Consolidated Accounts

continued

10. Earnings per share

Basic earnings per share

Basic earnings per share for the year ended 30 December 2006 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year ended 30 December 2006 as calculated below.

Diluted earnings per share

Diluted earnings per share for the year ended 30 December 2006 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted for the effects of all dilutive potential ordinary shares (which comprise share options granted to employees) outstanding during the year ended 30 December 2006 as calculated below.

Adjusted earnings per share

Basic and diluted earnings per share have been calculated for the year ended 30 December 2006 which exclude the effect of the Bakers Oven restructuring costs. These have been calculated by dividing profit attributable to ordinary shareholders excluding Bakers Oven restructuring costs by the relevant weighted average number of ordinary shares as calculated below.

Profit attributable to ordinary shareholders

	2006 Excluding Bakers Oven restructuring costs £'000	2006 Bakers Oven restructuring costs £'000	**2006 Total £'000**	2005 Total £'000
Profit for the financial year attributable to equity holders of the parent	29,510	(2,449)	**27,061**	34,074
Basic earnings per share	263.0p	(21.8p)	**241.2p**	282.1p
Diluted earnings per share	261.6p	(21.7p)	**239.9p**	278.9p

Weighted average number of ordinary shares

	2006 Number	2005 Number
Issued ordinary shares at start of year	**12,193,957**	12,141,892
Effect of own shares held	**(347,535)**	(79,333)
Effect of shares issued	**2,142**	17,967
Effect of shares purchased and cancelled	**(628,071)**	-
Weighted average number of ordinary shares during the year	**11,220,493**	12,080,526
Effect of share options on issue	**60,409**	135,274
Weighted average number of ordinary shares (diluted) during the year	**11,280,902**	12,215,800

11. 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 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
Balance at 1 January 2006	**76,837**	**78,333**	**123,860**	**10,969**	**289,999**
Additions	**3,923**	**9,467**	**12,995**	**3,638**	**30,023**
Disposals	**(193)**	**(4,539)**	**(4,666)**	**-**	**(9,398)**
Reclassification	**8,659**	**1,815**	**495**	**(10,969)**	**-**
Transfer to assets held for sale	**(400)**	**-**	**-**	**-**	**(400)**
Effect of movements in exchange rate	**-**	**-**	**(13)**	**-**	**(13)**
Balance at 30 December 2006	**88,826**	**85,076**	**132,671**	**3,638**	**310,211**
Depreciation					
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
Balance at 1 January 2006	**15,330**	**44,591**	**49,252**	**-**	**109,173**
Depreciation charge for the year	**1,640**	**8,704**	**13,540**	**-**	**23,884**
Disposals	**(106)**	**(3,799)**	**(3,141)**	**-**	**(7,046)**
Transfer to assets held for sale	**(125)**	**-**	**-**	**-**	**(125)**
Balance at 30 December 2006	**16,739**	**49,496**	**59,651**	**-**	**125,886**
Carrying amounts					
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
At 1 January 2006	**61,507**	**33,742**	**74,608**	**10,969**	**180,826**
At 30 December 2006	**72,087**	**35,580**	**73,020**	**3,638**	**184,325**

Notes to the Consolidated Accounts

continued

11. 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 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
Balance at 1 January 2006	**37,486**	**78,866**	**124,348**	**10,969**	**251,669**
Additions	**3,314**	**9,467**	**12,995**	**3,638**	**29,414**
Intra-group transfers	**(24)**	**-**	**-**	**-**	**(24)**
Disposals	**(193)**	**(4,539)**	**(4,666)**	**-**	**(9,398)**
Reclassification	**8,659**	**1,815**	**495**	**(10,969)**	**-**
Effect of movements in exchange rate	**-**	**-**	**(13)**	**-**	**(13)**
Balance at 30 December 2006	**49,242**	**85,609**	**133,159**	**3,638**	**271,648**
Depreciation					
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
Disposals	(14)	(3,401)	(2,952)	-	(6,367)
Balance at 31 December 2005	6,243	44,861	49,643	-	100,747
Balance at 1 January 2006	**6,243**	**44,861**	**49,643**	**-**	**100,747**
Depreciation charge for the year	**694**	**8,704**	**13,540**	**-**	**22,938**
Disposals	**(91)**	**(3,799)**	**(3,141)**	**-**	**(7,031)**
Balance at 30 December 2006	**6,846**	**49,766**	**60,042**	**-**	**116,654**
Carrying amounts					
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
At 1 January 2006	**31,243**	**34,005**	**74,705**	**10,969**	**150,922**
At 30 December 2006	**42,396**	**35,843**	**73,117**	**3,638**	**154,994**

