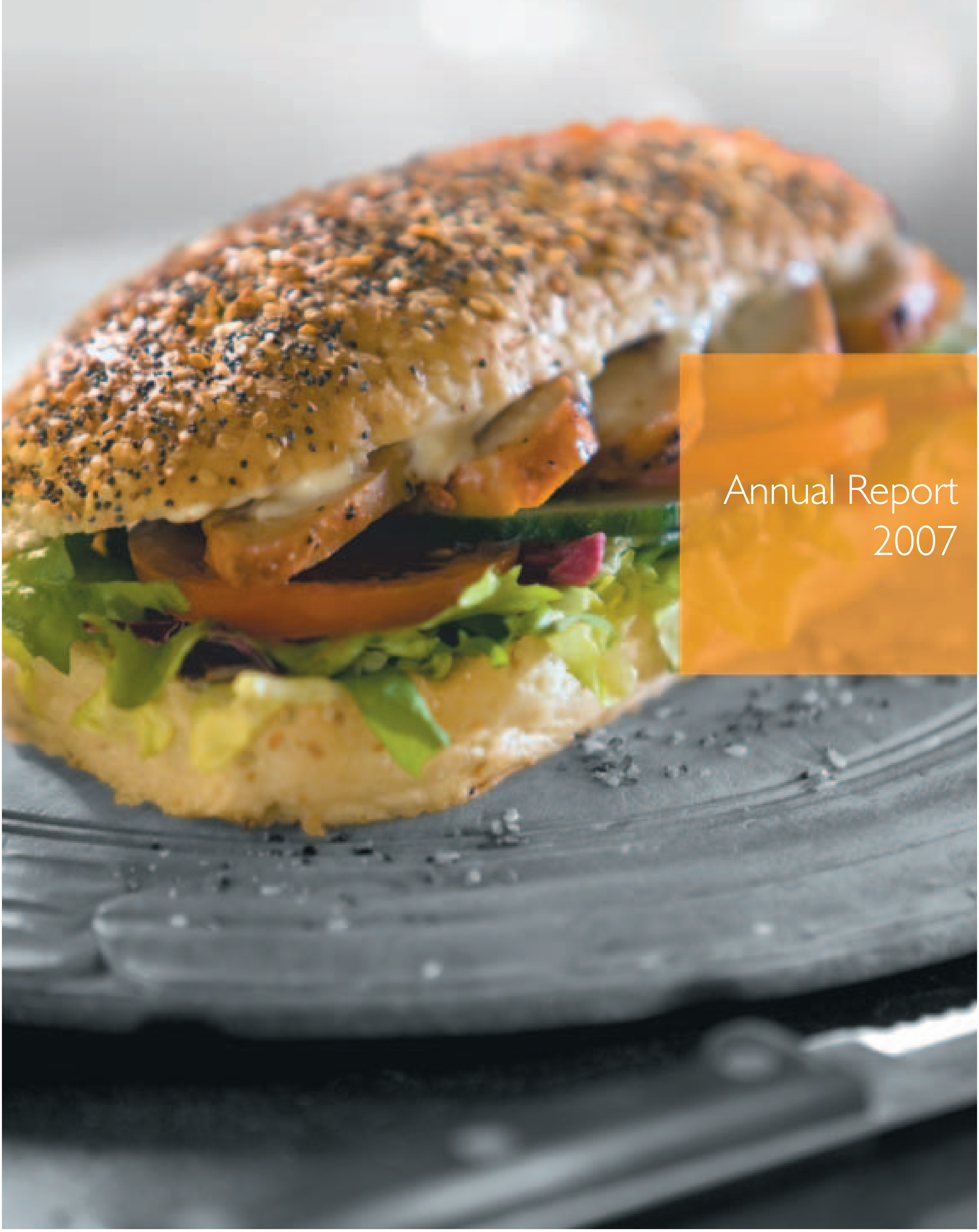
GREGGS plc



Annual Report 2007

Financial Highlights

	2007	2006
	£'m	£'m
Turnover	586.3	550.8
Adjusted operating profit*	47.7	42.2
Pre-tax profit	51.1	40.2
Shareholders' funds	145.6	144.9
Capital expenditure	42.3	30.0
	Pence	Pence
Earnings per share	342.8	241.2
Adjusted earnings per share*	322.1	263.0
Dividend per ordinary share	140.0	116.0

* 2006 adjusted figures exclude Bakers Oven restructuring costs of £3.5m.
2007 adjusted figures exclude one-off property gains of £2.2m.

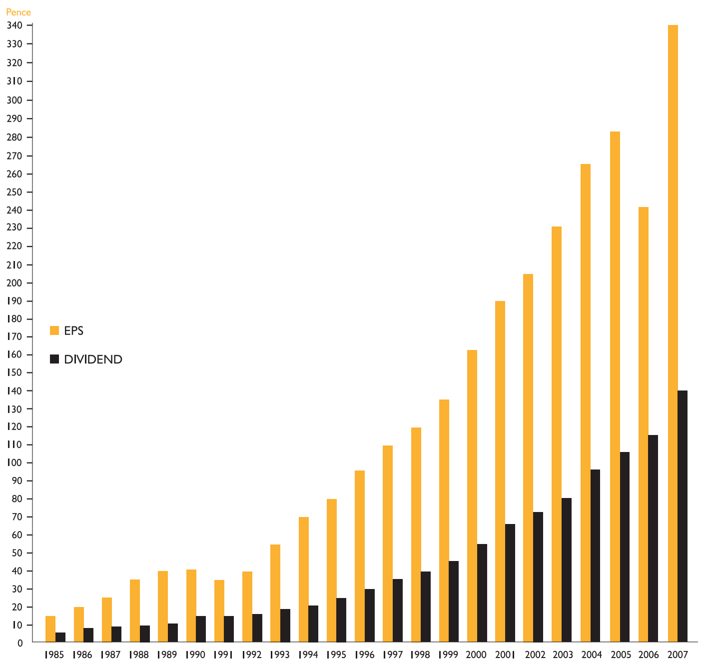
Financial Calendar

Announcement of results and dividends

Half year	Early August
Full year	Early March

Payment of dividends

Interim	Early October
Final	Late May
Annual report posted to shareholders	Early April
Annual General Meeting	13 May 2008



Earnings since flotation

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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 1,350 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 1700 shops; in the long term we believe that 2000 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.

Our Business

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 29 December 2007. The comparative period is the 52 weeks ended 30 December 2006.

The directors' report and business review is set out on pages 4 to 23.

Greggs plc is the UK's leading bakery retailer, specialising in sandwiches, savouries and other baker-fresh food on the go.

We continue to show significant growth and now have over 1,350 retail outlets, trading under the Greggs and Bakers Oven brands.

Directors' Report and Business Review for the 52 weeks ended 29 December 2007

CHAIRMAN'S STATEMENT

This was a year of significant change for Greggs, as we re-shaped our way of working in line with the conclusions of the strategic review we completed in late 2006. Encouragingly, we have already achieved a much improved performance, setting new records for both operating profit and earnings per share. Even more importantly, we have made good progress in building the organisational structure we require to drive the future growth of the Greggs business as a more customer-focused operation with a unified national brand.

Results

Total Group sales for the 52 weeks ended 29 December 2007 increased by 6.4 per cent to £586 million (2006: £551 million). Like-for-like sales rose by 5.3 per cent, including core volume growth of 0.9 per cent.

Operating profit, excluding property gains in 2007 and the costs of restructuring the Bakers Oven business in the North and Scotland in 2006, increased by 13.0 per cent to £47.7 million (2006: £42.2 million), a new record for the Group. Excluding these items the operating margin improved to 8.1 per cent (2006: 7.7 per cent).

Net finance income was reduced by 17 per cent to £1.2 million (2006: £1.5 million) as we reduced our average cash balances through our continuing programme to return surplus cash to our shareholders through increased dividends and ongoing share buybacks.

Pre-tax profit, excluding property gains in 2007 and the costs of restructuring the Bakers Oven business in the North and Scotland in 2006, increased by 11.9 per cent to £49.0 million (2006: £43.7 million). There was a one-off property profit in 2007 of £2.2 million, arising from the disposal of bakery sites in Newcastle upon Tyne, Glasgow and Manchester; while in 2006 we bore non-recurring restructuring costs, related to the closure of Bakers Oven in the North and Scotland, of £3.5 million. Including these items, pre-tax profit was £51.1 million (2006: £40.2 million), an increase of 27.1 per cent.

The Group tax charge for the year benefited from one-off credits relating to the revaluation of deferred taxation at the new Corporation Tax rate of 28 per cent and the abolition of balancing charges in respect of previously recognised Industrial Buildings Allowances on the property disposals in the year. We anticipate that next year will see a further tax credit which is likely to result in a below-average rate of taxation. Beyond this we expect the Group's average rate of taxation to steadily rise over the following 3 years as Industrial Building Allowances are phased out and settle in the region of 31 per cent.

Before the property gains and restructuring costs, diluted earnings per share grew by 22.3 per cent to 319.9 pence (2006: 261.6 pence). This represents a new record for the Group, the previous best being a figure of 278.9 pence in 2005. This reflects improved profitability, the benefits of our share buyback programme and the impact of changes to corporate taxation. Including the non-recurring items in each year, there was a 41.9 per cent increase in diluted earnings per share to 340.4 pence (2006: 239.9 pence).

Dividend and share buyback programme

In line with our previously stated intention to strengthen cash returns to shareholders the Board recommends a final dividend of 94 pence per share (2006: 78 pence), an increase of 20.5 per cent. Together with the interim dividend of 46 pence (2006: 38 pence), paid in October 2007, this makes a total for the year of 140 pence (2006: 116 pence), an increase of 20.7 per cent. This new record dividend for the Group makes 2007 our twenty-third consecutive year of dividend growth since Greggs came to the stock market in 1984.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 23 May 2008 to shareholders on the register at 25 April 2008.

In addition to delivering value to shareholders through increased dividends, the Company has continued to return surplus cash by making market purchases of its own shares for cancellation. During the year we spent a total of £25.7 million on the purchase of 526,472 shares at an average price of £48.41 per share. Since the beginning of the current financial year, we have purchased for cancellation a further 118,500 shares at an average price of £43.77 and an aggregate cost of £5.2 million. 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 considers it to be in the interests of shareholders to do so.

Business highlights

We made good sales progress throughout the year, with like-for-like sales growth of 4.6 per cent during the first half (24 weeks) improving to 5.8 per cent in the second half. We have already seen some initial benefits from our longer term drive to make the business more responsive to the needs of our customers, including an increase in the number of our shops trading on Sundays and the extension of our weekday opening hours in appropriate locations. We were also pleased with the initial results of our three-year, strategic, integrated marketing campaign, designed to build awareness of the Greggs brand.

