GREGGS

# Respected. Valued. Trusted.

Annual Report and Accounts 2008


Regional Shopping Centres

Business Parks

Airports

City Centres

Retail Parks

Industrial and Enterprise Parks

High Streets

Local Shopping Centres

Roadside

# Proud to serve the nation.

**At Greggs we're passionate about being the best in bakery. We are the leading bakery retailer in the UK, specialising in sandwiches, savouries and other freshly made food-on-the-go. We serve over 5 million customers each week in over 1,400 shops. We take pride in the freshness and quality of our food, making all our sandwiches and baking all our savouries in our shops every day, giving our customers fresh, great tasting bakery food. We employ over 19,000 people across the UK.**

Our shops are on the UK's high streets, local shopping parades and, increasingly, retail, industrial and business parks, airports, and bus/rail interchanges. We have 10 regional bakeries, a state of the art specialist savoury production factory, 2 major distribution centres and our own fleet of 375 delivery vehicles to ensure daily, fresh food for our customers. We have ambitious plans for the future.

## Financial Highlights

| | Before exceptional items | | After exceptional items | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | £'m | £'m | £'m | £'m |
| Turnover | 628.2 | 586.3 | | |
| Like-for-like sales growth | 4.4% | 5.3% | | |
| Operating profit | 44.3 | 47.7 | 48.6 | 49.9 |
| Pre-tax profit | 45.2 | 49.0 | 49.5 | 51.1 |
| Shareholders' funds | 147.9 | 145.6 | | |
| Capital expenditure | 40.8 | 42.3 | | |
| | Pence | Pence | Pence | Pence |
| Earnings per share | 307.3 | 322.1 | 336.7 | 342.8 |
| Dividend per ordinary share | 149.0 | 140.0 | | |

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*Our sandwiches are lovely and fresh, made in the shop today*

LYNDSEY MCGUIRE,
SHOP MANAGEMENT TRAINEE

# Our vision.

**Our vision is to be the number one for sandwiches and savouries from a united team that is passionate about being the best in bakery.**

**For our customers** we offer a wide range of fresh, great tasting, high quality food, made with wholesome ingredients. Every single sandwich we sell is handmade in the shops each day by our highly trained staff. All our savouries are sold fresh from the ovens in our shops throughout the day. All our bread is baked each morning in our regional and in-store bakeries. Our combination of regional bakeries serving local shops, in-store bakeries and first class savoury production centre means we can give our customers unrivalled daily-freshness at great quality prices.

**For our people** we aim to provide a Great Place to Work, where our people feel valued, are looked after, and where each individual is recognised as integral to the success of our business.

**Our Values are: we will be enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.**

**For our communities** we promise to continue to help make a difference to people's lives. Through our award winning Greggs Breakfast Club scheme, the Greggs Trust, Children's Cancer Runs and other fundraising activities, we strive to make a positive impact on people's lives, building a strong community reputation in the areas where we operate.

**For our shareholders** we have a proven track record of success and return on investment. Importantly, in today's economic climate more than ever, we offer the assurance and commitment that our business is run with integrity and that we are a responsible company. We are proud that Greggs is a trusted, valued and respected business.

# Tribute
# to Sir Michael Darrington.

by Ian Gregg and Derek Netherton

*Mike at Fell Dyke Community Primary School, Greggs 100th Breakfast Club*

**As the two people who have been Chairman of Greggs during Mike's time as Managing Director, we wanted to join together to pay tribute to all that he has achieved during the 26 years that he has been at the forefront of the leadership of the Company.**

Ian recalls "Mike joined Greggs in 1983 as Managing Director when it was still a private company; he had previously been at United Biscuits and I realised that his experience, including that gained from working in a large public company, would be very valuable to Greggs as the Company looked to the future. I felt that we shared the same ideas and values as to how a business should be run, and that we would be a good team. Little did I realise quite how successful this partnership would be, nor the extent of the progress that the company would make with Mike at the helm!"

The first major change was the flotation of the business on the London Stock Exchange in May 1984 at a price of 135p per share. The Company was very well received by outside investors who liked the story that we had to tell. When Greggs floated, we had four bakeries (in Newcastle, Glasgow, Manchester and Leeds) and 260 shops. The Company continued from strength to strength under Mike's leadership, both by the steady addition of new shops to be serviced by the existing bakeries, but also by acquisition. We bought bakeries and shops in Birmingham and Treforest, taking the business into new areas such as the Midlands and South Wales.

While Mike's guiding principle was that a business should change through evolution not revolution, he was not afraid to take significant strides forward if he felt that this was right for Greggs. One such stride was the Baker's Oven acquisition in 1994 which brought a further 424 shops into the business and gave Greggs a presence in the South East (based around the bakeries in Twickenham and Enfield) as well as an exposure to in-store bakeries and catering.

Another very important milestone was the opening in 1997 of the central savoury production unit at Balliol Park outside Newcastle. Mike had seen the major opportunity that the growing takeaway market offered to Greggs; to make the most of this, we needed to increase substantially the production of our high quality savouries. At the same time, it was becoming increasingly clear to Mike that Greggs had the ability to be a significant national brand, so he put in place the gradual rebranding to Greggs of those shops which still operated under local names.

In 2006, with great care and with concern for the implications for the people within the business, Mike guided the management to see that the divisional structure that had worked so well in the past was not going to be appropriate for a growing, and national, brand with the aspirations and opportunities that he could see. Under his leadership, the foundation stones for the Greggs of the future were put in place, including the creation of the new role of Retail Director for the Greggs brand at the end of the year.

Then, in June 2008, he welcomed Ken McMeikan into the business to follow him in leading Greggs as the CEO; as when Mike himself joined Greggs 25 years earlier, he saw that the outside experience Ken would bring would be a key ingredient in helping to make a successful change to a nationally-run business. Equally important was that he felt Ken shared with him his passionately held views about the importance of the Greggs values to how the business should be run.

Under Mike's leadership, the Company has grown from 260 shops to over 1,400; the turnover from £40 million to £600 million; and the number of employees from 4,000 to over 19,000. Today, Greggs sells its tasty products to over a million customers a day throughout most of the UK. Since flotation, the dividend has grown every year and, by Mike's retirement, was higher than the share price at flotation; the return to those shareholders who wisely held on to their shares was over 6,000%; very few companies, whatever their business, have a track record like this, and none of the other major retailers comes close to matching it.

However, figures never tell the full story. Central to Mike's very successful leadership of the business was his care for the people whose lives are touched by Greggs. In 2000 he started the Greggs Breakfast Club scheme which now provides over 6,000 primary school children with a free, healthy breakfast. Giving something back to the local communities in which Greggs is involved has been a cornerstone of how Mike sees that a responsible and caring company should operate. It was entirely appropriate that he was knighted in the 2004 New Year's Honours List for services to business and the community and that he was chosen as the North East Business Executive of the Year in 2005.

Derek adds "Mike's philosophy about people was summed up for me when he said that, of the three main stakeholders in a business, his order of importance was employees, then customers, then shareholders. He said that happy employees led to contented customers who returned for more and hence to satisfied shareholders. How right he has been!"

What is for sure is that we are all greatly indebted to Mike for such magnificent and wise leadership of a great business. Greggs will miss him tremendously and we are sure that everyone connected with it will wish him every success and happiness in the future.