Land and buildings

The carrying amount of land and buildings comprises:

		Group		Parent company	
		2006	2005	**2006**	2005
		£'000	£'000	**£'000**	£'000
Freehold property	Shops	**12,924**	13,252	**7,888**	7,449
	Bakeries	**49,295**	41,798	**25,507**	17,978
	Other	**8,680**	5,559	**8,773**	5,652
		70,899	60,609	**42,168**	31,079
Long leasehold property	Bakeries	**1,070**	751	**110**	17
Short leasehold property	Shops	**118**	147	**118**	147
		72,087	61,507	**42,396**	31,243

Property, plant and equipment under construction

Assets under construction at 30 December 2006 comprise a new bakery and an extension to an existing bakery.

12. Investments

Parent company

	Shares in subsidiary undertakings £'000
Cost	
As at 2 January 2005, 31 December 2005 and 30 December 2006	**5,828**
Impairment	
As at 2 January 2005, 31 December 2005 and 30 December 2006	**638**
Carrying amount	
As at 2 January 2005, 31 December 2005 and 30 December 2006	**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.) Development 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

13. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**17,440**	17,376	**17,440**	17,376
Employee benefits	**(1,741)**	(4,645)	**-**	-	**(1,741)**	(4,645)
Short term temporary differences	**(685)**	(804)	**-**	-	**(685)**	(804)
Tax (assets) / liabilities	**(2,426)**	(5,449)	**17,440**	17,376	**15,014**	11,927

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

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

The movements in temporary differences during the year ended 30 December 2006 were as follows:

	Balance at 1 January 2006	Recognised in income	Recognised in equity	**Balance at 30 December 2006**
	£'000	£'000	£'000	**£'000**
Property, plant and equipment	17,376	64	-	**17,440**
Employee benefits	(4,645)	(183)	3,087	**(1,741)**
Short term temporary differences	(804)	119	-	**(685)**
	11,927	-	3,087	**15,014**

Parent company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**10,741**	10,301	**10,741**	10,301
Employee benefits	**(1,741)**	(4,645)	**-**	-	**(1,741)**	(4,645)
Short term temporary differences	**(685)**	(804)	**-**	-	**(685)**	(804)
Tax (assets) / liabilities	**(2,426)**	(5,449)	**10,741**	10,301	**8,315**	4,852

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

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

The movements in temporary differences during the year ended 30 December 2006 were as follows:

	Balance at 1 January 2006	Recognised in income	Recognised in equity	**Balance at 30 December 2006**
	£'000	£'000	£'000	**£'000**
Property, plant and equipment	10,301	440	-	**10,741**
Employee benefits	(4,645)	(183)	3,087	**(1,741)**
Short term timing differences	(804)	119	-	**(685)**
	4,852	376	3,087	**8,315**

Notes to the Consolidated Accounts

continued

14. Inventories

	Group		Parent company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**5,825**	5,289	**5,825**	5,289
Work in progress	**2,604**	2,424	**2,604**	2,424
	8,429	7,713	**8,429**	7,713

15. Trade and other receivables

	Group		Parent company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade receivables	**888**	514	**888**	514
Amounts owed by subsidiary undertakings	**-**	-	**22,902**	22,204
Other receivables	**4,233**	4,747	**4,225**	4,688
Prepayments	**10,905**	10,600	**10,905**	10,600
	16,026	15,861	**38,920**	38,006

All amounts fall due within one year.

16. Cash and cash equivalents

	Group		Parent company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Bank balances	**19,585**	59,192	**19,036**	59,413
Call deposits	**-**	6,410	**-**	6,410
Cash and cash equivalents in the cash flow statements	**19,585**	65,602	**19,036**	65,823

17. Asset held for sale

The asset held for sale at 30 December 2006 is the Carricks bakery in Newcastle upon Tyne. Contracts were exchanged for the disposal of this property before the end of the year, conditional upon the purchaser being granted planning permission to redevelop the site. This permission was granted in February 2007 and the disposal was completed then.