The shop opening programme accelerated during the second half, enabling us to exceed our initial target by adding a net 32 new shops during the year. At the centre, we have now put in place the Retail, Marketing and Supply Chain teams we need to drive Greggs forward as a unified, national brand, in line with the conclusions of our strategic business review. This change programme is intended to deliver a progressive acceleration of both top and bottom line growth, with profitability also expected to benefit from the implementation of best practice across the business. Mike Darrington discusses these developments in more detail in his report.

The Board

Mike Darrington is now 66 and has been managing director of Greggs for 24 very successful years. We have in place a process to determine his successor and we will make a further announcement in due course.

Stephen Curran, our Senior Independent Director, will retire at the AGM in May. He joined the Board of Greggs in 1981 when it was still a private company with a turnover of £29 million and 236 shops. Throughout this period of major changes and considerable growth Stephen has been a source of invaluable help and advice, supportive but challenging, drawing on his experience with a wide range of businesses. Stephen has shown huge commitment to the Company over 27 years and I, and Ian Gregg before me, have greatly appreciated all that he has done. Bob Bennett will take on Stephen's role as Senior Independent Director after the AGM.

Sir Ian Gibson, a Non-Executive Director since 2006, resigned from the Board with effect from 29 February 2008 to focus on his increasing commitments at Wm Morrison Supermarkets PLC. I would like to record our appreciation of his wise advice and assistance through a period in which

Directors' Report and Business Review CONTINUED

CHAIRMAN'S STATEMENT CONTINUED

we completed a comprehensive business review and embarked on a process of significant change.

I am pleased to report that Roger Whiteside (49) will join the Board as an additional Non-Executive Director with effect from 17 March 2008. Roger was Chief Executive of the Thresher Group off-licence chain from 2004-2007, prior to which he was a co-founder of Ocado, the innovative online grocer operating in partnership with Waitrose, and served as its Joint Managing Director from 2000-2004. He began his career at Marks & Spencer, where he spent 20 years, ultimately becoming head of its Food Business. I am sure that we will derive significant benefits from his very extensive experience of the food and retail industries.

People

All our people have continued to work effectively through a period of major change within the business, and I would like to express the thanks of the Board to every member of the team for their very positive approach, and for their individual contributions to our progress during 2007.

Prospects

Like every other business in our sector, we are continuing to face substantial pressure from rises in the cost of energy and in our key ingredients, including flour, vegetable oils and protein. We will work hard to mitigate the impact of cost increases through greater efficiency and, in recovering higher costs in the market place, shall take account of consumer confidence and the competitive environment. We remain determined to continue offering outstanding value to our customers. Against this background I am pleased to report a positive start to the current year, with like-for-like sales in the ten weeks to 8 March 2008 increasing by 6.2 per cent.

Having laid firm foundations in 2007 for the growth of Greggs as a national brand, we will implement our plans to improve our products, shops and service during the current year. Progressive harmonisation of our offer, and the roll-out of best practice across the business, will help us both to drive sales growth and reduce costs in the medium and longer term.

Overall, I expect that 2008 will be a year of steady progress for the Group, and will confirm that we have established a strong platform for future growth.

Derek Netherton
Chairman
11 March 2008

MANAGING DIRECTOR'S REPORT

It is pleasing to report much improved results after the disappointing performance of 2006. This was not a 'quick fix', but the first phase of our three-year plan designed to transform Greggs from a devolved and divisionalised business into a much more unified, centrally driven national operation, with a greatly enhanced capability to understand and meet the needs of its customers. We are encouraged by our progress to date, but there is much more potential for the future as we work to enhance our products and shops, spread best practice through the business and build awareness of our brand and all that it has to offer.

Trading performance

Although we continue to operate in an extremely competitive market place, trading conditions during the year proved more benign than in 2006. As a daily purchase business, we are sensitive to the effects of climatic extremes, and like-for-like sales growth slowed as a result of the exceptionally wet period in June, but benefited from very favourable conditions in August and September. Accordingly, over the year as a whole, we regard the weather impact on our business as broadly neutral.

Like-for-like sales increased by 4.6 per cent in the first half (24 weeks) and the rate of growth improved to 5.8 per cent in the second half, despite the rather more demanding 2006 comparatives encountered in the final weeks of the year. As the Chairman has noted, this made an increase in Group like-for-like sales for the year of 5.3 per cent, including core volume growth of 0.9 per cent. Customer growth, as measured by the number of transactions, was a little over one per cent.

We benefited from some of our initial actions to make the business more responsive to customer needs, including the opening of more of our shops on Sundays, and the extension of weekday opening hours in locations where we identified sufficient demand.

Wage costs increased as the result of our general pay settlement of just under four per cent, and the recruitment of additional senior personnel at the centre to drive the development of the Greggs brand. Energy costs, after a £4.5 million increase in 2006, rose by a further £0.5 million. We experienced significant cost pressure on a number of key ingredients, including flour, dairy products and vegetable oils, particularly in the second half. We continue to enter into forward contracts for certain key inputs with the aim of achieving predictability in our cost base in the short term.

GREGGS BRAND UK

Like-for-like sales under the Greggs brand increased by 5.5 per cent, including core volume growth of 0.9 per cent.

Management. Following the appointment of Raymond Reynolds as Retail Director in December 2006, we have given priority during the year to building strong central teams to lead the growth and development of the Greggs brand in the areas of Retail, Marketing and the Supply Chain. These teams have been assembled both by external recruitment and the transfer of suitably qualified divisional management. The appropriate capability is now in place and gaining steadily in experience. Having created this new structure during 2007, we expect to deliver progressively increasing benefits from the implementation of a more unified approach in the current year and beyond.

Directors' Report and Business Review CONTINUED

MANAGING DIRECTOR'S REPORT CONTINUED

Customers. We are committed to constant improvement of our understanding of the million customers who visit Greggs each day, and to providing them with what they want, when they want it. We also seek to extend our appeal to new groups of consumers by increasing the variety of locations in which we trade, adapting our opening hours to meet their lifestyle needs, and developing our product range. Increased investment in research to aid understanding of our customers and the fast-moving market place in which we operate is a continuing feature of our new strategic approach.

Products. We are determined to meet consumer demand for innovative and more aspirational products, while retaining our traditional strength in iconic bakery products such as sausage rolls and doughnuts, which deliver great taste and enjoyment at competitive prices. We have begun the process of harmonising products and practices across our divisions, aiming to identify the best recipes and working methods, for example in sandwich production in our shops, and to ensure that they are adopted nationwide. The implementation of unified training programmes across the business will bring even more consistency to our product offer throughout the country.

Shops. We have continued to develop our range of outlets and their opening times, to ensure that they are appropriately geared to each meal occasion and to local demand for food on the go. Our new shop openings in 2007 included a number of units in non-traditional locations away from the high street, such as industrial estates. Developments of this type will be an increasing feature of our opening programme in 2008 and beyond. We have increased the number of our shops trading on Sundays by around 150, and extended weekday opening hours where local demand exists, for example to meet the early morning needs of office workers or to cater for customers of retail centres or leisure attractions seeking early evening food on the go. Early results from our experimental shop formats have provided us with some valuable learning which is being progressively applied across the business as a whole. We continue our rolling programme of capital investment to enhance the appeal of our shops through refits and refurbishments. During the first half, we also refreshed some 350 shops to soften the somewhat strident colours of our previous takeaway-orientated design, and to re-emphasise our key point of difference as bakers. This has helped to create a significantly more attractive shopping environment at a relatively modest cost per unit.

Marketing. There has been a significant expansion of our central marketing department during the year, and we are applying greater resources and professional expertise to this area than ever before. During the year we undertook a £3 million integrated marketing campaign, which included two major bursts of national TV and radio advertising as well as the use of posters and the internet. The advertisements, fronted by TV comedian Paddy McGuinness, achieved good consumer recognition and we have been pleased by the initial response, though the real objective is to build awareness of the Greggs brand nationally over the longer term. We will continue this strategic marketing push over the next two years, emphasising the freshness, quality and sheer enjoyability of our products.

Now that we have established the right management infrastructure at the centre, we are well placed to build up the momentum of our drive to ensure the adoption of best practice in all areas of the Greggs business. This will help us to improve efficiency by driving down costs, at the same time as facilitating development of our reputation as a consistent, high quality, national brand.

BAKERS OVEN BRAND

Our Bakers Oven business now operates from 164 shops in the Midlands and the South following the restructuring changes made in 2006. Like-for-like sales under the Bakers Oven brand grew by 4.3 per cent, including core volume growth of 1.2 per cent. Bakers Oven Midlands successfully absorbed an additional 15 shops transferred to it following the restructuring of the brand in the North and Scotland. The projected ongoing cost savings from this restructuring have been delivered in full, enhancing Group profits by £1.25 million. The Bakers Oven operations in the Midlands and South now have a stable and profitable estate, generating good returns on our investment.

GREGGS BRAND CONTINENTAL EUROPE

Our Belgian business now trades from a total of 11 shops in Antwerp, Leuven and Brussels, following the acquisition of a small chain of five shops in the Belgian capital early in the second half. All of the acquired shops have been re-branded as Greggs, and a rolling programme of comprehensive refurbishment is in hand to bring them all up to the standards of the rest of the chain. The business as a whole continues to make satisfactory progress, achieving good core sales growth and providing us with valuable learning about the market place.

Retail profile

We opened 56 new shops during the year and closed 24, giving us a net increase of 32 units and a total of 1,368 at 29 December 2007. The pace of new openings accelerated in the final months of the year, enabling us to exceed our initial estimate of a net addition of 20 – 25 units during 2007. The Greggs brand in the UK continued to account for some 87 per cent of our total retail portfolio, with 1,193 shops trading at the year end (2006: 1,165), an increase of 28. The Bakers Oven estate was relatively stable at 164 shops (2006: 165), while our small acquisition in Belgium expanded the Greggs chain there to 11 shops (2006: six), an addition of five.

We completed 29 comprehensive shop refurbishments and 53 minor refits during the year.

We expect to achieve a net addition of at least 40 shops to our portfolio during 2008, with significant numbers of new openings planned in both Scotland and the South West to exploit the new bakery capacity we have recently created in these regions.

Capital investment

Capital expenditure for the year totalled £42.3 million, exceeding our stated budget of £39 million, mainly as a result of the increased number of shop openings compared with our original projections. Our largest single investment was in our new Glasgow bakery, which was completed on time and to budget, and is meeting all our expectations; we also completed a smaller scale expansion of our production facility in South Wales. During 2008 we plan to invest a total of £44 million; this will include the development of a new bakery in Manchester, an increased number of new shop openings and the continuation of our drive to raise standards in our existing shops through refits and refurbishments.

Cash flow and balance sheet

The Group is consistently and strongly cash generative, providing the basis for our progressive dividend policy over the last 23 years and underpinning the Board's more recent strategic decision to reduce dividend cover and conduct a continuing share buyback programme. During the year we returned a total of £38.9 million to shareholders, comprising £13.2 million in dividend payments and a further £25.7 million through share buybacks. Despite these substantial outflows, we ended the year with net cash on the balance sheet of £11.6 million (2006: £19.6 million).