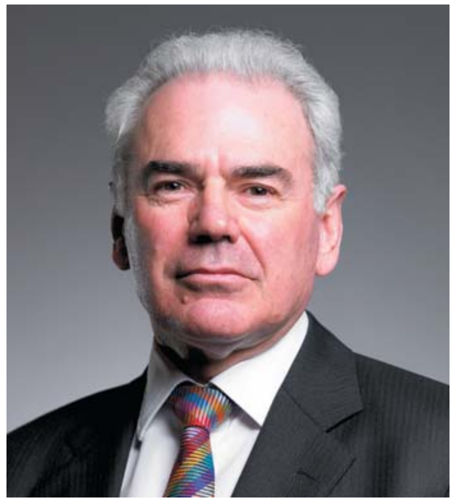
Ian Gregg
Derek Netherton
10 March 2009

# Quality baked in.

## Directors' Report and Business Review for the 52 weeks ended 27 December 2008

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 27 December 2008. The comparative period is the 52 weeks ended 29 December 2007.

The directors' report and business review is set out on pages 8 to 36.



### CHAIRMAN'S STATEMENT

**This was a challenging year for Greggs, as we bore substantial increases in energy and ingredient costs in a period of fragile and declining consumer confidence. Our ability to achieve sustained like-for-like growth under these difficult conditions affirmed the fundamental strengths of the Greggs proposition; our reputation for quality, value and freshness is a great asset as consumers face tough times. During the year we achieved a smooth transition in the leadership of the Company and furthered our plans to simplify the business to prepare for accelerated expansion from 2010. Our cash-positive balance sheet and continuing cash generation mean that we are strongly placed to exploit the considerable opportunities for future growth.**

### Results

Total Group sales for the 52 weeks ended 27 December 2008 increased by 7.1 per cent to £628 million (2007: £586 million), including like-for-like sales growth of 4.4 per cent.

Operating profit, excluding one-off property gains, restructuring costs and an exceptional pension credit, was £44.3 million (2007: £47.7 million), a reduction of 7.2 per cent. Excluding the non-recurring items, operating margin was 7.1 per cent (2007: 8.1 per cent) as substantial increases in energy and ingredient costs were only partly recovered through increased selling prices in order to maintain our value proposition for customers. Finance income of £0.9 million (2007: £1.2 million) reflected lower average cash balances and the reduction in interest rates.

Profit before tax, excluding property gains, restructuring costs and an exceptional pension credit was £45.2 million (2007: £49.0 million), a reduction of 7.8 per cent.

In 2008, we were named number 1 British Bakery Retailer in the British Baker's Top 50 companies


# Directors’ Report and Business Review for the 52 weeks ended 27 December 2008

CHAIRMAN’S STATEMENT (continued)

The net exceptional credit includes a property profit of £1.0 million (2007: £2.2 million), principally relating to the disposal of a freehold development site in Scotland. As disclosed in the Interim Report, accounting standards also require that an exceptional credit of £7.0 million arising on the closure of our final salary scheme to further accrual in 2008 should be recognised in the income statement. This curtailment item reflects a change to the actuarial assumption regarding inflation of member benefits and has been previously anticipated in our funding plans for the scheme. These items were partially offset by restructuring costs of £3.7 million relating to our decision to withdraw from our loss-making business in Belgium, and to the rebranding of the remaining Bakers Oven shops in the UK under the Greggs fascia.

Including this net exceptional credit for the year of £4.3 million (2007: £2.2 million) pre-tax profit was £49.5 million (2007: £51.1 million), a reduction of 3.3 per cent.

The Group tax charge for the year, at 31.1%, reverted to a more normal level after benefiting from one-off credits in 2007. This was reflected in our diluted earnings per share which, before the property gains, restructuring costs and exceptional pension credit, were 306.1 pence (2007: 319.9 pence) a reduction of 4.3 per cent. Including the non-recurring items in each year, diluted earnings per share were 335.4 pence (2007: 340.4 pence), a reduction of 1.5 per cent.

## Dividend

The Board recommends a final dividend of 100 pence (2007: 94 pence) per share. Together with the interim dividend of 49 pence (2007: 46 pence), paid in October 2008, this makes a total for the year of 149 pence (2007: 140 pence), an increase of 6.4 per cent. This is covered 2.1 times (2007: 2.3 times) by diluted earnings per share before property gains, restructuring costs and the exceptional pension credit, in line with the Board’s stated policy.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 22 May 2009 to shareholders on the register at 24 April 2009.

It is the Board’s intention to continue pursuing a progressive dividend policy going forward, paying due regard to the growth of earnings per share over the medium term, the cash generative nature of the business and our long-standing commitment to delivering value to our shareholders, reflected in our 24 consecutive years of dividend growth since Greggs floated on the stock market in 1984.

## Share split

The Board is proposing a share split whereby each existing ordinary share is divided into ten new shares. This is designed to make the Company’s shares more accessible and appealing, particularly to small shareholders and our own employees. The proposed share split is subject to the approval of shareholders at the AGM on 13 May 2009.

## Business highlights

Like-for-like sales increased by 5.1 per cent in the first half (24 weeks) and 3.9 per cent in the second half, which was affected by extremely poor weather throughout August and the first two weeks of September. Despite the increasing economic uncertainty and growing pressure on household budgets, we experienced only a modest reduction in customer visits and average transaction values. This reflected recognition of our strong value proposition and also the wide variety of locations in which we trade. Increasing numbers of our new shops are opening in places where our customers work or are on the move, and these are performing well. Good progress was made in what was the second year of our three-year programme to make the business more unified and centrally driven, and to raise the national profile of the Greggs brand. We announced in December that we intended to withdraw from our small, loss-making business in Belgium and that we would move to a single Greggs fascia through the rebranding of our Bakers Oven shops. Our new Chief Executive Ken McMeikan comments on our performance and strategy in more detail in his report.

## The Board

Ken McMeikan joined the Board on 1 June 2008 and became Group Chief Executive on 1 August. He was previously Retail Director of J Sainsbury plc, which he joined in 2005 after 14 years in operational roles with Tesco. We are benefiting, as we expected, from his broad experience of food retailing, which has strengthened our excellent senior management team and is helping us to drive forward the development of Greggs as a more centrally driven and customer-focused national brand.

Sir Michael Darrington, who retired as Group Managing Director on 31 July 2008 after 25 years of distinguished service, will retire from the Board at our AGM in May. He was responsible for the growth and development of Greggs from a regional bakery business with 260 shops at flotation into a national market leader with almost 1,400 outlets throughout the country. We owe him a huge debt of gratitude for his clear vision and unflagging leadership over so many years, for his work with Ken McMeikan last year to ensure a smooth transition, and for his role as a non-executive director since August 2008.

## People

Our people have continued to provide excellent, cheerful service to our customers while adjusting to considerable changes in the way we run the business and coping with the pressures of an increasingly difficult economic climate.

I would like to express the Board’s appreciation to all 19,000 members of the Greggs team for their continued hard work and commitment to our success.

## Corporate social responsibility

Greggs has always prided itself on its values, which underpin the way we treat our own people and the wider community. We remain totally committed to conducting our business in accordance with these principles, and I am pleased with the progress that the Board has made in setting challenging targets to improve our social and environmental performance still further. These are set out in detail in the Corporate Social Responsibility section of our Annual Report on pages 18 to 25.

## Prospects

Total sales in the ten weeks to 7 March 2009 have increased by 3.2 per cent including like-for-like sales growth of 1.0 per cent. The first two weeks of February were significantly impacted by the snow that affected most of the UK. Excluding these two weeks like-for-like sales have increased by 2.9 per cent.

In the light of the general economic climate we have budgeted for only marginally positive like-for-like sales growth throughout 2009, and have planned our costs accordingly. Our performance in the year to date is in line with this plan. Although ingredient and energy costs remain high at present, we expect to see some benefit from these easing during the second half.

We will focus on emphasising to consumers our key messages about the great quality and affordability of our products, and the excellent value they represent, as we increase our focus on the development of Greggs as the nation’s number one bakery brand. The plans to further centralise and simplify the business are progressing well and our finances remain robust. All this gives us confidence that Greggs is well placed to weather the challenges presented by the current economic climate, and to progress our plans for accelerated expansion from 2010.