18. Trade and other payables

	Group		Parent company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade payables	**24,835**	25,599	**24,835**	25,599
Other taxes and social security	**6,208**	5,862	**6,208**	5,862
Other payables	**16,620**	15,220	**16,609**	15,220
Accruals and deferred income	**13,632**	12,005	**13,632**	12,005
	61,295	58,686	**61,284**	58,686

19. Current tax liability

The current tax liability of £5,467,000 in the Group and £5,546,000 in the parent company (2005: Group £8,086,000, parent company £7,524,000) represents the amount of income taxes payable in respect of current and prior years.

20. Other payables

	Group		Parent company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Deferred government grants	**90**	98	**90**	98

21. Employee benefits

Defined benefit plan

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

	Group and parent company	
	2006	2005
	£'000	£'000
Present value of funded obligations	**(74,823)**	(69,538)
Fair value of plan assets	**72,940**	59,808
Recognised liability for defined benefit obligations	**(1,883)**	(9,730)

Liability for defined benefit obligations

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

	Group and parent company	
	2006	2005
	£'000	£'000
Opening defined benefit obligation	**69,538**	58,283
Service cost	**2,919**	2,144
Interest cost	**3,466**	3,194
Actuarial (gains) / losses	**(180)**	6,414
Benefits paid	**(1,749)**	(1,402)
Contributions by employees	**829**	905
	74,823	69,538

Notes to the Consolidated Accounts
continued

21. Employee benefits (continued)

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

	Group and parent company	
	2006	2005
	£'000	£'000
Opening fair value of plan assets	**59,808**	47,231
Expected return	**4,269**	3,205
Actuarial gains	**2,561**	4,069
Contributions by employer	**7,222**	5,800
Contributions by employee	**829**	905
Benefits paid	**(1,749)**	(1,402)
Closing fair value of plan assets	**72,940**	59,808

The amounts recognised in the income statement are as follows:

	Group	
	2006	2005
	£'000	£'000
Current service cost	**2,919**	2,144
Interest on obligation	**3,466**	3,194
Expected return on plan assets	**(4,269)**	(3,205)
Total included in employee benefit expense	**2,116**	2,133

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

	Group	
	2006	2005
	£'000	£'000
Cost of sales	**450**	400
Distribution and selling costs	**642**	772
Administrative expenses	**1,024**	961
	2,116	2,133

Cumulative actuarial gains and losses reported in the statement of recognised income and expenses since 28 December 2003, the transition date to adopted IFRSs, for the Group and the parent company are £507,000 (2005: £3,248,000).

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

	Group and parent company	
	2006	2005
	£'000	£'000
Equities	**55,774**	46,324
Bonds	**1,837**	1,641
Property	**799**	552
Cash/other	**14,530**	11,291
	72,940	59,808
Actual return on plan assets	**6,830**	7,274

The plan assets include ordinary shares issued by the Company with a fair value of £2,258,000 (2005: £2,468,000).

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	
	2006	2005
Discount rate	**5.2%**	4.9%
Expected rate of return on plan assets	**6.4%**	6.8%
Future salary increases	**4.4%**	4.1%
Future pension increases	**2.5%**	2.5%

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		
	2006	2005	2004
	£'000	£'000	£'000
Present value of defined benefit obligation	**(74,823)**	(69,538)	(58,283)
Fair value of plan assets	**72,940**	59,808	47,231
Deficit	**(1,883)**	(9,730)	(11,052)

Notes to the Consolidated Accounts

continued

21. Employee benefits (continued)

Experience adjustments

	Group and parent company					
	2006		2005		2004	
	£'000		£'000		£'000	
Experience adjustments on plan liabilities	**180**	0.2%	(6,414)	9.2%	(2,613)	4.5%
Experience adjustments on plan assets	**2,561**	3.5%	4,069	6.8%	1,710	3.6%
Net actuarial experience adjustments	**2,741**		(2,345)		(903)	

The Group expects to contribute £1,300,000 to its defined benefit plan in 2007.

Defined contribution plan

The Company also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £1,780,000 (2005: £1,598,000) 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, September 2005 and September 2006 and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004, September 2004 and August 2006.