Community and the environment

Greggs continues to pride itself on being a socially responsible business, and I am pleased to be able to announce that we have now underlined that commitment by the

Directors' Report and Business Review CONTINUED

MANAGING DIRECTOR'S REPORT CONTINUED

appointment of a new Social Responsibility Director: Graham Randell, formerly managing director of Greggs North East. Reporting directly to me, Graham brings to his new role seniority and experience which will ensure that he can exercise real authority, and I look forward to working with him to ensure that our social and environmental strategies are better co-ordinated and driven forward, with the backing of the Board and all our colleagues.

We have continued to support the communities in which we operate through both corporate donations to charity and the voluntary fund-raising efforts of our employees. In total the Company gave £730,000 to charities during the year (2006: £540,000), amounting to 1.4 per cent of our pre-tax profit. This was directed principally through the Greggs Trust and our Greggs Breakfast Clubs, which operate in 124 primary schools in disadvantaged areas across the country. In addition to this our staff raised an impressive £175,000 for the BBC Children in Need Appeal and a further £310,000 for children's cancer charities through our long-established programme of regional fun runs.

We have continued our business-wide drive to improve energy efficiency and reduce carbon emissions. This is an area where the financial interests of the business are perfectly aligned with the protection of the environment. We are also pursuing a wide range of initiatives designed to reduce our environmental impact by increasing recycling and reducing the amount of food waste going to landfill.

Fuller details of the Company's charitable activities and environmental initiatives are contained in the Corporate Social Responsibility section of this report on pages 20 to 23.

People

After coping with a difficult year in 2006, our people were faced with extensive changes in the way we run the business from early 2007. These naturally made a particularly strong impact in an organisation such as Greggs, which has enjoyed a high degree of stability over many years. I know how difficult it can be to maintain operational effectiveness and sustain morale through a period of major change, which inevitably creates unfamiliarity and uncertainty. It is therefore a real tribute to the quality and character of our people that the necessary changes to the way we work have all been made remarkably smoothly, and adopted in such a positive manner. I am grateful to every member of the team throughout the business for the exceptional way they have responded to these challenges.

The future

Our year of change in 2007 was merely the start of a longer term strategic programme designed to increase our responsiveness to our customers, and to build an even stronger and more unified national Greggs brand. We have now laid firm foundations which we believe will significantly enhance the longer term growth prospects of the Group. We continue to see significant potential for further retail expansion in the UK, and feel confident that we can increase the rate of shop openings in the coming years. We will make further progress towards our goals by ensuring that we remain true to our core values and focusing on the delivery of great products and excellent service. I am confident that we are on track to realise our vision of sustained, long term growth as Europe's finest retail baker.

Sir Michael Darrington
Managing Director
11 March 2008

KEY PERFORMANCE INDICATORS

KPI	Definition	2003	2004	2005	2006	2007
Total sales growth	(a)	8.1%	10.3%^	5.8%^	3.3%	**6.4%**
Like-for-like sales growth	(b)	3.3%	5.1%	4.0%	0.5%	**5.3%**
Like-for-like volume growth	(c)	1.5%	2.9%	1.0%	(2.5%)	**0.9%**
Growth in net shop numbers	(d)	2.4%	2.6%	4.4%	1.3%	**2.4%**
Capital expenditure	(e)	£32.4m	£25.1m	£41.7m	£30.0m	**£42.3m**
Operating profit	(f)	£39.2m	£44.7m	£47.1m	£42.2m*	**£47.7m~**
Operating margin	(g)	8.6%	8.9%	8.8%	7.7%	**8.2%**
Earnings per share (basic)	(h)	230.5p	270.5p	282.1p	263.0p†	**322.1p~**

DEFINITIONS:

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

(b) 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.

(c) Like-for-like volume growth is like-for-like sales growth net of selling price inflation. Selling price inflation is calculated as the weighted average annual change in the retail price of like products. The volume figure will therefore include changes in sales mix and the introduction of new products.

(d) Growth in net shop numbers represents the percentage increase in number of shops in operation at the end of the year.

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

(f) Operating profit reflects the performance of the Group before financing and taxation impacts.

(g) Operating margin shows the operating profitability of the Group as a percentage of its sales.

(h) 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.

^ 2004 was a 53 week year, impacting on total sales growth for 2004 and 2005

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

† 2006 earnings per share after restructuring costs 241.2p

~ Excludes one-off property gains of £2.2m included in the statutory operating profit in the income statement. Earnings per share including these gains is 342.8p

Directors' Report and Business Review CONTINUED

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 65, describe how the relevant principles and provisions of the Combined Code were applied to the Company in 2007 and will be relevant to the Company for the 2008 financial year.

The Board

Composition

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

Derek Netherton (Chairman), 63, 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 2007. He is Chairman of the Nominations Committee.

Sir Michael Darrington FCA (Managing Director), 66, 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), 39, 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.

Raymond Reynolds (Retail Director), 48, 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, 64, 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 is a non-executive director of Copthorne Holdings Limited, O.X.I.P. and Noble Group Limited. In 2004 he was appointed as the Senior Independent Non-Executive Director. Stephen will retire as a director of the Company at its Annual General Meeting in 2008.

Bob Bennett, 60, 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 is a non-executive director of Redrow plc and Expro International Group PLC. He has been Chairman of the Audit Committee since 2004 and will become the Senior Independent Non-Executive Director after the Annual General Meeting in 2008.

Julie Baddeley, 56, 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 Plc and is an Associate Fellow of the Said Business School, Oxford. Julie was appointed as Chair of the Remuneration Committee in 2005.

Roger Whiteside, 49, will join the Board as an additional non-executive director with effect from 17 March 2008. On appointment, Roger will become a member of the Company's Audit, Nominations and Remuneration Committees.

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 2007, the Board met and the number of meetings attended by each director was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	6	3	5	6
Derek Netherton	6	-	-	6
Mike Darrington	6	-	-	5
Richard Hutton	6	-	-	-
Raymond Reynolds	5	-	-	-
Stephen Curran	6	2	4	6
Julie Baddeley	6	3	5	6
Bob Bennett	6	3	5	6

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 continuing non-executive directors

Directors' Report and Business Review CONTINUED

CORPORATE GOVERNANCE CONTINUED

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 Company's Articles of Association require that all directors must retire and seek re-election at the first AGM following appointment. Thereafter, any non-executive director who has served on the Board for more than nine years must seek re-election annually. One half of the remaining directors, being those who have been in office longest since last re-election, and any other director who has not been elected or re-elected at either of the two preceding AGMs, must seek re-election at each AGM.

All directors are able to receive training and to take independent professional advice at the expense of the Company. They also have direct access to the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters.

The Chairman meets with the non-executive directors annually without the executive directors present. The Senior Independent Director meets the non-executive directors without the Chairman present annually to appraise the Chairman's performance.

The performance of the Board, its Committees and of all directors is evaluated annually by a formal and rigorous process. Each director completes a questionnaire. The results are fed back to the Chairman and the Senior Independent Director and then to the Board for discussion. These discussions are used to identify actions to improve effectiveness and also to identify individual and collective training needs.

Board Committees

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

The Audit Committee currently consists of three independent non-executive directors (Bob Bennett - Chairman, Stephen Curran and Julie Baddeley). 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.

During the year, the Committee, in performing these functions, reviewed 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 considered and made 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 determined the scope of the external audit in discussion with the external auditors and agreed 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. 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 and Bob Bennett). The Committee's main duties (which it discharged during the year) 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 65 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 (which it discharged during the year) 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.

In recruiting additional directors, the Nominations Committee defines the role and uses external consultants to assist in identifying suitable candidates from which the Committee selects a short list and conducts interviews. The final candidate is then subject to formal recommendation by the Committee and approval by the Board. This process was adopted for the selection of Roger Whiteside as an additional non-executive director.

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.

Directors' Report and Business Review CONTINUED

CORPORATE GOVERNANCE CONTINUED

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 strategic planning, monitoring, supervision and training.

Risk Committee

The 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 Operating Board's business planning process at least annually. The risks are assessed on a regular basis across all functional areas but, in particular, the areas of food safety, health and safety, information flow, asset protection and regulatory requirements.

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

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. Organisational structure is regularly reviewed and there are group-wide processes for the training and development of all employees.

External factors
Changes in the retail trading environment or in customer preferences will clearly have a significant 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.

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.

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. Health and Safety Officers and Occupational Nurses are appointed in every Division and operational policies and procedures are subject to both internal and external audit. 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. Divisional Financial Controllers have responsibility for implementation of the Company's financial management policies within each operating division. Each Divisional Financial Controller works closely with their divisional General Managers to monitor performance against plan. In addition, assets and liabilities are scrutinised at several levels on a regular basis and remedial action is 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 can also report directly to the Group Finance Director on matters of financial control.

Whistle Blowing
The Company has "whistle blowing" procedures in place, which enable 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 senior management and direct to the Audit Committee.

Directors' Report and Business Review CONTINUED

CORPORATE GOVERNANCE CONTINUED

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 at 29 December 2007 and 30 December 2006 (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 65.

In accordance with the Company's Articles of Association, Stephen Curran, Mike Darrington, Julie Baddeley and Richard Hutton retire from the Board. All, except Stephen Curran who has decided not to seek re-election, being eligible, offer themselves for re-election.
Roger Whiteside, who will have taken office before the AGM, will also retire and, being eligible, seek 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.

AUTHORITY TO PURCHASE SHARES

At the AGM on 14 May 2007, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 1,116,500 ordinary shares of 20p each. That authority has been used as to 497,321 shares as at 29 December 2007. The balance remains in force until the conclusion of the AGM in 2008 or 13 August 2008, whichever is the earlier.

SUBSTANTIAL SHAREHOLDINGS

At 11 March 2008, 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	1,135,257	10.79%
A.J. Davison (as trustee of various settlements)*	784,930	7.46%
Baillie Gifford & Co	657,662	6.25%
Schroders plc	572,418	5.44%
F&C Asset Managment	557,572	5.30%
Legal and General Investment Management Limited	554,386	5.27%
Lloyds TSB Group Plc	493,807	4.70%
Prudential Group of companies	487,516	4.64%
F.K.Deakin*	345,434	3.28%
F.M.E. Nicholson*	345,434	3.28%

* Each of F.K. Deakin and F.M.E. Nicholson holds 245,434 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 (3.28% jointly held with A.J. Davison and others) and N.A. Bailey (3.28% jointly held with A.J. Davison and others).

Directors' Report and Business Review CONTINUED

CORPORATE SOCIAL RESPONSIBILITY

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

This responsibility is delivered through the following:

Our Values

These 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 the basis for all 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 provide 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.