Derek Netherton
Chairman
10 March 2009

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## CHIEF EXECUTIVE'S REPORT

**I am delighted to have taken over the leadership of a business with such an impressive record of performing well for shareholders, customers, employees and the community as a whole. Since joining the Company in June I have visited all our bakeries and many of our shops, and have been greatly impressed by the calibre of our people and the friendly service they provide. Extensive customer research confirms that there is great potential to build on the fundamental strengths of Greggs. We have the opportunity to generate further growth by making our products even more relevant to consumers' needs, opening more shops across the UK and making Greggs even more accessible to consumers. We also have further opportunities to enhance the efficiency of the Group by making it simpler and even more cost-effective.**

### Trading performance

As the Chairman has noted, the achievement of like-for-like sales growth throughout 2008, in an increasingly difficult economic climate, underlined the resilience of Greggs. Our customers are not immune to the effects of recession, and the tightening of overall retail spending was undoubtedly a factor in the slowing of like-for-like sales growth from 5.1 per cent in the first half (24 weeks) to 3.9 per cent in the second, giving us a like-for-like increase of 4.4 per cent over the year as a whole. The exceptionally wet period in August and early September also had a significant impact, as lunchtime trade is the core of our business and we are sensitive to severe weather which deters consumers from venturing out from their workplaces or homes. Including new selling space, total sales increased by 7.7 per cent in the first half and 6.6 per cent in the second, making an increase of 7.1 per cent for the year.

Our profitability during 2008 came under pressure from substantial increases in a wide range of costs. As well as the direct impact on our production and distribution costs from soaring prices for gas, electricity and vehicle fuel, we felt the indirect effects of this inflation throughout our supply chain. The worldwide surge in commodity prices drove up the cost of many of our key ingredients, including flour, meats and dairy products while labour costs also increased ahead of general price inflation. We were able to offset some of these pressures by improving our efficiency and increasing selling prices, but we deliberately chose not to pass on all of the higher costs to consumers as we considered it essential to retain our value positioning at a time when our customers' own budgets were coming under increasing pressure.

### Initial review

After joining the business I completed an initial review of our operations and strategy and was much encouraged by Greggs' established strengths, and excited by the potential. The Greggs brand inspires great loyalty based on its reputation for taste, freshness, quality, value and friendly service. We can build on this by exploiting opportunities to improve our range, service and availability to customers even further, by enhancing efficiency and by driving the future growth of Greggs throughout the UK. During 2009 our priority will be to simplify the business to ensure that we are prepared for accelerated growth and expansion from 2010 onwards.

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

CHIEF EXECUTIVE'S REPORT (continued)

## Simplifying the business

My initial review also concluded that the pace of our plans to make Greggs simpler could be increased and this will be our priority in 2009. The key initiatives are:

**Creating a single brand.** The adoption of a single Greggs brand throughout the UK by converting our Bakers Oven shops will enable the whole business to benefit from our national brand advertising, on TV and elsewhere, and increase our ability to leverage our buying capability.

Bakers Oven shops have in-store bakeries that will allow us to expand into parts of the country that previously were not accessible without investment in a central bakery. Our customers will also benefit from seated catering as well as the freshness of our in-store bakery offer.

**Withdrawing from Belgium.** Our 10 shops in Belgium have been loss making over the past five years and we concluded that the achievement of a break-even position was both too distant and an unnecessary distraction when there are considerably greater opportunities for profitable growth within the UK. We therefore announced our intention to withdraw from the Belgian market in December, and have subsequently agreed a sale of the business to Foodmakers NV, a Belgian retail business. Our experience in Belgium has generated much valuable learning, and overseas expansion still remains an option for Greggs in the longer term.

The one-off restructuring charge of £3.7 million shown in the accounts reflects our expected exit costs from Belgium, the costs of closing two Bakers Oven shops in January 2009 which were not suitable for conversion to Greggs, and an increase in previously disclosed provisions for the restructuring of Bakers Oven in the North and Scotland to reflect the worsening property market.

**Simplifying decision-making.** When I joined the business it was already into the second year of a three-year programme designed to change Greggs from a decentralised divisional business into a unified company. Central teams had been created to drive such areas as Retail, Marketing and Supply Chain, and the business was beginning to benefit from the adoption of this more unified approach. My review identified further opportunities to simplify our product range and supply chain, as outlined in more detail below. I am pleased with the progress that has already been made and during 2009 we will put further structural changes in place to enable the business to be even more centrally driven.

## Our customers

Customers are the starting point for everything we do, and we are proud to serve around a million of them a day in over 1,400 shops. During my initial review I met many customers in person and also had the benefit of written comments from some 10,000 of them who told me what they liked about Greggs and where they saw scope for improvement. It is clear that our customers have great loyalty to Greggs because we offer them great taste, freshness, quality, value and friendly service. Non-Greggs customers know us for value but are less well informed about the quality of our products, underlining the opportunity and importance of communicating all that we do at Greggs to provide great quality products as well as great prices.

Customers emphasised a number of areas in which they felt that we might improve our offer further for them, including nutritional labelling on our products, the development of more new lines, expansion of our range of healthy products and extension of our hot sandwich offer. These findings will form part of our strategy for the business going forward, and we will continue to seek the views of our customers through an ongoing research programme designed to ensure that we understand and are responsive to their changing needs.

## Our product range

Historically, each Greggs bakery made the vast majority of its products to its own recipes, resulting in considerable regional variation. We have now embarked on a programme that will result in 80 per cent of our range being harmonised across the country by the end of 2009. The remaining 20 per cent of the range will comprise specialist regional and local products. This change will make it easier for us to provide nutritional information for our customers, enabling them to make even more informed decisions about how good our products are. We have already begun to trial our harmonised ranges of sandwiches and drinks, with encouraging results.

We have also responded to our customers' desire for more innovation. In the current economic climate we have naturally paid close attention to ensuring value for money, introducing a range of sandwiches priced at 99p or below. Increasingly we offer exceptional value in other 'food-on-the-go' categories with our espresso-based Fairtrade coffee, which sells at around £1.20 per cup, a substantial discount to the national coffee chains. We have also enjoyed a good response to the launch of ranges of new products including lattice-topped savouries and a premium chicken and pesto baguette. Hot sandwiches are selling well in the 150 shops where they are currently available, and we will progressively offer these in more shops to meet strong customer demand.

## Our shops

Last year we opened 67 new shops and closed 26, making a net addition of 41 shops and a total of 1,409 at the year-end. During 2009 we expect to open a further 55 - 60 new shops although the net new additions will be around 10 after closures. This is because closures of shops will be at a higher rate than last year due to our withdrawal from Belgium and our intention to re-site more shops at the end of their leases. We expect rental costs for new sites to continue coming down and it makes good financial sense to adopt a more challenging approach to lease renewals, re-siting shops where a better location is available. The existence of upward-only rent reviews remains an unwelcome pressure for retail businesses under current market conditions and is something that we continue to argue needs to change.

More than a third of our new space in 2008 was accounted for by opening shops in locations away from the high street and shopping malls, such as industrial estates, business parks, airports and bus stations. Taking Greggs to where our customers work or travel will continue to be part of our approach to seek out further opportunities for expansion.

We continued to invest in shop refurbishment during the year, with the number of shop refits slowing in the second half as we tightened our capital expenditure. While we are determined to maintain the quality of the Greggs shopping experience through refurbishment, we are seeking even more cost-effective ways to roll out our refit programme going forward.

The current environment is increasing site availability but we will continue to be very selective in our acquisition programme. We expect to accelerate significantly the rate of shop openings from 2010 onward, recognising that one of our greatest growth opportunities is to make Greggs more accessible to more people across the UK by increasing the number of locations in which we trade. We have identified opportunities for expansion throughout the country.