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	2687½p	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	1701½p	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	3104½p	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	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	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
Executive Share Option Scheme 12	August 2006	Senior employees	4077p	102,800	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Savings Related Share Option Scheme 9	September 2006	All employees	3713p	66,277	Three years' service	3.5 years

Notes to the Consolidated Accounts
continued

21. Employee benefits (continued)

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

	2006 Weighted average exercise price	2006 Number of options	2005 Weighted average exercise price	2005 Number of options
Outstanding at the beginning of the year	3151p	335,288	2785p	474,964
Lapsed during the year	2312p	(20,724)	2014p	(13,172)
Exercised during the year	2297p	(83,072)	2569p	(190,652)
Granted during the year	3934p	169,077	4116p	64,148
Outstanding at the end of the year	3642p	400,569	3151p	335,288
Exercisable at the end of the year	2597p	19,617	1951p	50,942

The options outstanding at 30 December 2006 have an exercise price in the range of £17.015 to £41.160 and have a weighted average contractual life of 5.62 years. The options exercised during the year had a weighted average market value of £38.58 (2005: £45.96).

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.

	2006 Executive Share Option Scheme 12 August 2006	2006 Savings Related Share Option Scheme 9 September 2006	2005 Savings Related Share Option Scheme 8 September 2005
Fair value at grant date	£7.74	£8.19	£9.87
Share price	£42.00	£41.60	£47.00
Exercise price	£40.77	£37.13	£41.16
Expected volatility	19.3%	19.3%	17.3%
Option life	5 years	3 years	3.25 years
Expected dividends	2.7%	2.7%	2.1%
Risk-free rate	4.8%	4.8%	4.1%

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:

	2006 £'000	2005 £'000
Share options granted in 2003	31	155
Share options granted in 2004	333	367
Share options granted in 2005	210	35
Share options granted in 2006	113	-
Total expense recognised as employee costs	687	557

22. Capital and reserves

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

Group

	Issued capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'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

	Issued capital	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2006	**2,439**	**13,440**	**-**	**165,596**	**181,475**
Shares issued in the year	**-**	**93**	**-**	**-**	**93**
Shares purchased and cancelled	**(207)**	**-**	**207**	**(39,544)**	**(39,544)**
Total recognised income and expense	**-**	**-**	**-**	**28,980**	**28,980**
Purchase of own shares	**-**	**-**	**-**	**(16,436)**	**(16,436)**
Sale of own shares	**-**	**-**	**-**	**1,809**	**1,809**
Share-based payments	**-**	**-**	**-**	**687**	**687**
Dividends	**-**	**-**	**-**	**(12,105)**	**(12,105)**
Tax items taken directly to reserves	**-**	**-**	**-**	**(68)**	**(68)**
Balance at 30 December 2006	**2,232**	**13,533**	**207**	**128,919**	**144,891**

Notes to the Consolidated Accounts

continued

22. Capital and reserves (continued)

Parent company

	Issued capital £'000	Share premium £'000	Capital redemption reserve £'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

	Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2006	2,439	13,440	-	170,885	186,764
Shares issued in the year	-	93	-	-	93
Shares purchased and cancelled	(207)	-	207	(39,544)	(39,544)
Total recognised income and expense	-	-	-	28,251	28,251
Purchase of own shares	-	-	-	(16,436)	(16,436)
Sale of own shares	-	-	-	1,809	1,809
Share-based payments	-	-	-	687	687
Equity dividends	-	-	-	(12,105)	(12,105)
Tax items taken directly to reserves	-	-	-	(68)	(68)
Balance at 30 December 2006	2,232	13,533	207	133,479	149,451

Share capital and share premium

	Ordinary shares 2006 Number	Ordinary shares 2005 Number
In issue and fully paid at start of year	12,193,957	12,141,892
Issued for cash	4,085	52,065
Purchased and cancelled	(1,036,479)	-
In issue and fully paid at the end of the year	11,161,563	12,193,957

At 30 December 2006 the authorised share capital comprised 25,000,000 ordinary shares (2005: 25,000,000) with a par value of 20p each.

During the year 1,036,479 shares, with a nominal value of £207,000 were purchased for cancellation for a consideration of £39,544,000. A further 439,829 shares, with a nominal value of £88,000, were purchased by the trustees of the Greggs Employee Benefit Trust (see below). The maximum number of shares held by the trustees during the year was 472,753, having a nominal value of £95,000.

Own shares held

Deducted from retained earnings is £15,892,000 (2005: £1,265,000) 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 409,745 shares (2005: 48,924 shares) with a market value at 30 December 2006 of £17,619,000 (2005: £2,299,000) 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. The trustees have elected to waive the dividends payable on these shares.