We recognise the importance of communicating with our employees, and have devised systems to address the challenges created by the wide spread of our operating locations throughout the country. Effective communication with all members of staff is ensured through our operational structure of shop, area and divisional management. All employees receive regular briefings and are kept in touch with divisional and Group performance and issues through the circulation of 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. Our reputation depends on providing our customers with food products of consistently excellent quality, backed by firm assurances of food safety. Robust systems are also in place, designed to protect the health and safety of both customers and employees. We are increasing our investment in staff training and compliance auditing with the aim of progressively raising our standards in these important safety areas. Line management is supported in this drive for constant improvement by a significant number of dedicated professionals specialising in Health & Safety and quality assurance.

Management responsibility

In November 2007, Greggs plc appointed a Social Responsibility Director reporting directly to the Managing Director. This senior appointment was designed to ensure that Social Responsibility issues are addressed by a highly experienced and respected member of the management team. He is dedicated to refining and developing the Company's strategy in this most important area, setting targets and ensuring their achievement by driving forward the implementation of agreed action plans. The reporting structure will ensure that our policies and performance in this area receive appropriate attention at the very highest level in the business.

The Environment

The Company recognises the absolute necessity of protecting the environment for the people of today and for future generations. The Company is, therefore, committed to carrying out its activities with due consideration for the environmental impacts of its operations and in line with Our Values.

Environmental Policy
We are committed to an on-going programme, designed to ensure the continual reduction of any adverse impacts from our operations, while 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;
- working with the Carbon Trust and others to set tough targets for the reduction of our carbon footprint. These targets are to be agreed in 2008 and to be achieved by the end of 2013;
- reduction of waste at source by focusing on the efficient use of resources;
- increasing the re-use or recycling of that waste which remains;
- ensuring that policies and procedures are in place to minimise the occurrence and impact of accidents and other incidents;
- increasing employee awareness of the environmental issues which affect the Company as a whole, and their own operations and lives;
- building the assessment of environmental impact into the appraisal of all capital projects.

Waste and recycling
Following successful regional initiatives in 2006 to reduce the amount of waste going to landfill, and the number of associated shop collections, we have further increased recycling across the business by rolling out this good practice to additional divisions. Work is proceeding on a project to convert waste into green energy, with promising initial results.

Our food
As a food on the go business, founded on its bakery heritage, Greggs has always produced the vast majority of the food it sells. Our entire range is made and sold fresh every day, and we are proud of the wholesomeness of our products, while constantly seeking to improve our range to meet changing consumer needs and aspirations, and concerns about diet and health. We are ever more demanding of our ingredient and other suppliers as we pursue improvement, both in our Healthier Options range and our mainstream products.

Progress
During 2007, we continued to bear down on energy consumption. During the year, three bakeries and 300 shops were equipped with energy monitoring and reporting systems. We are finding that this, combined with back office reporting and our SEBA (Save Energy, Be Aware) programme, is an effective way of sustainably reducing consumption. We also continued to invest in lower energy ovens and lighting systems. Improved productivity and energy efficiency in our bakeries is reflected in the fact that production grew by 3.7 per cent in 2007, without any increase in our total energy consumption.

Once again our good energy performance has allowed the full saving of the Climate Change Levy.

Buildings constructed today will, in all probability, still be in use in 40 to 50 years' time, when they will face environmental requirements that are difficult to foresee but are likely to be considerably more exacting than those of today. With this in mind, we built our new bakery in Clydesmill, Glasgow, which opened towards the end of 2007, to standards well in excess of those currently required. Features include energy saving lighting, waste heat recovery from refrigeration compressors, and the energy monitoring and reporting system referred to above. There are high insulation levels and the latest thermally efficient equipment, together with secondary refrigeration circuits for more efficiency and safety. The offices have high insulation glass, zonal heating systems, PIR detection lighting, and solar heating pipes to the internal corridors. All air handling units have heat exchangers to extract heat from waste air.

Directors' Report and Business Review CONTINUED

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

We have also made progress in reducing our use of packaging during 2007. Now, 90 per cent of our paper bags are made of recycled paper and the remaining 10 per cent use paper derived from managed forests. We have saved around 80 tonnes of paper per annum by reducing the gauge of paper we specify. 70 per cent of our plastic carrier bags are degradable, as are all the bags used on sliced bread. Where we use clear plastic sandwich containers, these are now made from rPET, a recycled material made from PET soft drink bottles. Growing awareness of waste and environmental issues is also beginning to encourage both our staff and customers to use fewer packaging items, with a marked reduction in usage detectable over the course of the year.

Wider Communities

In 2007, Greggs plc directly donated £730,000 (2006: £548,000) to charity, representing 1.4 per cent (2006: 1.3 per cent) of its pre-tax profit. This was directed principally through the Greggs Trust and the Greggs Breakfast Club scheme.

Greggs Trust is a registered charity, founded by the Company's former Chairman, 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 2007 was £702,000, derived from the Greggs plc donation, from employees under the Give as You Earn Scheme, and from 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 the provision of fresh bread from local Greggs or Bakers Oven shops, together with the necessary equipment. Greggs and Bakers Oven staff work with 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 2007, there were 124 Breakfast Clubs. 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.

Last year, the Company agreed a £150,000 three-year sponsorship with The Sage in Gateshead, establishing the Greggs Children's Room as a tribute to the great contribution made to the business over many years by Ian Gregg and Malcolm Simpson. This is a centre where disadvantaged children are helped to gain confidence through participation in musical activities.

The Company's five year investment in the Newcastle Employment Bond matured in the summer of 2006 and this was rolled over into the North East Enterprise Bond for a five year period. 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 of England.

Other major fund-raising events in which our staff participate include the Greggs Cancer Run, an annual institution which has raised over £3 million for children's cancer charities since its inception in 1983. In 2007, Cancer Runs took place in seven divisions, raising a total of £310,000.

Greggs staff also raised £175,000 for the BBC Children in Need appeal through their own fund raising efforts and sales of Pudsey cakes, biscuits and other merchandise.

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. With 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.

Payments to Suppliers

Good relationships with our suppliers are an important factor in the success of the Group. 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 29 December 2007 was 39 days (2006 – 36 days).

Summary

We believe that we have made steady progress in the key areas of Social Responsibility during 2007, as described above. The changes we have now made, to ensure dedicated, senior management responsibility for this important area, are designed to ensure that it obtains an even higher priority within the business and thus ensure the setting and achievement of appropriate targets in the years ahead.

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 £81,000 during 2007 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
11 March 2008

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;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 1985. They have 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 29 December 2007 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 2006 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 29 December 2007 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 29 December 2007;
- 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; and
- the information given in the Directors' Report is consistent with the accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Newcastle upon Tyne

11 March 2008

Consolidated Income Statement

for the 52 weeks ended 29 December 2007

(2006: 52 weeks ended 30 December 2006)

	Note	2007 £'000 Excluding profits on disposal of properties	2007 £'000 Profits on disposal of properties (Note 4)	2007 £'000 Total	2006 £'000 Excluding Bakers Oven restructuring costs	2006 £'000 Bakers Oven restructuring costs (Note 5)	2006 £'000 Total
Revenue	1	586,303	-	586,303	550,849	-	550,849
Cost of sales	6	(220,849)	2,193	(218,656)	(209,455)	(68)	(209,523)
Gross profit		365,454	2,193	367,647	341,394	(68)	341,326
Distribution and selling costs	6	(278,708)	-	(278,708)	(262,917)	(2,947)	(265,864)
Administrative expenses	6	(39,030)	-	(39,030)	(36,232)	(483)	(36,715)
Operating profit		47,716	2,193	49,909	42,245	(3,498)	38,747
Finance income	7	1,234	-	1,234	1,579	-	1,579
Finance expenses	8	-	-	-	(87)	-	(87)
Profit before tax	3-6	48,950	2,193	51,143	43,737	(3,498)	40,239
Income tax	10	(14,792)	-	(14,792)	(14,227)	1,049	(13,178)
Profit for the financial year attributable to equity holders of the parent		34,158	2,193	36,351	29,510	(2,449)	27,061
Basic earnings per share	11			342.8p			241.2p
Diluted earnings per share	11			340.4p			239.9p

Consolidated Statement of Recognised Income and Expense

for the 52 weeks ended 29 December 2007

(2006: 52 weeks ended 30 December 2006)

	Note	2007 £'000	2006 £'000
Actuarial gains on defined benefit pension plans	22	1,410	2,741
Tax on items taken directly to equity	10	(456)	(822)
Net income recognised directly in equity		954	1,919
Profit for the financial year		36,351	27,061
Total recognised income and expense for the financial year attributable to equity holders of the parent	23	37,305	28,980

Parent Company Statement of Recognised Income and Expense

for the 52 weeks ended 29 December 2007

(2006: 52 weeks ended 30 December 2006)

	Note	2007 £'000	2006 £'000
Actuarial gains on defined benefit pension plans	22	1,410	2,741
Tax on items taken directly to equity	10	(456)	(822)
Net income recognised directly in equity		954	1,919
Profit for the financial year	9	30,390	26,332
Total recognised income and expense for the financial year	23	31,344	28,251

Consolidated Balance Sheet

at 29 December 2007

(2006: 30 December 2006)

	Note	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**196,783**	184,325
Current assets			
Inventories	15	**9,908**	8,429
Trade and other receivables	16	**19,934**	16,026
Cash and cash equivalents	17	**11,581**	19,585
Asset held for sale	18	**-**	275
		41,423	44,315
Total assets		**238,206**	228,640
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(68,183)**	(61,295)
Current tax liabilities	20	**(9,008)**	(5,467)
		(77,191)	(66,762)
Non-current liabilities			
Defined benefit pension liability	22	**(680)**	(1,883)
Other payables	21	**(426)**	(90)
Deferred tax liability	14	**(14,315)**	(15,014)
		(15,421)	(16,987)
Total liabilities		**(92,612)**	(83,749)
Net assets		**145,594**	144,891
EQUITY			
Capital and reserves			
Issued capital	23	**2,127**	2,232
Share premium account	23	**13,533**	13,533
Capital redemption reserve	23	**312**	207
Retained earnings	23	**129,622**	128,919
Total equity attributable to equity holders of the parent		**145,594**	144,891

The accounts on pages 27 to 57 were approved by the Board of Directors on 11 March 2008 and were signed on its behalf by

M.J. Darrington
R.J. Hutton
Directors

Parent Company Balance Sheet

at 29 December 2007

(2006: 30 December 2006)

	Note	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**197,376**	154,994
Investments	13	**5,190**	5,190
		202,566	160,184
Current assets			
Inventories	15	**9,908**	8,429
Trade and other receivables	16	**19,934**	38,920
Cash and cash equivalents	17	**11,214**	19,036
		41,056	66,385
Total assets		**243,622**	226,569
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(75,659)**	(61,284)
Current tax liabilities	20	**(9,088)**	(5,546)
		(84,747)	(66,830)
Non-current liabilities			
Defined benefit pension liability	22	**(680)**	(1,883)
Other payables	21	**(426)**	(90)
Deferred tax liability	14	**(13,576)**	(8,315)
		(14,682)	(10,288)
Total liabilities		**(99,429)**	(77,118)
Net assets		**144,193**	149,451
EQUITY			
Capital and reserves			
Issued capital	23	**2,127**	2,232
Share premium account	23	**13,533**	13,533
Capital redemption reserve	23	**312**	207
Retained earnings	23	**128,221**	133,479
Total equity attributable to equity holders		**144,193**	149,451