*Our new bakery in Manchester*

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

CHIEF EXECUTIVE'S REPORT (continued)

### Supply chain

Our former divisional structure resulted in each of our ten regional bakeries producing a wide range of products for its own shops, often in small quantities and with much being finished by hand. We are examining the longer term opportunities to enhance quality and productivity through the consolidation of manufacturing to allow more efficient production of higher volumes. This is likely to follow the successful example of our central savouries unit at Balliol Park in Newcastle upon Tyne, which opened in 1998 and has delivered real benefits in enhanced product quality and consistency, as well as substantially increased productivity. Maintaining and improving the quality of our products will remain our foremost objective as we implement these further changes in our production over time, and as we invest in new technology.

### Corporate Social Responsibility

As a responsible, leading food supplier, we are committed to meeting our customers' demands for great tasting, fresh, healthy food and for the information they need to make informed decisions about what they eat. Work is continuing to reduce the fat and salt content of our products, while maintaining their quality and enjoyability.

Harmonising 80% of our product range by the end of 2009 will allow us to provide nutritional information for all our sandwiches, savouries and drinks by the end of 2009. We are committed to eliminating all artificial colours from the products that we make ourselves by the end of 2009 and artificial flavourings from our range by early 2010.

We recognise the issue of litter on our streets and will be working with the Keep Britain Tidy team on solutions to the problems caused by some people thoughtlessly discarding bags or other packaging. Our determination to make a positive difference to the environment is also underlined by our plans to reduce carbon emissions and the amount of waste food going to landfill.

I have been greatly impressed by Greggs' values and the way that these inform so much of what the Company and its employees do to help the wider community. During the year our staff raised a staggering £360,000 for the BBC Children in Need appeal, more than double the amount we raised in 2007. This is a remarkable testament to the spirit of our people and the generosity of our customers, despite the difficult economic environment.

The Greggs Trust continues to do great work supporting a wide range of good causes, and I have been particularly touched and impressed by the contribution that the Greggs Breakfast Clubs make in 124 primary schools in disadvantaged areas across the UK. We are determined that, despite the tough economic times, we will continue to fund breakfast clubs at a cost of £225,000 per year, but there is also a need to try and find ways to encourage the Government and other public and private bodies to lend their support to this critical cause. We believe that there are many thousands of children whose school attendance and performance would benefit if they started the day with a proper breakfast, and the number of parents unable to provide this at home is only likely to increase as economic conditions deteriorate. In the past, Greggs has tended to take a rather understated approach to the work that it does, but I believe we can raise the profile of what we do in the hope that it inspires others to do more.

These and other issues are covered in greater depth in our Corporate Social Responsibility Report on pages 18 to 25.

### People

In getting to know the business, I have been genuinely impressed by the quality of our people and the level of service they provide. Our people have had to cope with considerable change over the last two years, have embraced the shift from a divisional to a centralised structure, and shown real commitment to making it a success. They have done all this while continuing to provide great service to our customers and coping with the additional pressures created by the economic climate. I believe that they deserve a huge amount of praise for all that they have done and continue to do for Greggs.

On a personal note, I would like to record my appreciation of Sir Michael Darrington's support for me since I joined the business. Mike is a remarkable man with not only great business skills but that rare quality of believing we are all put on this planet to do some good; and, whatever shape or form that takes, we all have it in us to do something truly worthwhile.

His advice and guidance have been hugely helpful, and I thank him for the time and insight he has provided since I joined Greggs.

I would also like to record our gratitude for the contribution over many years of Ian Edgeworth, who sadly died in December 2008. Ian was Group Personnel Director from 1983 - 2006 and continued to serve as a trustee of our pension scheme after his retirement. His distinctive personality will be sorely missed and it is a personal sadness that I will not have the privilege of getting to know him as well as so many of the team at Greggs, who genuinely loved the man and his unique way of blending fun with work.

### Capital expenditure

Our net total capital expenditure after grants in 2008 was £33.3 million, compared with our previous budget of £36 million, as we tightened further our spending plans during the second half. The largest single project was the construction of our new Manchester bakery, which was completed during the second half and is now being commissioned. We expect total investment to be at a similar level in 2009. We will maintain our pressure on capital expenditure throughout the business, challenging ourselves to find more cost-effective ways of investing so as to maximise returns in what will undoubtedly remain a difficult market place.

### Cash flow and balance sheet

The Group remains strongly cash generative. During the year we returned a total of £24.2 million to our shareholders, comprising £14.5 million in dividend payments and a further £9.7 million in share buybacks which were completed during the earlier part of the year. We ended the year with £2.1 million of cash and cash equivalents on the balance sheet. The actual balance at bank at the end of the year was in excess of £8 million but advancing payments ahead of an accounting systems change impacted on the reported balance.

### The future

Greggs is a business with a great history and values, and with great potential for the future. Our customers are not immune to the effects of recession, but they and others will seek out good value and we will work hard to find ways of continuing to deliver that with great quality products at great prices. As the Chairman has noted, we will continue to be affected by inflationary cost pressures, particularly in the first half, but we have taken action to bear down on costs throughout the business and have based our budgets for the year on the assumption that we will achieve only modest like-for-like sales growth.

Looking beyond 2009, I am confident that the actions we are taking to simplify and unify the business, and to promote our excellent products, will prepare us for accelerated expansion of our UK retail presence as we progress towards our vision of becoming the nation's number one 'food-on-the-go' retailer.

Kennedy McMeikan
Chief Executive
10 March 2009

# Corporate Social Responsibility.

Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## GREGGS CARES

**At Greggs, we care that our customers are getting great quality food they can trust; that our people are looked after and treated well; that we help to make a positive difference in the communities where we operate; and minimise our impact on the environment around us. We take our corporate social responsibilities (CSR) very seriously. Over the years, we have been particularly active in our local communities and in looking after and rewarding our people who work at Greggs. More recently, we have broadened our CSR agenda to include our commitments to reducing our impact on the environment. In 2008 we made good progress.**

### CSR Governance:

In 2008, we established a new Social Responsibility Steering Committee, chaired by Ken McMeikan, Chief Executive and comprising five members of the Greggs Operating Board and the Social Responsibility Director. The Committee meets every six weeks, with individual members fully accountable for progress and delivery of actions. We are now able to set specific targets and commitments in our key CSR areas, which we will report on annually.

Greggs plc Main Board

CSR Steering Group
**Chair: Ken McMeikan**
Chief Executive

**Food & Nutrition Group**
**Scott Jefferson**
Customer & Marketing Director
- Food provenance
- Food Standards Agency
- Nutritional info

**Great Place to Work Group**
**Nicola Bailey**
Group People Director
- Health & Wellbeing
- Skills & development
- Feeling valued

**Community Group**
**Richard Hutton**
Group Finance Director
- Greggs Trust
- Breakfast clubs
- Fun Runs
- BBC Children in Need

**Environmental Impacts Group**
**Raymond Reynolds**
Group Retail Director
- Landfill
- Packaging
- Carrier bags
- Litter

**Carbon Group**
**Nigel Oldham**
Group Production & Distribution Director
- Electricity
- Gas
- Diesel
- Water
- Refrigerant gas

## GREGGS CARES...about giving our customers GREAT FOOD THEY CAN TRUST:

At Greggs, we care passionately about the food we make and sell. Our customers are loyal to Greggs because we offer them great tasting, fresh, quality bakery food. We recognise our responsibility to help our customers to make choices about the food they eat and have been proactively working on our approach to healthier food for several years. We are making significant progress in extending and creating a balanced range of healthier choices and treats, vegetarian and meat sandwiches and savouries, mayo and 'no mayonnaise' sandwiches and a wide choice of drinks to suit all tastes.