Dividends

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

	2006 Per share pence	2005 Per share pence
2004 final dividend	**-**	66.0p
2005 interim dividend	**-**	36.0p
2005 final dividend	**70.0p**	-
2006 interim dividend	**38.0p**	-
	108.0p	102.0p

The proposed final dividend in respect of 2006 amounts to 78.0 pence per share (£8,706,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts..

	2006 £'000	2005 £'000
2004 final dividend	**-**	7,959
2005 interim dividend	**-**	4,360
2005 final dividend	**8,013**	-
2006 interim dividend	**4,092**	-
	12,105	12,319

Notes to the Consolidated Accounts
continued

23. Financial instruments

Group and parent company

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 30 December 2006 (2005: £nil). The Group has an overdraft facility of £10,000,000 of which £10,000,000 was undrawn at 30 December 2006 (2005: £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.

	Group			
	2006		2005	
	Effective interest rate	£'000	Effective interest rate	£'000
Cash and cash equivalents	4.75%	19,585	4.5%	65,602

24. Operating leases

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

	2006	2005
Operating leases which expire:	£'000	£'000
In less than one year	898	762
Between one and five years	28,431	23,528
After more than five years	128,014	139,442
	157,343	163,732

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.

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.

25. Capital commitments

During the year ended 30 December 2006, the Group entered into contracts to purchase property, plant and equipment for £11,736,000 (2005: £8,067,000). These commitments are expected to be settled in the following financial year.

26. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 12) 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Greggs Properties Limited	**(3,015)**	(3,122)	**1,413**	1,105	**-**	-	**29,318**	28,620
Dormant subsidiaries	**-**	-	**-**	-	**6,416**	6,416	**-**	-

Transactions with Greggs Properties Limited are carried out at arms' length.

The Greggs Trust is also a related party and during the year the Company made a donation to the Greggs Trust of £265,000 (see Corporate Social Responsibility on pages 20 to 22).

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 but excluding interests in shares pursuant to unexercised share options) 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)	
	2006	2005 (or date of appointment if later)	**2006**	2005 (or date of appointment if later)
Mike Darrington	**61,470**	57,970	**-**	-
Malcolm Simpson	**10,010**	40,010	**8,000**	13,000
Richard Hutton (appointed 13 March 2006)	**911**	848	**215,000**	215,000
Raymond Reynolds (appointed 18 December 2006)	**2,808**	2,808	**-**	-
Ian Gregg (non-executive)	**133,535**	144,835	**-**	-
Stephan Curran (non-executive)	**3,700**	3,700	**-**	-
Susan Johnson (non-executive) (resigned 30 September 2006)	**-**	-	**-**	-
Derek Netherton (non-executive)	**1,000**	-	**-**	-
Bob Bennett (non-executive)	**-**	-	**-**	-
Julie Baddeley (non-executive)	**-**	-	**-**	-
Ian Gibson (non-executive) (appointed 1 April 2006)	**522**	-	**-**	-

Details of directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration Report on pages 58 to 64. Total remuneration is included in personnel expenses (see note 5).

There have been no changes since 30 December 2006 in the directors' interests noted above.

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 to 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 Julie Baddeley (Chair), Stephen Curran, Ian Gregg (who retired from the Committee in March 2006), Ian Gibson (who joined the Committee in May 2006) 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 Directors' 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. The Committee has the ability to consider corporate performance on environmental, social and governance issues when setting the remuneration of executive directors.

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 are set to reflect the complexities of our business in combining areas of retail, manufacturing and distribution and are based on the ability to attract and retain the skills necessary successfully to manage this range of operations. The target salary is set broadly at the median level for an individual who is well established and demonstrating the full range of skills and experience necessary, whilst newly appointed executive directors' salaries are set on a range starting below the median level, providing the opportunity for future salary growth linked to establishment and experience in post. Salaries and benefits are regularly benchmarked by external consultants using appropriate size and sector comparators and this exercise was undertaken in 2006 on the basis of advice provided by Monks Partnership.

Executive directors should also participate in bonus arrangements. The Committee seeks to structure those bonus arrangements so as to encourage long term sustainable growth in the Company's profits and, therefore, is satisfied that the structure will not raise environmental, social or governance risks by inadvertently encouraging irresponsible behaviour.