The accounts on pages 27 to 57 were approved by the Board of Directors on 11 March 2008 and were signed on its behalf by

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

Consolidated Statement of Cashflows

for the 52 weeks ended 29 December 2007

(2006: 52 weeks ended 30 December 2006)

	Note	2007 £'000	2006 £'000
Operating activities			
Cash generated from operations (see below)		74,685	66,185
Income tax paid		(12,585)	(13,600)
Net cash inflow from operating activities		62,100	52,585
Investing activities			
Acquisition of property, plant and equipment	12	(42,343)	(30,023)
Proceeds from sale of property, plant and equipment		7,625	1,599
Interest received		1,234	1,579
Net cash outflow from investing activities		(33,484)	(26,845)
Financing activities			
Defined benefit pension scheme special contribution		-	(5,500)
Interest paid		-	(74)
Proceeds from issue of share capital	23	-	93
Sale of own shares	23	1,952	1,809
Purchase of own shares	23	-	(16,436)
Shares purchased and cancelled	23	(25,688)	(39,544)
Dividends paid	23	(13,242)	(12,105)
Government grants received		358	-
Net cash outflow from financing activities		(36,620)	(71,757)
Net decrease in cash and cash equivalents		(8,004)	(46,017)
Cash and cash equivalents at the start of the year		19,585	65,602
Cash and cash equivalents at the end of the year	17	11,581	19,585

Cash flow statement – cash generated from operations

	Note	2007 £'000	2006 £'000
Profit for the financial year		36,351	27,061
Depreciation	12	24,548	23,884
(Profit) / loss on sale of property, plant and equipment		(1,951)	753
Release of government grants		(16)	(8)
Share-based payment expenses	22	555	687
Finance income	7	(1,234)	(1,579)
Finance expenses	8	-	87
Income tax expense	10	14,792	13,178
Increase in inventories		(1,479)	(716)
Increase in debtors		(3,908)	(165)
Increase in creditors		6,820	2,609
Increase in pension liability		207	394
Cash from operating activities		74,685	66,185

Parent Company Statement of Cashflows

for the 52 weeks ended 29 December 2007

(2006: 52 weeks ended 30 December 2006)

	Note	2007 £'000	2006 £'000
Operating activities			
Cash generated from operations (see below)		74,867	62,385
Income tax paid		(12,585)	(12,536)
Net cash inflow from operating activities		62,282	49,849
Investing activities			
Acquisition of property, plant and equipment	12	(42,343)	(29,414)
Proceeds from sale of property, plant and equipment		7,625	1,518
Interest received		1,234	3,017
Net cash outflow from investing activities		(33,484)	(24,879)
Financing activities			
Defined benefit pension scheme special contribution		-	(5,500)
Interest paid		-	(74)
Proceeds from issue of share capital	23	-	93
Sale of own shares	23	1,952	1,809
Purchase of own shares	23	-	(16,436)
Shares purchased and cancelled	23	(25,688)	(39,544)
Dividends paid	23	(13,242)	(12,105)
Government grants received		358	-
Net cash outflow from financing activities		(36,620)	(71,757)
Net decrease in cash and cash equivalents		(7,822)	(46,787)
Cash and cash equivalents at the start of the year		19,036	65,823
Cash and cash equivalents at the end of the year	17	11,214	19,036

Cash flow statement – cash generated from operations

	Note	2007 £'000	2006 £'000
Profit for the financial year		30,450	26,332
Depreciation	12	24,548	22,938
(Profit) / loss on sale of property, plant and equipment		(1,951)	873
Release of government grants		(16)	(8)
Share-based payment expenses	22	555	687
Finance income		(1,234)	(3,017)
Finance expenses		-	87
Income tax expense		20,693	13,131
Increase in inventories		(1,479)	(716)
Decrease / (increase) in debtors		18,986	(914)
(Decrease) / increase in creditors		(15,892)	2,598
Increase in pension liability		207	394
Cash from operating activities		74,867	62,385

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 11 March 2008.

(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 22 – measurement of defined benefit obligation
- Note 22 – 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.

In these accounts the following Adopted IFRS is effective for the first time.

- IFRS 7 *Financial Instruments: Disclosures*

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 29 December 2007. The comparative period is the 52 weeks ended 30 December 2006.

(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) 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 (i)). 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 and Company 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.

(f) Investments

Investments in subsidiaries are carried at cost less impairment.

(g) 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.

(h) 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.

(i) Impairment

The carrying amounts of the Group and Company'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.

(j) 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 and Company's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

(k) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a 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.

Notes to the Consolidated Accounts

continued

Significant accounting policies (continued)

(l) 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.

(m) Segment reporting

The consolidated entity operates in one business segment being that of retailing of sandwiches, savouries and other bakery related products (primary segment). As a result no additional business segment information is required to be provided. The consolidated entity operates principally in one geographic segment (secondary segment), the United Kingdom. The operation in Belgium is not considered sufficiently material to warrant segmental reporting.

(n) 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 and Company'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 and Company recognise 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 but is accounted for as current tax when it arises.

(o) 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.

(p) Revenue

(i) Goods sold

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

(q) 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.

(r) 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.

(s) Finance income and expense

(i) Finance income

Finance income comprises interest receivable on cash balances and foreign exchange gains relating to those balances. 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.

(t) 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.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will 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.

(u) 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:

- IFRS 8: *Operating Segments:* applicable for accounting periods beginning on or after 1 January 2009;
- IFRIC 11: *Scope of IFRS 2 Group and Treasury Share Transactions* applicable for accounting periods beginning on or after 1 March 2007

IFRS 8 and IFRIC 11 are expected to have minimal impact on the accounts when they are adopted.

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

Notes to the Consolidated Accounts

continued

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. Financial Risk Management

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables

The Group's exposure to credit risk is considered not to be significant as sale of goods is for cash. Other receivables are primarily prepaid rent and rates as well as amounts owed from HM Revenue & Customs in respect of VAT. The credit risk on remaining other receivables and trade receivables is therefore not considered significant.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's exposure to liquidity risk is considered not to be significant due to the cash generative nature of the business. The group has an overdraft facility of £20,000,000 of which £20,000,000 was undrawn at 29 December 2007 (2006: £10,000,000).

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The Group does not enter into commodity contracts other than to meet its expected usage.

Currency Risk

The Group is exposed to currency risk on sales from its Belgium shops which are made in Euros. Given the small number of shops in Belgium this currency risk is not considered significant.

The Group is exposed to currency risk on purchases that are denominated in a currency other than sterling (GBP). The currencies in which these transactions are primarily denominated are Euros and US Dollars. The Group occasionally uses forward exchange contracts to hedge its currency risks for large purchases, most with a maturity of less than one year.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group currently has a policy of purchasing its own shares on the market for cancellation, dependent on the market price of the shares. The trustees of the Greggs Employee Benefit Trust also purchase shares for the future satisfaction of employee share options.

There were no changes in the Group's approach to capital management during the year.

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 29 December 2007 (2006: £nil).

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.

3. Profit before tax Profit before tax is stated after charging/(crediting):	2007 £'000	2006 £'000
Depreciation on owned property, plant and equipment	**24,548**	23,884
(Profit) / loss on disposal of fixed assets (including disposal of properties – note 4)	**(1,951)**	753
Release of government grants	**(16)**	(8)
Payments under operating leases – property rents	**36,718**	35,650
Auditors' remuneration		
Audit of these accounts	**165**	153
Audit of subsidiaries' accounts pursuant to legislation	**5**	5
Other services pursuant to such legislation	**7**	5
Audit of pension schemes' accounts	**11**	10
Other services relating to taxation	**54**	51
All other services	**16**	17

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. Disposal of properties

During the year the Company disposed of bakery sites in Newcastle upon Tyne, Glasgow and Manchester together with several freehold shops. The profit arising on disposal of £2,193,000 principally relates to the sale of the redundant Carricks bakery site in Newcastle. The other bakery disposals are linked to the relocation to improved facilities in Scotland and the North West. The profit on disposal of properties has been presented separately on the face of the consolidated income statement in order to show separately the underlying trading performance of the Group.

5. Bakers Oven restructuring costs

During 2006 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 were presented separately on the face of the consolidated income statement in order to show separately the underlying trading performance of the Group for the comparative period.

The restructuring costs incurred related 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

6. Personnel expenses

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

	Group and parent company	
	2007	2006
	Number	Number
Management	**632**	671
Administration	**352**	367
Production	**2,794**	2,851
Shop	**15,049**	15,085
	18,827	18,974

The aggregate personnel costs of these persons were as follows:

		Group and parent company	
		2007	2006
	Note	**£'000**	£'000
Wages and salaries		**213,267**	205,024
Compulsory social security contributions		**16,357**	15,856
Pension costs - defined contribution plans	22	**1,825**	1,780
Pension costs - defined benefit plans	22	**1,840**	2,116
Equity settled transactions	22	**555**	687
		233,844	225,463

Included within wages and salaries, the total amount paid out under the Group's employee profit sharing scheme is contained within the main cost categories as follows:

	2007	2006
	£'000	£'000
Cost of sales	**1,389**	1,299
Distribution and selling costs	**3,261**	2,852
Administrative expenses	**647**	711
	5,297	4,862

7. Finance income

	2007	2006
	£'000	£'000
Interest income on cash balances	**1,118**	1,579
Foreign exchange gain	**116**	-
	1,234	1,579

8. Finance expenses

	2007	2006
	£'000	£'000
Interest expense	**-**	(62)
Foreign exchange loss	**-**	(25)
	-	(87)

9. Profit attributable to Greggs plc

Of the Group profit for the year, £30,390,000 (2006: £26,332,000) 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.

10. Income tax expense

Recognised in the income statement

	2007 £'000	2006 £'000
Current tax expense		
Current year	15,786	13,372
Adjustment for prior years	700	(194)
	16,486	13,178
Deferred tax expense		
Origination and reversal of temporary differences	(873)	201
Adjustment for prior years	(821)	(201)
	(1,694)	-
Total income tax expense in income statement	14,792	13,178

Reconciliation of effective tax rate

	2007	2007 £'000	2006	2006 £'000
Profit before tax		51,143		40,239
Income tax using the domestic corporation tax rate	30.0%	15,343	30.0%	12,072
Non-deductible expenses	1.0%	498	0.9%	361
Non-qualifying depreciation	2.2%	1,149	2.8%	1,140
Disposal of non-qualifying assets	(1.8%)	(892)	-	-
Impact of change in deferred tax rate to 28%	(2.3%)	(1,185)	-	-
Adjustment re prior years	(0.2%)	(121)	(1.0%)	(395)
Total income tax expense in income statement	28.9%	14,792	32.7%	13,178

Tax recognised directly in equity

		2007 Current tax £'000	2007 Deferred tax £'000	2007 Total £'000	2006 Total £'000
Relating to equity-settled transactions		(59)	238	179	68
Relating to defined benefit plans	- special contribution (SORIE)	(300)	320	20	-
	- actuarial gains (SORIE)	-	436	436	822
		(359)	994	635	890

Notes to the Consolidated Accounts

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11. Earnings per share

Basic earnings per share

Basic earnings per share for the year ended 29 December 2007 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year ended 29 December 2007 as calculated below.