We know that many of our customers would welcome clearer nutritional information about our products. By the end of 2009, 80 per cent of our range will be harmonised across the country and this will make it easier for us to provide nutritional information for our customers.

We continually work hard to ensure our customers can enjoy good food with a taste they love as part of a healthy, balanced diet.

### Our product range has recently undergone a number of changes, including:

- Removal of all hydrogenated fats from our savoury products;
- reducing the level of trans and saturated fats;
- using reduced salt hams within our product range;
- reducing the fat content of our mayonnaise by 10 per cent;
- offering a range of fruit juice and fruit smoothies to complement the choice of healthier products available;
- trialling salads and fruit salad pots;
- switching to lower fat vegetable spreads in all our sandwiches;
- reducing the salt content of our bread by at least 10 per cent and in some cases 20 per cent;
- making significant progress on the removal of artificial colours from our products.

### 2009 Targets:

- By the end of June 2009, we will have removed all added trans fats, hydrogenated fats and oils from ALL the products that we make ourselves.
- We will roll out our national product range so that, by the end of 2009, nutritional information will be available to all our customers in our shops for our savoury, sandwich and drinks range.
- By the end of 2009 we will have removed ALL artificial colours from the products we make.
- We will make significant progress towards removal of ALL artificial flavours from the products we make and achieve this completely by the middle of 2010.

### 2009 Commitments:

- We will continue to assess the recipes for all our products, working towards the Food Standards Agency's recommended salt and fat targets for each type of food.

**In 2008 we reduced the salt content of our bread by at least 10 per cent**

Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## GREGGS CARES...about being a GREAT PLACE TO WORK

With over 19,000 people working at Greggs, our goal is to make sure that every individual feels valued, looked after and well rewarded for their contribution to the success of the business. We want our people to enjoy the work they do and feel proud to be part of Greggs.

The health and wellbeing of our people is of paramount importance to us:

- We have robust Health & Safety controls in place, designed to protect our people at work and our customers when they shop at Greggs.
- We support our people with private medical treatment where accidents have occurred at work, meaning treatment is much quicker for the individual. This service is currently available to approximately 80 per cent of employees.
- All our people have free access to confidential assistance 24 hours a day, 365 days a year for expert support and advice on legal, financial, work, personal and other difficulties they may be experiencing.

We want our people to feel rewarded, valued and engaged in the business:

- We want our people to be rewarded when our business is doing well and for many years 100 per cent of employees have been eligible for profit share.
- We encourage our people to share in the ownership of the business through our Save As You Earn scheme which offers the opportunity to buy shares in the company. In 2008, we had over 3,500 people participating in our SAYE scheme.
- We offer a range of family friendly policies, which recognise family rights and help our people to achieve a sensible work-life balance. We promote equal opportunities and encourage diversity and inclusion via policies that ensure we do not discriminate on the grounds of age, gender, ethnic origin or disability.
- We actively encourage people to talk about how they feel about working for Greggs, via our employee opinion survey (EOS). Currently our EOS is undertaken every two years. In 2008, 70 per cent of employees participated in the survey and employee engagement (how our people feel about working for Greggs) scored 72 per cent.

We want to train and develop our people to ensure they are successful in their roles and progress at Greggs:

- Our core skills training programmes provide extensive additional skills beyond First Day Induction, to help our people to be successful in their roles.
- The majority of our people are employed in our shops and in 2008, 75 per cent of all newly appointed shop managers and area managers were internal promotions. We are very proud of this high figure, as it demonstrates that we are able to offer our people the opportunity to progress within the company.
- We have a bakery apprentice scheme. In 2008, we had 25 bakery apprentices across the UK.

**2009 Targets:**

- By the end of 2009, 100 per cent of employees will have access to private medical treatment for any accidents that may occur in the workplace.
- From January 2010, we will undertake an Annual Employee Opinion Survey. In the 2010 survey, our target is that 75 per cent of employees will participate in the survey and we seek to improve our 2008 score of 72 per cent of employees feeling 'engaged' with Greggs.

**2009 Commitments:**

- We are committed to continuing our Employee Assistance Programme for everyone who works at Greggs.
- We are committed to maintaining at least 75 per cent of all new shop and area management appointments from internal promotion.
- We are committed to maintaining 25 bakery apprenticeships through 2009.

**In 2008 10 per cent of company profits were shared with our People**


TERRY GALLAGHER, BAKERY TEAM LEADER, 22 YEARS SERVICE

I feel as if I'm really helping out the kids, and it's a good way for me to meet other mums

**TAMMY, BREAKFAST CLUB VOLUNTEER**



## GREGGS CARES...about MAKING A DIFFERENCE TO COMMUNITIES in which we trade

We are committed to making a positive difference to local communities. We are tremendously proud of the Greggs Trust, a registered charity founded by Ian Gregg in 1987, and of our staff volunteers who raise and distribute funds in their local areas. The Trust continues to thrive, receiving sizeable donations from Greggs plc; employees (through our Give As You Earn scheme); staff fundraising activities; donations from major shareholders; and investment income.

Each day, our award-winning Greggs Breakfast Clubs provide over 6,000 primary school children with a free, healthy breakfast. Our model is unique in that our people work with teachers to encourage parents, grandparents and other volunteers to run the clubs and serve the breakfasts. In doing so they help others in their communities to impact positively on these children's lives and contribute to the nation's healthy living agenda. In 2009, we invested £225,000 in our 124 Breakfast Clubs across the UK.

Our people undertake a tremendous range of additional fundraising to help support local and national causes. Examples include:

- Participation in BBC Children in Need. This is becoming a regular event in the Greggs calendar. In 2008, we raised a staggering £360,000 for BBC Children in Need, more than double the amount raised in 2007, thanks to the great efforts of our people and the generosity of our customers.
- In 2008, the annual North East Children's Cancer Run and similar fun runs in other regions raised £310,000 for children's cancer charities.

In total, in 2008 we helped to raise and distribute over £1.8m to help make a difference to people's lives.

Our North East, Scotland and Midlands divisions donate some of their unsold food from our shops to local charities, by working in partnership with Fareshare and other local organisations.

**2009 Targets:**

- In 2009, we will continue to invest £225,000 in our 124 Breakfast Clubs and will work to develop partnerships with other organisations to expand the scheme.
- In 2009, we will maintain our commitment to community grant-making through the Greggs Trust, providing support from our people and donating £300,000.
- In 2009, we will aim to exceed the £360,000 we raised in 2008 and develop our relationship with BBC Children in Need to continue to engage our staff and customers.
- In 2009, we will continue to sponsor the North East Children's Cancer Run and hold runs in five other divisions for local children's cancer charities.

**2009 Commitments:**

- We will develop our work with Fareshare (and other organisations) to donate more of our unsold food to local charities.
- 2009 is the third year of our sponsorship of The Sage Gateshead's Children's Room, established as a tribute to the contribution to the business over many years of Ian Gregg and former Finance Director Malcolm Simpson.
- 2009 is the third year of our investment in a five year North East Enterprise Bond, encouraging new business start ups across the North East.

**In 2008 we helped to raise and distribute £1.8 million to help local communities**



# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## GREGGS CARES...about REDUCING OUR IMPACT ON THE WORLD AROUND US

In line with Our Values, we wish to operate our business responsibly and to protect the environment for future generations to enjoy. In 2008, we made good progress in our environmental work and have achieved regional recognition for some of our activities. We won the silver award in the Cumbria Business Environment Network's environmental awards and Manchester City Council's Environmental Business Pledge Gold Award for our approach to environmental good practice.

### Minimising the impact of our business

Packaging - we strive to follow the 'reduce, re-use, recycle' principles to ensure that we are not using unnecessary packaging; that we derive our packaging from sustainable sources; and that we provide packaging that can be re-used. As a food business, there are strict rules governing the amount of recycling content that food packaging can contain, as ensuring food safety is paramount. However, within these rules, we seek to do all we can.