The bonus arrangements comprise:

(a) An 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 level.

(b) A scheme which (when combined with the All Employee Profit Sharing Scheme) could, subject to Remuneration Committee discretion, deliver a non-pensionable cash bonus up to a maximum of 95% of basic salary for Mike Darrington and 70% of basic salary for other executive directors. For 2006 the target for Mike Darrington and Malcolm Simpson comprised corporate profit performance only, whilst the targets for Richard Hutton comprised corporate profit performance combined with an element based on personal performance, measured through delivery against key set objectives. The targets for Raymond Reynolds comprised corporate profit performance combined with an element based on divisional profit performance and an element based on personal performance, measured through delivery against key set objectives. For 2007 the targets for all executive directors will include elements relating to corporate profit, strategic and personal performance designed to encourage achievement of common objectives as well as personal development.

(c) A new Long Term Incentive Plan ("LTIP") was approved by shareholders at the AGM in 2006. Under this scheme the Remuneration Committee will select employees (including executive directors) to participate. No executive director will receive a grant of executive share options in the same financial year in which he/she is selected to participate in the LTIP. If selected, the Committee will invite the participants to utilise a proportion (not more than 50% for the first award) of their annual bonus to acquire shares in the Company and will then grant nil cost options to participants to match the number of shares purchased. These nil cost options will be exercisable normally after three years and only if certain performance criteria, set by the Remuneration Committee at the time of grant, have been satisfied. For the initial award, due to be made in 2007, performance targets will be set as growth in earnings per share of 3% above the retail prices index for a 1:1match and 7.5% above the retail prices index for a 2:1 match, with a straight line graph indicating the relevant match for performance in between.

The Committee's policy is that bonus payments to executive directors should not be pensionable. Whereas, in the past, the executive directors' entitlement to profit share under the all employee profit sharing scheme has counted towards pensionable salary, this arrangement has been terminated during the year in respect of all future profit share entitlements.

There have also 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 a significant proportion of the shares 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 was made in August 2006. 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 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

Directors' Remuneration Report

continued

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, Malcolm Simpson, Richard Hutton and Raymond Reynolds) who periodically seek advice from external consultants as to the appropriate market rates applicable. Such advice was obtained in 2006 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 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.

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. The Committee will offer participation in the LTIP to a number of senior executives in the Company including Richard Hutton and Raymond Reynolds in 2007 on the basis of the performance criteria policy referred to above.

Policy on Service Contract Notice Periods and Payments on Early Termination

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

- existing executive directors should have service contracts terminable on one year's notice served by the Company or by six months' notice served by the director;
- future executive directors will 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 August 1983.

Richard Hutton has a service contract with the Company dated 7 April 2006. His continuous period of service with the Company commenced on 1 January 1998.

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.

Raymond Reynolds has a service contract with the Company dated 18 December 2006. His continuous period of service with the Company commenced on 1 December 1986.

Each of Mike Darrington, Richard Hutton, Malcolm Simpson and Raymond Reynolds 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. Malcolm Simpson has agreed to retire as a director and employee with effect from the Company's AGM in 2007. 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 2007, the executive directors will receive a performance based cash bonus based on the policy set out above.

All cash bonuses are subject to confirmation by the Remuneration Committee.