Diluted earnings per share

Diluted earnings per share for the year ended 29 December 2007 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 29 December 2007 as calculated below.

Adjusted earnings per share

Basic and diluted earnings per share have been calculated for the year ended 29 December 2007 which exclude the profit on disposal of properties. These have been calculated by dividing profit attributable to ordinary shareholders excluding the profit on disposal of properties by the relevant weighted average number of ordinary shares as calculated below.

Basic and diluted earnings per share were calculated for the year ended 30 December 2006 which exclude the effect of the Bakers Oven restructuring costs. These were 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

	2007 Excluding profits on disposal of properties £'000	2007 Profits on disposal of properties (Note 4) £'000	2007 Total £'000	2006 Excluding Bakers Oven restructuring costs £'000	2006 Bakers Oven restructuring costs (Note 5) £'000	2006 Total £'000
Profit for the financial year attributable to equity holders of the parent	**34,158**	**2,193**	**36,351**	29,510	(2,449)	27,061
Basic earnings per share	**322.1p**	**20.7p**	**342.8p**	263.0p	(21.8p)	241.2p
Diluted earnings per share	**319.9p**	**20.5p**	**340.4p**	261.6p	(21.7p)	239.9p

Weighted average number of ordinary shares

	2007 Number	2006 Number
Issued ordinary shares at start of year	**11,161,563**	12,193,957
Effect of own shares held	**(394,749)**	(347,535)
Effect of shares issued	**-**	2,142
Effect of shares purchased and cancelled	**(162,626)**	(628,071)
Weighted average number of ordinary shares during the year	**10,604,188**	11,220,493
Effect of share options on issue	**74,959**	60,409
Weighted average number of ordinary shares (diluted) during the year	**10,679,147**	11,280,902

12. 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 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
Balance at 31 December 2006	**88,826**	**85,076**	**132,671**	**3,638**	**310,211**
Additions	**13,565**	**10,874**	**17,904**	**-**	**42,343**
Disposals	**(6,252)**	**(7,909)**	**(5,458)**	**-**	**(19,619)**
Reclassification	**3,638**	**(394)**	**394**	**(3,638)**	**-**
Effect of movements in exchange rate	**-**	**-**	**65**	**-**	**65**
Balance at 29 December 2007	**99,777**	**87,647**	**145,576**	**-**	**333,000**
Depreciation					
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
Balance at 31 December 2006	**16,739**	**49,496**	**59,651**	**-**	**125,886**
Depreciation charge for the year	**1,602**	**8,717**	**14,229**	**-**	**24,548**
Disposals	**(2,783)**	**(6,513)**	**(4,921)**	**-**	**(14,217)**
Balance at 29 December 2007	**15,558**	**51,700**	**68,959**	**-**	**136,217**
Carrying amounts					
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
At 31 December 2006	**72,087**	**35,580**	**73,020**	**3,638**	**184,325**
At 29 December 2007	**84,219**	**35,947**	**76,617**	**-**	**196,783**

Notes to the Consolidated Accounts

continued

12. 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 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
Balance at 31 December 2006	**49,242**	**85,609**	**133,159**	**3,638**	**271,648**
Additions	**13,565**	**10,874**	**17,904**	**-**	**42,343**
Intra-group transfers	**40,094**	**-**	**-**	**-**	**40,094**
Disposals	**(6,252)**	**(7,909)**	**(5,458)**	**-**	**(19,619)**
Reclassification	**3,638**	**(394)**	**394**	**(3,638)**	**-**
Effect of movements in exchange rate	**-**	**-**	**65**	**-**	**65**
Balance at 29 December 2007	**100,287**	**88,180**	**146,064**	**-**	**334,531**
Depreciation					
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
Balance at 31 December 2006	**6,846**	**49,766**	**60,042**	**-**	**116,654**
Depreciation charge for the year	**1,602**	**8,717**	**14,229**	**-**	**24,548**
Intra-group transfers	**10,170**	**-**	**-**	**-**	**10,170**
Disposals	**(2,783)**	**(6,513)**	**(4,921)**	**-**	**(14,217)**
Balance at 29 December 2007	**15,835**	**51,970**	**69,350**	**-**	**137,155**
Carrying amounts					
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
At 31 December 2006	**42,396**	**35,843**	**73,117**	**3,638**	**154,994**
At 29 December 2007	**84,452**	**36,210**	**76,714**	**-**	**197,376**

Land and buildings

The carrying amount of land and buildings comprises:

		Group		Parent company	
		2007	2006	**2007**	2006
		£'000	£'000	**£'000**	£'000
Freehold property	Shops	**13,445**	12,924	**13,445**	7,888
	Bakeries	**61,324**	49,295	**61,324**	25,507
	Other	**8,307**	8,680	**8,540**	8,773
		83,076	70,899	**83,309**	42,168
Long leasehold property	Bakeries	**1,033**	1,070	**1,033**	110
Short leasehold property	Shops	**110**	118	**110**	118
		84,219	72,087	**84,452**	42,396

At the start of the year the freehold land and buildings held by Greggs Properties Limited was transferred to Greggs plc at historic depreciated cost.

Property, plant and equipment under construction

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

13. Investments

Parent company

	Shares in subsidiary undertakings £'000
Cost	
As at 1 January 2006, 30 December 2006 and 29 December 2007	**5,828**
Impairment	
As at 1 January 2006, 30 December 2006 and 29 December 2007	**638**
Carrying amount	
As at 1 January 2006, 30 December 2006 and 29 December 2007	**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

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14. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**15,804**	17,440	**15,804**	17,440
Employee benefits	**(965)**	(1,741)	**-**	-	**(965)**	(1,741)
Short term temporary differences	**(524)**	(685)	**-**	-	**(524)**	(685)
Tax (assets) / liabilities	**(1,489)**	(2,426)	**15,804**	17,440	**14,315**	15,014

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

The movements in temporary differences during the year ended 29 December 2007 were as follows:

	Balance at 31 December 2006	Recognised in income	Recognised in equity	**Balance at 29 December 2007**
	£'000	£'000	£'000	**£'000**
Property, plant and equipment	17,440	(1,636)	-	**15,804**
Employee benefits	(1,741)	(218)	994	**(965)**
Short term temporary differences	(685)	161	-	**(524)**
	15,014	(1,693)	994	**14,315**

Parent company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**15,065**	10,741	**15,065**	10,741
Employee benefits	**(965)**	(1,741)	**-**	-	**(965)**	(1,741)
Short term temporary differences	**(524)**	(685)	**-**	-	**(524)**	(685)
Tax (assets) / liabilities	**(1,489)**	(2,426)	**15,065**	10,741	**13,576**	8,315

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 temporary differences	(804)	119	-	(685)
	4,852	376	3,087	8,315

The movements in temporary differences during the year ended 29 December 2007 were as follows:

	Balance at 31 December 2006	Recognised in income	Recognised in equity	**Balance at 29 December 2007**
	£'000	£'000	£'000	**£'000**
Property, plant and equipment	10,741	4,324	-	**15,065**
Employee benefits	(1,741)	(218)	994	**(965)**
Short term temporary differences	(685)	161	-	**(524)**
	8,315	4,267	994	**13,576**

On 27 June 2007 a change in the rate of corporation tax was substantively enacted, with corporation tax to be reduced from 30% to 28% with effect from 1 April 2008. Consequently all deferred tax balances that are expected to be realised after this date have been calculated based on the new rate.

Notes to the Consolidated Accounts

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15. Inventories

	Group		Parent company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**6,618**	5,825	**6,618**	5,825
Work in progress	**3,290**	2,604	**3,290**	2,604
	9,908	8,429	**9,908**	8,429

16. Trade and other receivables

	Group		Parent company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Trade receivables	**216**	193	**216**	193
Amounts owed by subsidiary undertakings	**-**	-	**-**	22,902
Other receivables	**6,113**	4,928	**6,113**	4,920
Prepayments	**13,605**	10,905	**13,605**	10,905
	19,934	16,026	**19,934**	38,920

All amounts fall due within one year.

17. Cash and cash equivalents

	Group		Parent company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents in the cash flow statements	**11,581**	19,585	**11,214**	19,036

18. Asset held for sale

The asset held for sale at 30 December 2006 was the Carricks bakery in Newcastle upon Tyne. Contracts had been 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.

19. Trade and other payables

	Group		Parent company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Trade payables	**29,776**	24,835	**29,776**	24,835
Amounts owed to subsidiary undertakings	**-**	-	**7,476**	-
Other taxes and social security	**5,769**	6,208	**5,769**	6,208
Other payables	**16,657**	16,620	**16,657**	16,609
Accruals and deferred income	**15,981**	13,632	**15,981**	13,632
	68,183	61,295	**75,659**	61,284

20. Current tax liability

The current tax liability of £9,008,000 in the Group and £9,088,000 in the parent company (2006: Group £5,467,000, parent company £5,546,000) represents the amount of income taxes payable in respect of current and prior years.

21. Other payables

	Group		Parent company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Deferred government grants	**426**	90	**426**	90

22. 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	
	2007	2006
	£'000	£'000
Present value of funded obligations	**(78,461)**	(74,823)
Fair value of plan assets	**77,781**	72,940
Recognised liability for defined benefit obligations	**(680)**	(1,883)

Liability for defined benefit obligations

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

	Group and parent company	
	2007	2006
	£'000	£'000
Opening defined benefit obligation	**74,823**	69,538
Service cost	**2,735**	2,919
Interest cost	**3,937**	3,466
Actuarial gains	**(2,207)**	(180)
Benefits paid	**(1,612)**	(1,749)
Contributions by employees	**785**	829
	78,461	74,823

Notes to the Consolidated Accounts

continued

22. Employee benefits (continued)

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

	Group and parent company 2007 £'000	2006 £'000
Opening fair value of plan assets	72,940	59,808
Expected return	4,832	4,269
Actuarial (losses) / gains	(797)	2,561
Contributions by employer	1,633	7,222
Contributions by employee	785	829
Benefits paid	(1,612)	(1,749)
Closing fair value of plan assets	77,781	72,940

The amounts recognised in the income statement are as follows:

	Group 2007 £'000	2006 £'000
Current service cost	2,735	2,919
Interest on obligation	3,937	3,466
Expected return on plan assets	(4,832)	(4,269)
Total included in employee benefit expense	1,840	2,116

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

	Group 2007 £'000	2006 £'000
Cost of sales	390	450
Distribution and selling costs	555	642
Administrative expenses	895	1,024
	1,840	2,116

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 net gains of £903,000 (2006: net losses of £507,000).