- In 2008, we achieved a 17 per cent reduction in the total number of carrier bags used compared with 2007.
- In 2008, 78 per cent of our total packaging was produced from sustainable sources.

Reducing landfill - we are striving to reduce the amount of waste we generate and, where waste does occur, to find alternatives for its disposal.

- In 2008, we put in place arrangements to donate some of our unsold food to local charities in our North East, Scotland and Midlands divisions, by working in partnership with Fareshare and other organisations.
- In 2008, we continued to review our retail and bakery procedures to find more ways to reduce the amount of food waste generated, whilst at the same time ensuring continued availability of food for our customers.

Litter - we recognise that we have a role in helping to tackle the issue of litter. Serving over 5 million customers per week from over 1,400 shops nationwide, Greggs, along with other food-on-the-go retailers, share the responsibility of helping to ensure that our local environments remain clean and pleasant places to live and work. Litter is an on-going challenge. So far, we have taken the following measures:

- We no longer automatically issue carrier bags to every customer. Instead, our customers request a carrier bag if they need one. This has contributed significantly to the 17 per cent reduction in the number of carrier bags we issued in 2008.
- We have changed the materials used in our carrier bags to be more environmentally friendly so that, once disposed of, they are broken down naturally more quickly.
- Our paper bags and carrier bags have clear messages on them asking customers to 'Please use a bin and keep Britain tidy.'
- The Keep Britain Tidy logo is displayed in all of our shops.
- In the last couple of years we have worked in partnership with over 50 Local Authorities to tackle any litter issues that they have brought to our attention.

### Reducing our carbon footprint:

In 2008, we have, for the first time, been able properly to measure the Company's carbon footprint, and have this figure independently verified. This will form the baseline for our commitment to reduce our carbon footprint each year. In 2008, we made pledges to the Prince of Wales MayDay Network (a Business in the Community Programme):

PLEDGE 1: To measure our carbon emissions

PLEDGE 2: To report our carbon emissions to Business in the Community

We also participated in the Carbon Disclosure Project, widely regarded as the gold standard for carbon disclosure methodology and process, providing primary climate change data to the global market place.

In 2008, our bakery energy consumption reduced by 7.5 per cent from 2007, despite an increase in production levels. We installed a new electricity monitoring system for trial in 85 shops in Yorkshire to help reduce shop energy consumption. This trial will continue during 2009.

### 2009 Commitments:

- We will aim to divert more of our waste away from landfill.
- We will aim to reduce our total energy consumption.
- We will aim to increase the amount of our packaging that is made from sustainable sources.
- We will seek to make reductions in our overall carbon footprint against our 2008 baseline.
- We will help to tackle litter by further encouraging our customers to dispose of their packaging responsibly, and by working closely with the relevant bodies where issues are identified.
- We will continue to work towards increasing the proportion of cardboard, paper and plastic that we recycle from our shops, bakeries and offices.

**Progress against our CSR targets and commitments will be reported annually. In line with Our Values, Greggs is committed to operating our business responsibly and to make a positive difference in the communities where we operate. We will seek to strengthen further our CSR targets and commitments in the year ahead and beyond.**



**In 2008 we gave out 17 per cent less carrier bags**

*Greggs Operating Board*

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## Key Performance Indicators

| KPI | Definition | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Total sales growth | (a) | 10.3%^ | 5.8%^ | 3.3% | 6.4% | 7.1% |
| Like-for-like sales growth | (b) | 5.1% | 4.0% | 0.5% | 5.3% | 4.4% |
| Growth in net shop numbers | (c) | 2.6% | 4.4% | 1.3% | 2.4% | 3.0% |
| Capital expenditure | (d) | £25.1m | £41.7m | £30.0m | £42.3m | £40.8m |
| Operating profit | (e) | £44.7m | £47.1m | £42.2m* | £47.7m~ | £44.3m§ |
| Operating margin | (f) | 8.9% | 8.8% | 7.7% | 8.2% | 7.1% |
| Earnings per share (basic) | (g) | 270.5p | 282.1p | 263.0p* | 322.1p~ | 307.3p§ |

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

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

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

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

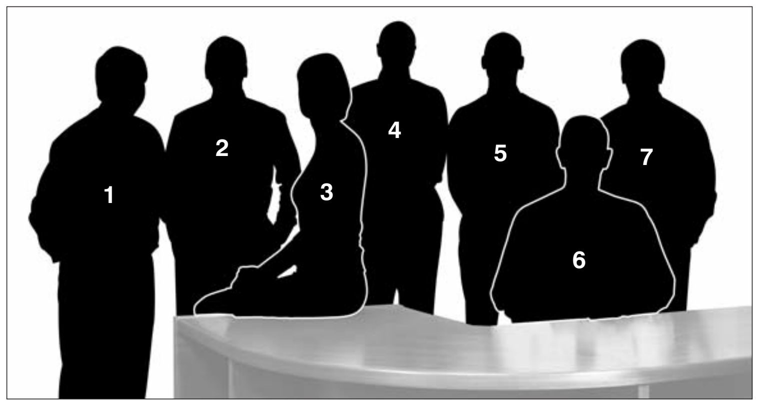
(g) Earnings per share is calculated by dividing profit attributable to shareholders (i.e. profit after taxation) by the weighted average number of ordinary shares outstanding during the year after adjusting for the effect of own shares held.

^ 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. Earnings per share after restructuring costs is 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.

§ Excludes exceptional credit of £4.3m included in the statutory operating profit in the income statement - see note 4 to the accounts for further details. Earnings per share after exceptional items is 336.7p.




1. Nigel Oldham, Group Production & Distribution Director
2. Ken McMeikan, Chief Executive
3. Nicola Bailey, Group People Director
4. Scott Jefferson, Group Customer & Marketing Director
5. Richard Hutton, Group Finance Director
6. Raymond Reynolds, Group Retail Director
7. Martin Kibler, Group Business Development Director

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

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.

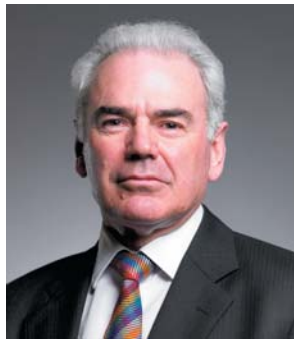
The Board considers that it has complied, throughout the year under review, with the principles of governance set out in Section 1 of the Combined Code on corporate governance published by the Financial Reporting Council (the "Combined Code") effective during the financial year. The only exception is that Sir Michael Darrington, formerly Managing Director of the Company, has remained on the Board as a non-executive director to assist with the transition to a new Chief Executive, appointed from outside the Company. This has resulted in there being less than half of the Board (excluding the Chairman) comprising independent non-executive directors, contrary to Code provision A.3.2.

The following statements, together with the Directors' Remuneration report on pages 71 to 80, describe how the relevant principles and provisions of the Combined Code were applied to the Company in 2008 and will be relevant to the Company for the 2009 financial year.

## The Board

### Composition

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



Derek Netherton (Chairman), 64, 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 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 2008. He is Chairman of the Nominations Committee.

Kennedy McMeikan, (Chief Executive), 43, joined the Board on 1 June 2008 and became Chief Executive of the Company on 1 August 2008. Ken was Retail Director of J Sainsbury plc, having joined them in 2005 after a short period as chief executive of Tesco in Japan. Prior to this, he had spent 14 years in operational roles within Tesco, becoming chief executive of the Europa Foods convenience store business following its acquisition in 2002, with responsibility for its integration into the Tesco Express format.

Richard Hutton FCA (Finance Director), 40, 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.