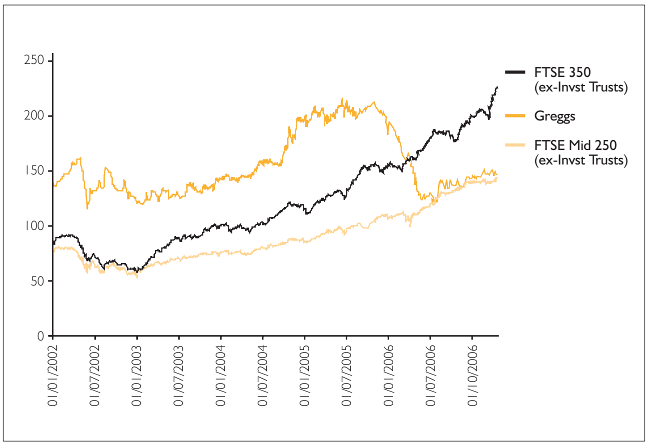
Non-executive Directors

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 2007 £	Salary / fees paid in 2006 £	Estimated value of benefits 2006 £	Annual bonus and profit share 2006 £	Total 2006 £	Total 2005 £
Executive						
Mike Darrington	462,000	420,000	23,401	27,649	471,050	477,565
Malcolm Simpson	150,000	189,230	18,805	11,568	219,603	286,985
Richard Hutton (appointed 13 March 2006)	200,000	132,717	11,106	40,749	184,572	-
Raymond Reynolds (appointed 18 December 2006)	175,000	6,233	374	2,202	8,809	-
Chairman						
Derek Netherton	105,000	101,000	-	-	101,000	95,125
Non-executive						
Stephen Curran	35,000	31,000	-	-	31,000	25,000
Ian Gregg	33,000	27,500	-	-	27,500	26,167
Susan Johnson (resigned 30 September 2006)	-	20,625	-	-	20,625	25,000
Bob Bennett	37,000	34,000	-	-	34,000	28,000
Julie Baddeley	37,000	33,000	-	-	33,000	22,500
Ian Gibson (appointed 1 April 2006)	33,000	21,750	-	-	21,750	-
Total	1,267,000	1,017,055	53,686	82,168	1,152,909	986,342

From May 2006 Malcolm Simpson reduced his working hours on relinquishing his responsibility as Finance Director.

The fees for Stephen Curran for the period 1 January 2006 to 31 March 2006 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					Market					
	At 1 January 2006 or date of appointment Number	Granted Number	Exercised Number	At 30 December 2006 Number	Exercise price £	price at date of exercise £	Gain on exercise £	Date of grant	Date from which exercisable	Expiry date	Scheme
Mike Darrington	12,000		6,000}	-	17.015	37.60	123,510	Mar 00	Mar 03	Mar 07	Executive
			6,000}			40.80	142,710				
	-	6,000	-	6,000	40.770	-	-	Aug 06	Aug 09	Aug 16	Executive
Malcolm Simpson	10,000	-	10,000	-	17.015	37.60	205,850	Mar 00	Mar 03	Mar 07	Executive
Richard Hutton	2,000	-	-	2,000	34.000	-	-	Aug 04	Aug 07	Aug 14	Executive
	-	4,000	-	4,000	40.770	-	-	Aug 06	Aug 09	Aug 16	Executive
	48	-	-	48	30.980	-	-	Sept 04	Nov 07	Apr 08	SAYE
	41	-	-	41	41.160	-	-	Sept 05	Nov 08	Apr 09	SAYE
	-	45	-	45	37.130	-	-	Sept 06	Nov 09	Apr 10	SAYE
Raymond Reynolds	170	-	-	170	26.875	-	-	Mar 99	Mar 02	Mar 09	Executive
	1,500	-	-	1,500	34.880	-	-	Mar 04	Mar 07	Mar 11	Executive
	2,500	-	-	2,500	34.000	-	-	Aug 04	Aug 07	Aug 14	Executive
	4,000	-	-	4,000	40.770	-	-	Aug 06	Aug 09	Aug 16	Executive
	48	-	-	48	30.980	-	-	Sept 04	Nov 07	Apr 08	SAYE
	41	-	-	41	41.160	-	-	Sept 05	Nov 08	Apr 09	SAYE
	45	-	-	45	37.130	-	-	Sept 06	Nov 09	Apr 10	SAYE

The aggregate gains on exercise of share options were £472,070 (2005: £1,065,950), including £266,220 (2005: £777,686) 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 under the Senior Executive Share Option Scheme, the exercise of the options granted was made conditional upon the growth in the Company's basic earnings per share over a three year period. For options granted in 1999, 2000 and in March 2004, earnings per share growth must be greater than 2% per annum above growth in the Retail Prices index. On each of the grants awarded in August 2004 and in 2006, the exercise of the options granted was made conditional upon the average annual growth in the Company's basic earnings per share over the three years from grant being greater than the average annual growth in the Retail Price Index over the three years. If earnings per share growth exceeds RPI growth by 3% then half of the options will be exercisable, if earnings per share growth exceeds RPI growth by 5% then all of the options will be exercisable and if earnings per share growth exceeds RPI growth by between 3% and 5% the number of options exercisable is pro-rated on a straight line basis.

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 30 December 2006 was £43.00. The highest and lowest mid-market prices of ordinary shares during the financial year were £47.74 and £34.75 respectively.

Pensions

Each 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. Certain 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.