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

	Group and parent company	
	2007	2006
	£'000	£'000
Equities	58,173	55,774
Bonds	2,166	1,837
Property	1,106	799
Cash/other	16,336	14,530
	77,781	72,940
Actual return on plan assets	4,480	6,830

The plan assets include ordinary shares issued by the Company with a fair value of £2,468,000 (2006: £2,258,000).

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	
	2007	2006
Discount rate	5.7%	5.2%
Expected rate of return on plan assets	6.9%	6.4%
Future salary increases	4.4%	4.4%
Future pension increases	2.9%	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			
	2007	2006	2005	2004
	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	(78,461)	(74,823)	(69,538)	(58,283)
Fair value of plan assets	77,781	72,940	59,808	47,231
Deficit	(680)	(1,883)	(9,730)	(11,052)

Notes to the Consolidated Accounts

continued

22. Employee benefits (continued)

Experience adjustments

	Group and parent company							
	2007		2006		2005		2004	
	£'000		£'000		£'000		£'000	
Experience adjustments on plan liabilities	**2,207**	**2.8%**	180	0.2%	(6,414)	9.2%	(2,613)	9.2%
Experience adjustments on plan assets	**(797)**	**1.0%**	2,561	3.5%	4,069	6.8%	1,710	6.8%
Net actuarial experience adjustments	**1,410**		2,741		(2,345)		(903)	

The Group expects to contribute £308,000 to its defined benefit plan in 2008.

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 £1,825,000 (2006: £1,780,000) 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 Company established a Long Term Incentive Plan in 2006 and the first grant of options was made under this scheme in March 2007.

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 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
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
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
Long Term Incentive Plan 1	March 2007	Senior executives	nil	3,078	Three years' service and EPS growth of 3-7.5% over RPI on average over those three years	10 years

* During the year, half of these options lapsed on non-attainment of the vesting conditions and the vesting conditions attached to the remaining half of these options was modified to four years' service and EPS growth of 3-5% over RPI on average over those four years. Options granted to executive directors were not modified in this way and lapsed in full.

Notes to the Consolidated Accounts

continued

22. Employee benefits (continued)

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

	2007		2006	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**3642p**	**400,569**	3151p	335,288
Lapsed during the year	**3495p**	**(74,314)**	2312p	(20,724)
Exercised during the year	**3023p**	**(61,975)**	2297p	(83,072)
Granted during the year	**nil**	**3,078**	3934p	169,077
Outstanding at the end of the year	**3783p**	**267,358**	3642p	400,569
Exercisable at the end of the year	**2730p**	**15,241**	2597p	19,617

The options outstanding at 29 December 2007 have an exercise price in the range of £nil to £41.160 and have a weighted average contractual life of 5.07 years. The options exercised during the year had a weighted average market value of £48.46 (2006: £38.58).

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.

	2007	2006	
	Long Term Incentive Plan 1 March 2007	Executive Share Option Scheme 12 August 2006	Savings Related Share Option Scheme 9 September 2006
Fair value at grant date	**£44.10**	£7.74	£8.19
Share price	**£47.46**	£42.00	£41.60
Exercise price	**£nil**	£40.77	£37.13
Expected volatility	**19.5%**	19.3%	19.3%
Option life	**3 years**	5 years	3 years
Expected dividends	**2.4%**	2.7%	2.7%
Risk-free rate	**5.25%**	4.8%	4.8%

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:

	2007 £'000	2006 £'000
Share options granted in 2003	**-**	31
Share options granted in 2004	**38**	333
Share options granted in 2005	**160**	210
Share options granted in 2006	**289**	113
Share options granted in 2007	**68**	-
Total expense recognised as employee costs	**555**	687

23. 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 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

	Issued capital	Share premium	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2006	2,232	13,533	207	128,919	144,891
Shares purchased and cancelled	(105)	-	105	(25,688)	(25.688)
Total recognised income and expense	-	-	-	37,305	37,305
Sale of own shares	-	-	-	1,952	1,952
Share-based payments	-	-	-	555	555
Dividends	-	-	-	(13,242)	(13,242)
Tax items taken directly to reserves	-	-	-	(179)	(179)
Balance at 29 December 2007	2,127	13,533	312	129,622	145,594

Notes to the Consolidated Accounts

continued

23. Capital and reserves (continued)

Parent company

	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

	Issued capital £'000	**Share premium £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 31 December 2006	**2,232**	**13,533**	**207**	**133,479**	**149,451**
Shares purchased and cancelled	**(105)**	**-**	**105**	**(25,688)**	**(25,688)**
Total recognised income and expense	**-**	**-**	**-**	**31,344**	**31,344**
Sale of own shares	**-**	**-**	**-**	**1,952**	**1,952**
Share-based payments	**-**	**-**	**-**	**555**	**555**
Equity dividends	**-**	**-**	**-**	**(13,242)**	**(13,242)**
Tax items taken directly to reserves	**-**	**-**	**-**	**(179)**	**(179)**
Balance at 29 December 2007	**2,127**	**13,533**	**312**	**128,221**	**144,193**

Share capital and share premium

	Ordinary shares	
	2007 Number	2006 Number
In issue and fully paid at start of year	**11,161,563**	12,193,957
Issued for cash	**-**	4,085
Purchased and cancelled	**(526,472)**	(1,036,479)
In issue and fully paid at the end of the year	**10,635,091**	11,161,563

At 29 December 2007 the authorised share capital comprised 25,000,000 ordinary shares (2006: 25,000,000) with a par value of 20p each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year 526,472 shares with a nominal value of £105,000 were purchased for cancellation for a consideration of £25,688,000.

Own shares held

Deducted from retained earnings is £13,940,000 (2006: £15,892,000) 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 345,416 shares (2006: 409,745 shares) with a market value at 29 December 2007 of £16,235,000 (2006: £17,619,000) 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, Greggs Savings Related Share Option Schemes and Greggs Long Term Incentive Plan 2006 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:

	2007 Per share pence	2006 Per share pence
2005 final dividend	**-**	70.0p
2006 interim dividend	**-**	38.0p
2006 final dividend	**78.0p**	-
2007 interim dividend	**46.0p**	-
	124.0p	108.0p

The proposed final dividend in respect of 2007 amounts to 94.0 pence per share (£9,886,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts

	2007 £'000	2006 £'000
2005 final dividend	**-**	8,013
2006 interim dividend	**-**	4,092
2006 final dividend	**4,855**	-
2007 interim dividend	**8,387**	-
	13,242	12,105

Notes to the Consolidated Accounts

continued

24. Operating leases

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

	2007 £'000	2006 £'000
Operating leases which expire:		
In less than one year	**1,436**	898
Between one and five years	**42,896**	28,431
After more than five years	**145,083**	128,014
	189,415	157,343

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 29 December 2007, the Group entered into contracts to purchase property, plant and equipment for £1,884,000 (2006: £11,736,000). 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 13) 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 to related parties		Amounts owed by related parties	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Greggs Properties Limited	**-**	(3,015)	**-**	1,413	**1,060**	-	**-**	29,318
Dormant subsidiaries	**-**	-	**-**	-	**6,416**	6,416	**-**	-

At the start of the year the freehold land and buildings held by Greggs Properties Limited was transferred to Greggs plc at historic depreciated cost.

The Greggs Trust is also a related party and during the year the Company made a donation to the Greggs Trust of £280,000 (see Corporate Social Responsibility on pages 20 to 23.

Transactions with key management personnel

The directors are the key management personnel of the Group. The Company has been notified of the following interests of the directors who served during the year (including those of their connected persons but excluding interests in shares pursuant to unexercised share options) in the share capital of the Company, as follows:

	Ordinary Shares of 20p (Beneficial interest)		Ordinary shares of 20p (Trustee holding with no beneficial interest)	
	2007	2006 (or date of appointment if later)	**2007**	2006 (or date of appointment if later)
Mike Darrington	**45,300**	55,470	**-**	-
Malcolm Simpson (resigned 14 May 2007)	**-**	10,010	**-**	8,000
Richard Hutton	**1,494**	911	**215,000***	215,000*
Raymond Reynolds	**3,588**	2,808	**-**	-
Ian Gregg (non-executive) (resigned 14 May 2007)	**-**	133,535	**-**	-
Stephan Curran (non-executive)	**3,700**	3,700	**-**	-
Derek Netherton (non-executive)	**1,000**	1,000	**-**	-
Bob Bennett (non-executive)	**-**	-	**-**	-
Julie Baddeley (non-executive)	**-**	-	**-**	-
Ian Gibson (non-executive) (resigned 29 February 2008)	**522**	522	**-**	-

*Included within the holding of A.J. Davison referred to on page 19.

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 65. Total remuneration is included in personnel expenses (see note 6).

There have been no changes since 29 December 2007 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 Gibson and Bob Bennett. Mike Darrington, Andrew Davison (the Company Secretary) and Nicola Bailey (the Company's Group People Director) have assisted the Committee in their deliberations. The Company was assisted by Monks Partnership in generally determining the remuneration of its senior management team.

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. The Committee also seeks 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 to attract and retain the skills necessary to manage the Company's operations and to reward the executives fairly for their contributions. Basic salaries and total packages are set to reflect the market. They are regularly benchmarked by external consultants against the median level payments made to executives in similar roles in companies of comparative size, sector and complexity (which exercise was last conducted by Monks Partnership in 2006) and are also set to take account of levels of remuneration paid to others within the Company. It is anticipated that a further review will be carried out with the assistance of Monks Partnership in 2008.

The Committee seeks to structure 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. During 2008 (subject to Inland Revenue approval) it is intended to allow all eligible employees to sacrifice their profit share for shares in the Company through the Company's Share Incentive Plan ('SIP') approved by shareholders at the AGM in 2007.

(b) A scheme which (when combined with the All Employee Profit Sharing Scheme) could, subject to Remuneration Committee discretion, deliver a cash bonus up to a maximum of 70% of basic salary for executive directors and 95% of basic salary for Sir Michael Darrington (to reflect that he is not eligible to participate in the Long Term Incentive Plan). For 2007 the targets for all executive directors comprised elements relating to corporate profit, strategic and personal performance, designed to encourage achievement of common objectives as well as personal development. This approach will be continued for 2008.

(c) A Long Term Incentive Plan ("LTIP"). Under this scheme, the Remuneration Committee selects employees (including executive directors) to participate. No executive director will be eligible to participate if they are within two years of their normal retirement date and 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 use a proportion (not more than 50%) of their annual bonus (including profit share) 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, made in 2007, performance targets were set as average growth in earnings per share of 3% above the retail prices index for a 1:1 match 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. For the award in 2008, the performance targets are set as average growth in earnings per share of 3% above the retail prices index for a 1:1 match and 10% above the retail prices index for a 2:1 match, providing a further stretch to achieve the maximum award.