Raymond Reynolds (Retail Director), 49, 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.

Julie Baddeley, 57, 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 Camelot Group plc, the Department of Health, Chrysalis VCT plc and is an Associate Fellow of the Said Business School, Oxford. Julie is a member of the Nominations and Audit Committees and has been Chair of the Remuneration Committee since 2005.

Sir Michael Darrington FCA, 67, 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. He held this position until he retired in July 2008, when he became a non-executive director of the Company. He is not a member of any of the Board's standing committees.

Bob Bennett (Senior Independent Director), 61, 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 is a member of the Nominations and Remuneration Committees; he has been Chairman of the Audit Committee since 2004 and became the Senior Independent Director in 2008.

Roger Whiteside, 50, joined the Board on 17 March 2008. Roger is Managing Director of the Leased division of Punch Taverns plc. He was Chief Executive of the Thresher Group off-licence chain from 2004 - 2007. Prior to this, he was one of the founding team of Ocado, the innovative online grocer operating in partnership with Waitrose, and served as 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. Roger is a member of the Nomination, Remuneration and Audit Committees of the Board.

Andrew Davison, LLB, Company Secretary. Andrew, a solicitor, was appointed as Company Secretary in 1995. He is a member of The London Stock Exchange's North East Regional Advisory Group, a former Chairman of the Law Society's Standing Committee on Company Law and was a member of the Consultative Committee for the Fundamental Review of Company Law, sponsored by the DTI, which led to the passing of the Companies Act 2006.

During 2008, Sir Ian Gibson and Stephen Curran retired from the Board. Kennedy McMeikan and Roger Whiteside joined the Board and Sir Michael Darrington became a non-executive director on his retirement as Managing Director.

## 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 Chief Executive, Ken McMeikan, the non-executive directors ensure that the strategies proposed by the executive directors are fully discussed and critically examined prior to adoption. During 2008, the scheduled Board and Committee meetings and the number of meetings attended by each current director were as follows:

| | Main Board | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|
| Number of meetings held | 6 | 3 | 7 | 4 |
| Derek Netherton | 6 | - | - | 4 |
| Ken McMeikan (appointed 1 June 2008) | 3 | - | - | - |
| Richard Hutton | 6 | - | - | - |
| Raymond Reynolds | 6 | - | - | - |
| Mike Darrington | 6 | - | - | 2 |
| Julie Baddeley | 6 | 3 | 7 | 4 |
| Bob Bennett | 6 | 3 | 7 | 3 |
| Roger Whiteside (appointed 17 March 2008) | 4 | 1 | 4 | 1 |

The Board has adopted a paper identifying the separation of the roles of the Chairman and the Chief Executive. 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.

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 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 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, Julie Baddeley and Roger Whiteside). 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 assist the Board in fulfilling its oversight responsibilities by monitoring 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; (iv) to monitor compliance with the Listing Rules and the recommendations of the Combined Code; and (v) to maintain an appropriate relationship with the Company's external auditors and review the effectiveness and objectivity of the audit process.

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 and is confident that the collective experience of the members enables them to act effectively as an Audit Committee. The Committee also has access to the Group financial team and to its auditors and can seek further professional advice, at the Company's cost, if required.

**The Remuneration Committee** currently consists entirely of independent non-executive directors (Julie Baddeley - Chair, Bob Bennett and Roger Whiteside). 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 for monitoring the framework for, broad policy in respect of, and levels of remuneration of the Company's 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 71 to 80 of this annual report.

**The Nominations Committee** currently comprises Derek Netherton - Chairman, and all of the non-executive directors excluding 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 Ken McMeikan as the new Chief Executive.

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, Chief Executive or Finance Director have failed to resolve, or for which such contact is not appropriate.

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

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

CORPORATE GOVERNANCE (continued)

**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 involves 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 Chief Executive, 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. In 2009 a new accounting system has been introduced with some responsibility for financial management being passed to a shared service centre.

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.

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 Chief Executive's report, which supplement the statutory accounts themselves. A statement of directors' responsibilities in respect of the preparation of accounts is given on page 37.
A statement of auditors' responsibilities is given in the report of the auditors on page 38.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (further details of this assessment are included in the Basis of preparation on page 42 and note 2). 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 27 December 2008 and 29 December 2007 (or at date of appointment if later) are set out in note 25 to the accounts. Details of directors' share options are set out in the Directors' Remuneration report on pages 71 to 80.

In accordance with the Company's Articles of Association, Mike Darrington, Derek Netherton, Bob Bennett, Raymond Reynolds and Ken McMeikan retire from the Board. All, except Mike Darrington, who has decided not to seek re-election, being eligible, offer themselves for re-election.

**Directors' Indemnities and conflicts**

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.

Under the authority granted to them in the Company's articles of association, the Board has considered carefully any situation declared by any director pursuant to which he has or might have a conflict of interest and, where it considers it appropriate to do so, has authorised the continuation of that situation. In exercising its authority, the directors have had regard to their statutory and other duties to the Company.

## Substantial shareholdings

At 10 March 2009, the only notified holdings of substantial voting rights in respect of the issued share capital of the Company were:

| | Number of shares held | Percentage of issued share capital |
|---|---|---|
| Aberforth Partners LLP | 1,038,389 | 9.99% |
| A.J. Davison (as trustee of various settlements) * | 769,114 | 7.40% |
| Schroders plc | 572,418 | 5.50% |
| F&C Asset Management | 557,572 | 5.36% |
| Baillie Gifford & Co | 520,071 | 5.00% |
| Legal and General Investment Management Limited | 413,924 | 3.98% |
| Prudential Group of companies | 401,827 | 3.86% |
| F.K. Deakin* | 345,434 | 3.32% |
| F.M.E. Nicholson* | 325,434 | 3.13% |

* 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 (3.16% jointly held with A.J. Davison and others) and N.A. Bailey (3.16% jointly held with A.J. Davison and others).

## Authority to purchase shares

At the AGM on 13 May 2008, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 1,050,000 ordinary shares of 20p each. That authority has been used as to 236,044 shares as at 27 December 2008. The balance remains in force until the conclusion of the AGM in 2009 or 12 August 2009, whichever is the earlier.

## Additional information

Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006, the Company is required to disclose certain additional information in the directors' report. This information is set out below.

- The Company has one class of share in issue being ordinary shares of 20p each. As at 10 March 2009, there were 10,399,047 such ordinary shares in issue. There are no shares in the Company that grant the holder special rights with regard to control of the Company.
- At general meetings of the Company, on a show of hands every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him.
- The Company's articles of association set out the circumstances in which shares may become disenfranchised. No shareholder is entitled, unless the directors otherwise determine in respect of any share held by him, to be present or to vote at a general meeting either personally or by proxy (or to exercise any other right in relation to meetings of the Company) in respect of that share in certain circumstances if any call or other sum is payable and remains unpaid, if the shareholder is in default in complying with a duly served notice under section 793(1) of the Companies Act 2006 (CA 2006) or if the shareholder has failed to reply to a duly served notice requiring him to provide a written statement stating he is the beneficial owner of shares.
- A notice convening a general meeting can contain a statement that a shareholder is not entitled to attend and vote at a general meeting unless his name is entered on the register of members of the Company at a specific time (not more than 48 hours before the meeting) and if a shareholder's name is not so entered he is not entitled to attend and vote.
- Under the Company's articles of association the directors may, in their absolute discretion, refuse to register the transfer of a share in certified form in certain circumstances where the Company has a lien on the share (provided that the directors do not exercise their discretion so as to prevent dealings in partly paid shares from taking place on an open and proper basis), where a shareholder has failed to reply to a duly served notice under section 793(1) CA 2006 or if a transfer of a share is in favour of more than four persons jointly. In addition, the directors may decline to recognise any instrument of transfer unless it is in respect of only one class of share and is deposited at the address at which the register of members of the Company is held (or at such other place as the directors may determine) accompanied by the relevant share certificate(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time).
- Under the Company's Code on dealings in securities in the Company, persons discharging managerial responsibilities (which includes all directors and those likely to have access to inside information) may in certain circumstances be restricted as to when they can transfer shares in the Company.
- There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights.
- Details of the significant holders of the Company's shares are set out on page 34.
- Where, under an employee share plan operated by the Company, participants are the beneficial owners of shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant.
- The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders.
- The Company's articles of association set out how directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting. At each Annual General Meeting, any director appointed by the Board since the last Annual General Meeting plus a proportion of the other directors must retire from office but each is eligible for re-election by the shareholders. Under the CA 2006 and the Company's articles of association, a director can be removed from office by the shareholders in a general meeting.
- The Company's articles of association set out the powers of the directors. The business of the Company is to be managed by the directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or by the Company's articles of association required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution.
- Under the Companies Act 1985 and the Company's articles of association, the directors' powers include the power to allot and buyback shares in the Company. At each Annual General Meeting, resolutions are proposed setting out the limits on these powers.
- The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company, following a takeover bid.
- There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Details of the directors' service agreements and terms of appointment are set out in the Directors Remuneration report on pages 71 to 80. However, provisions in the employee share plans operated by the Company may allow options to be exercised on a takeover.