Directors' Remuneration Report

continued

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 30 December 2006 £	Accrued annual pension entitlement at age 65 as at 31 December 2005 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 2.7% £	Transfer value of increase in accrued pension entitlement for the year £
Mike Darrington	8/3/42	15/8/83	140,503	132,370	8,133	4,559	37,581
Richard Hutton	3/6/68	1/1/98	14,865	11,170	3,695	3,393	13,908
Malcolm Simpson	15/10/41	24/4/73	125,995	125,591	404	(2,986)	-
Raymond Reynolds	4/11/59	1/12/86	42,392	35,168	7,224	6,274	31,918

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 2.7% shown in the table above is that published by the Secretary of State for Social Security in accordance with Schedule 3 of the Pensions Schemes Act 1993.

Executive Director	Cash equivalent transfer value as at 1 January 2006 £	**Cash equivalent transfer value as at 30 December 2006 £**	**Increase in the cash equivalent transfer value since 1 January 2006 £**	**Increase in the cash equivalent transfer value since date of appointment £**
Mike Darrington	1,982,373	**2,103,546**	**31,756**	**n/a**
Richard Hutton	69,649	**103,444**	**7,631**	**11,883**
Malcolm Simpson	1,838,511	*	*	**n/a**
Raymond Reynolds	297,924	**385,414**	**23,991**	**792**

* A transfer value is not available at 30 December 2006 for Malcolm Simpson since he was older than the normal retirement age under the scheme.

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

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.

Executive Director	**Contribution in respect of 2006 £**	Contribution in respect of 2005 £
Mike Darrington	**-**	3,333
Richard Hutton	**10,664**	-
Malcolm Simpson	**72,938**	60,500
Raymond Reynolds	**258**	-

Approval by Shareholders

At the Annual General Meeting of the Company to be held on 14 May 2007, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 12 March 2007

Signed on behalf of the Board

Julie Baddeley

Director

Chair of Remuneration Committee

12 March 2007

Notes

10 Year History

	1997	1998	1999	2000	2001	2002	2003	2004 (as restated)*	2005	2006†
Turnover (£'000)	265,941	291,420	308,678	339,008	377,556	422,600	456,978	504,186	533,435	550,849
Earnings before interest and tax (£'000)	18,015	20,215	21,691	26,044	31,597	35,334	39,167	45,763	47,143	38,747
Profit on ordinary activities before taxation (£'000)	18,035	20,214	21,520	26,356	32,742	36,666	40,472	47,751	50,159	40,239
Shareholders' funds (£'000)	58,384	69,585	80,896	88,169	103,554	119,965	134,150	157,156	181,475	144,891
Earnings per share (pence)	121.1	122.8	135.1	162.3	190.2	209.2	230.5	270.5	282.1	241.2
Dividend per share (pence)	37.0	41.0	45.0	55.0	65.0	72.5	80.0	96.0	106.0	116.0
Capital expenditure (£'000)	24,364	26,204	22,403	21,397	27,385	42,143	32,361	25,090	41,687	30,023
Net book value of fixed assets (£'000)	86,239	100,309	108,786	113,285	124,123	148,184	160,704	163,110	180,826	184,325
Number of shops in operation at year end	1,057	1,072	1,084	1,105	1,144	1,202	1,231	1,263	1,319	1,336

*restated for the transition to IFRSs

†includes £3.5m Bakers Oven restructuring costs

DIRECTORS

Derek Netherton (Non-executive chairman)ø

Mike Darrington FCA (Managing)ø

Richard Hutton FCA (Finance)

Malcolm Simpson FCA (IT)

Raymond Reynolds (Retail)

Ian Gregg OBE (Non-executive)ø

Steven Curran FCCA (Non-executive)*†ø

Bob Bennett (Non-executive)*†ø

Julie Baddeley (Non-executive)*†ø

Ian Gibson CBE (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	2006	2005
Scotland	163	147
North East	138	117
Cumbria	47	46
Yorkshire	136	128
North West	136	133
Midlands	159	153
South West	110	107
South East	276	267
GREGGS	1,165	1,098

BAKERS OVEN

SHOP NUMBERS	2006	2005
Bakers Oven Scotland	0	18
Bakers Oven North	0	48
Bakers Oven Midlands	99	85
Bakers Oven South	66	65
BAKERS OVEN	165	216
Greggs Belgium	6	5
TOTAL	1,336	1,319

GREGGS
plc

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