The Committee's policy is that all bonus payments to executive directors should be non-pensionable.

Although none were made in 2007, 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. It is not expected that any executive directors will be granted executive share options in 2008.

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 or particpation in the SIP) 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 the balance between performance related and non-performance related elements of the executive directors' remuneration packages provides 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, Richard Hutton and Raymond Reynolds) who periodically seek advice from external consultants as to the appropriate market rates applicable. Such advice was obtained in 2007 from Monks Partnership.

The fees payable to the Chairman are set by the Remuneration Committee, after taking advice from Monks Partnership.

Directors' Remuneration Report

continued

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 present challenging performance objectives linked to shareholder return. Executive directors are not eligible to have share options granted in the same year as participation in the LTIP. The Committee intends that performance conditions will continue to be settled on this basis and applied to future grants (if any) 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 2008 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. Any non-executive director who has served on the Board for over nine years must seek re-election annually. Thereafter, one half of the remaining directors, being those who have been longest in office since last re-election, and any other director who has not been elected or re-elected at either of the two preceding AGMs, must retire and seek re-election. The Nominations Committee advises the Board as to whether a particular director, whose turn it is to retire by rotation, should be nominated for re-election.

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.

Non-executive directors are not 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.

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 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. In addition to their basic salaries, each is entitled to participate in the Company's profit sharing scheme available to all employees. They are also entitled to additional benefits including membership of the company pension scheme, 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 2008, 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.

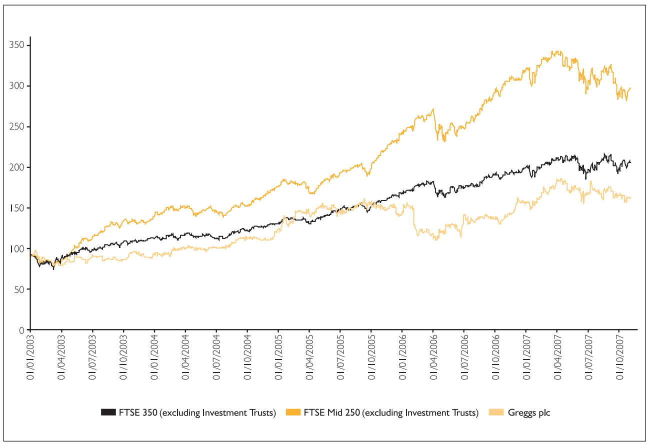
Non-executive Directors

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

	Annual Salary / fees set for 2008 £	Salary / fees paid in 2007 £	Estimated value of benefits 2007 £	Annual profit share 2007 £	Annual bonus 2007 £	Total 2007 £
Executive						
Mike Darrington	490,000	462,000	23,468	30,147	385,653	901,268
Malcolm Simpson (resigned 14 May 2007)	-	55,769	12,389	-	-	68,158
Richard Hutton	235,000	200,000	18,848	13,051	114,349	346,248
Raymond Reynolds	220,000	175,000	11,361	11,419	100,931	298,711
Chairman						
Derek Netherton	115,000	105,000	-	-	-	105,000
Non-executive						
Stephen Curran	37,500	35,000	-	-	-	35,000
Ian Gregg (resigned 14 May 2007)	-	12,269	-	-	-	12,269
Bob Bennett	40,000	37,000	-	-	-	37,000
Julie Baddeley	40,000	37,000	-	-	-	37,000
Ian Gibson (resigned 29 February 2008)	35,500	33,000	-	-	-	33,000
Total	1,213,000	1,152,038	66,066	54,617	600,933	1,873,654

	Salary / fees paid in 2006 £	Estimated value of benefits 2006 £	Annual profit share 2006 £	Annual bonus 2006 £	Total 2006 £
Executive					
Mike Darrington	420,000	23,401	27,649	-	471,050
Malcolm Simpson	189,230	18,805	11,568	-	219,603
Richard Hutton (appointed 13 March 2006)	132,717	11,106	10,690	30,059	184,572
Raymond Reynolds (appointed 18 December 2006)	6,233	374	363	1,839	8,809
Chairman					
Derek Netherton	101,000	-	-	-	101,000
Non-executive					
Stephen Curran	31,000	-	-	-	31,000
Ian Gregg	27,500	-	-	-	27,500
Susan Johnson (resigned 30 September 2006)	20,625	-	-	-	20,625
Bob Bennett	34,000	-	-	-	34,000
Julie Baddeley	33,000	-	-	-	33,000
Ian Gibson (appointed 1 April 2006)	21,750	-	-	-	21,750
Total	1,017,055	53,686	50,270	31,898	1,152,909

In 2006, profits fell and, therefore, Mike Darrington and Malcolm Simpson received only profit share and no annual bonus. Raymond Reynolds was appointed to the Board on 18 December 2006 and, therefore, his figures do not reflect a full year.

In 2007, profits exceeded targets and, therefore, annual bonuses are payable in addition to profit share – 50% of the combined annual bonus and profit share figure can be invested by the individuals in the LTIP, which is subject to further performance conditions as previously described.

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.

The basic non-executive fees for 2008 are £35,500 per annum, including membership of committee(s), an additional £4,500 for Chairmanship of the Audit or Remuneration Committees and an additional £2,000 for the Senior Independent Director.

Share options

The following table sets out details of the executive and savings related share options (all of which were granted at a nominal cost to the executive director concerned) held by, or granted to, each director during the year:

	At 31 December 2006 Number	Number of options during year Granted Number	Exercised Number	Lapsed Number	At 29 December 2007 Number	Exercise price £	Market price at date of exercise £	Gain on exercise £	Date of grant	Date from which exercisable	Expiry date	Scheme
Mike Darrington	6,000	-	-	-	6,000	40.770	-	-	Aug 06	Aug 09	Aug 16	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	49.14	872	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	47.00	769	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 £1,641 (2006: £472,070), including £nil (2006: £266,230) 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. The options granted in 2004 failed to meet their performance conditions and have, therefore, lapsed.

Directors' Remuneration Report

continued

The following table sets out details of the LTIP share options (all of which were granted at nil cost to the executive director concerned) held by, or granted to, each director during the year:

	Date of grant	Options held under the plan at 30 December 2006	Options Granted during 2007	Options held under the plan at 29 December 2007	Market price of each share at date of grant £	Date from which exercisable	Expiry date
Richard Hutton	Mar 07	-	812	812	47.46	Mar 10	Mar 17
Raymond Reynolds	Mar 07	-	610	610	47.46	Mar 10	Mar 17

For the grants awarded under the LTIP, 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 7.5% then all of the options will be exercisable and if earnings per share growth exceeds RPI growth by between 3% and 7.5% 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 29 December 2007 was £47.00. The highest and lowest mid-market prices of ordinary shares during the financial year were £53.60 and £43.00 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. Each of the executive directors also received contributions into the Company's money purchase defined contributions pension schemes during the year under review. No pension benefits were earned or accrued in respect of any non-executive director.

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 29 December 2007 £	Accrued annual pension entitlement at age 65 as at 30 December 2006 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 3.6% £	Transfer value of increase in accrued pension entitlement for the year £
Mike Darrington	8/3/42	15/8/83	145,561	140,503	5,058	-	-
Richard Hutton	3/6/68	1/1/98	18,825	14,865	3,960	3,425	23,447
Raymond Reynolds	4/11/59	1/12/86	52,544	42,392	10,152	8,626	73,109

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 3.6% 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.

Note 3: The increase in accrued pension entitlement for the year for Mike Darrington is purely inflationary. No additional contributions were made and no additional service accrued during the year.

Executive Director	Cash equivalent transfer value as at 31 December 2006 £	**Cash equivalent transfer value as at 29 December 2007 £**	**Increase in the cash equivalent transfer value since 31 December 2006 £**
Mike Darrington	2,103,546	*	*
Richard Hutton	103,444	133,749	16,655
Raymond Reynolds	385,414	489,044	63,780

* A transfer value is not available at 29 December 2007 for Mike Darrington 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 the Greggs Senior Executive Pension Scheme for the benefit of executive directors during this financial year.

Executive Director	**Contribution in respect of 2007 £**	Contribution in respect of 2006 £
Mike Darrington	**-**	-
Richard Hutton	**17,427**	10,664
Raymond Reynolds	**8,750**	258

Approval by Shareholders

At the Annual General Meeting of the Company to be held on 13 May 2008, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 11 March 2008.

Signed on behalf of the Board

Julie Baddeley

Director

Chair of Remuneration Committee

11 March 2008

10 Year History

	1998	1999	2000	2001	2002	2003	2004 (as restated)*	2005	2006†	2007~
Turnover (£'000)	291,420	308,678	339,008	377,556	422,600	456,978	504,186	533,435	550,849	586,303
Earnings before interest and tax (£'000)	20,215	21,691	26,044	31,597	35,334	39,167	45,763	47,143	38,747	49,909
Profit on ordinary activities before taxation (£'000)	20,214	21,520	26,356	32,742	36,666	40,472	47,751	50,159	40,239	51,143
Shareholders' funds (£'000)	69,585	80,896	88,169	103,554	119,965	134,150	157,156	181,475	144,891	145,594
Earnings per share (pence)	122.8	135.1	162.3	190.2	209.2	230.5	270.5	282.1	241.2	342.8
Dividend per share (pence)	41.0	45.0	55.0	65.0	72.5	80.0	96.0	106.0	116.0	140.0
Capital expenditure (£'000)	26,204	22,403	21,397	27,385	42,143	32,361	25,090	41,687	30,023	42,343
Net book value of fixed assets (£'000)	100,309	108,786	113,285	124,123	148,184	160,704	163,110	180,826	184,325	196,783
Number of shops in operation at year end	1,072	1,084	1,105	1,144	1,202	1,231	1,263	1,319	1,336	1,368

*restated for the transition to IFRSs †includes £3.5m Bakers Oven restructuring costs ~includes one-off property gains of £2.2m

DIRECTORS

Derek Netherton (Non-executive chairman)ø

Mike Darrington FCA (Managing)ø

Richard Hutton FCA (Finance)

Raymond Reynolds (Retail)

Stephen Curran FCCA (Non-executive)*†ø

Bob Bennett (Non-executive)*†ø

Julie Baddeley (Non-executive)*†ø

*Member of Audit Committee

† Member of Remuneration Committee

ø Member of Nominations Committee

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Beckenham
Kent
BR3 4TU

Nationwide Coverage

GREGGS

SHOP NUMBERS	2007	2006
Scotland	**166**	163
North East	**141**	138
Cumbria	**47**	47
Yorkshire	**142**	136
North West	**138**	136
Midlands	**166**	159
South West	**117**	110
South East	**276**	276
GREGGS	**1,193**	1,165

BAKERS OVEN

SHOP NUMBERS	2007	2006
Bakers Oven Midlands	**98**	99
Bakers Oven South	**66**	66
BAKERS OVEN	**164**	165
Greggs Belgium	**11**	6
TOTAL	**1,368**	1,336

GREGGS plc

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