## 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 27 December 2008 was 33 days (2007 - 39 days).

# Directors' Report and Business Review for the 52 weeks ended 27 December 2008

## 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 £71,000 during 2008 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 not use the auditors for more than £100,000 per year work of 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
Fernwood House, Clayton Road,
Jesmond,
Newcastle upon Tyne NE2 1TL

Greggs plc (CRN 502851)
10 March 2009

# 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.

The directors confirm that to the best of their knowledge:

- the accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole and;
- the directors' report, which incorporates the Chairman's statement, the Chief Executive's report and the Corporate and Social Responsibility statement include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## 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 27 December 2008 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 37.

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.

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 27 December 2008 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 27 December 2008;
- 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

10 March 2009

# Consolidated income statement

for the 52 weeks ended 27 December 2008

(2007: 52 weeks ended 29 December 2007)

| | Note | 2008 £'000 Excluding exceptional items | 2008 £'000 Exceptional items (Note 4) | 2008 £'000 Total | 2007 Restated* £'000 Excluding exceptional items | 2007 Restated* £'000 Exceptional items (Note 4) | 2007 Restated* £'000 Total |
|---|---|---|---|---|---|---|---|
| Revenue | 1 | 628,198 | - | 628,198 | 586,303 | - | 586,303 |
| Cost of sales | 5 | (240,200) | - | (240,200) | (220,849) | - | (220,849) |
| Gross profit | | 387,998 | - | 387,998 | 365,454 | - | 365,454 |
| Distribution and selling costs | 5 | (303,288) | (3,285) | (306,573) | (278,708) | - | (278,708) |
| Administrative expenses | 5 | (40,415) | (430) | (40,845) | (39,030) | - | (39,030) |
| Other income | | - | 8,033 | 8,033 | - | 2,193 | 2,193 |
| Operating profit | | 44,295 | 4,318 | 48,613 | 47,716 | 2,193 | 49,909 |
| Finance income | 6 | 857 | - | 857 | 1,234 | - | 1,234 |
| Profit before tax | 3-5 | 45,152 | 4,318 | 49,470 | 48,950 | 2,193 | 51,143 |
| Income tax | 8 | (14,033) | (1,342) | (15,375) | (14,792) | - | (14,792) |
| Profit for the financial year attributable to equity holders of the parent | | 31,119 | 2,976 | 34,095 | 34,158 | 2,193 | 36,351 |
| Basic earnings per share | 9 | | | 336.7p | | | 342.8p |
| Diluted earnings per share | 9 | | | 335.4p | | | 340.4p |
| Non GAAP measures (see note 9) | | | | | | | |
| Adjusted basic earnings per share | | | | 307.3p | | | 322.1p |
| Adjusted diluted earnings per share | | | | 306.1p | | | 319.9p |

*A minor presentational change has been made to the 2007 income statement reallocating profit on sale of properties from cost of sales to other income. There is no impact on net profit.

# Statements of recognised income and expense

for the 52 weeks ended 27 December 2008

(2007: 52 weeks ended 29 December 2007)

| | Note | Group 2008 £'000 | Group 2007 £'000 | Parent Company 2008 £'000 | Parent Company 2007 £'000 |
|---|---|---|---|---|---|
| Actuarial (losses) / gains on defined benefit pension plans | 20 | (12,614) | 1,410 | (12,614) | 1,410 |
| Tax on items taken directly to equity | 8 | 3,532 | (456) | 3,532 | (456) |
| Net income recognised directly in equity | | (9,082) | 954 | (9,082) | 954 |
| Profit for the financial year | 7 | 34,095 | 36,351 | 34,211 | 30,390 |
| Total recognised income and expense for the financial year attributable to equity holders of the parent | 22 | 25,013 | 37,305 | 25,129 | 31,344 |

# Balance sheets

at 27 December 2008

(2007: 29 December 2007)

| | Note | Group 2008 £'000 | Group 2007 £'000 | Parent Company 2008 £'000 | Parent Company 2007 £'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Intangible assets | 10 | 686 | - | 686 | - |
| Property, plant and equipment | 11 | 210,455 | 196,783 | 211,048 | 197,376 |
| Investments | 12 | - | - | 5,190 | 5,190 |
| | | 211,141 | 196,783 | 216,924 | 202,566 |
| Current assets | | | | | |
| Inventories | 14 | 12,152 | 9,908 | 12,152 | 9,908 |
| Trade and other receivables | 15 | 22,698 | 19,934 | 22,698 | 19,934 |
| Cash and cash equivalents | 16 | 4,433 | 11,581 | 4,433 | 11,214 |
| | | 39,283 | 41,423 | 39,283 | 41,056 |
| Total assets | | 250,424 | 238,206 | 256,207 | 243,622 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 17 | (62,761) | (68,183) | (70,568) | (75,659) |
| Current tax liabilities | 18 | (8,337) | (9,008) | (8,337) | (9,088) |
| Provisions | 21 | (2,843) | - | (2,843) | - |
| | | (73,941) | (77,191) | (81,748) | (84,747) |
| Non-current liabilities | | | | | |
| Defined benefit pension liability | 20 | (5,733) | (680) | (5,733) | (680) |
| Other payables | 19 | (8,221) | (426) | (8,221) | (426) |
| Deferred tax liability | 13 | (12,154) | (14,315) | (11,415) | (13,576) |
| Long term provisions | 21 | (2,428) | - | (2,428) | - |
| | | (28,536) | (15,421) | (27,797) | (14,682) |
| Total liabilities | | (102,477) | (92,612) | (109,545) | (99,429) |
| Net assets | | 147,947 | 145,594 | 146,662 | 144,193 |
| EQUITY | | | | | |
| Capital and reserves | | | | | |
| Issued capital | 22 | 2,080 | 2,127 | 2,080 | 2,127 |
| Share premium account | 22 | 13,533 | 13,533 | 13,533 | 13,533 |
| Capital redemption reserve | 22 | 359 | 312 | 359 | 312 |
| Retained earnings | 22 | 131,975 | 129,622 | 130,690 | 128,221 |
| Total equity attributable to equity holders of the parent | | 147,947 | 145,594 | 146,662 | 144,193 |

The accounts on pages 39 to 70 were approved by the Board of directors on 10 March 2009 and were signed on its behalf by:

K. McMeikan
R.J. Hutton
} Directors

# Statements of cashflows

for the 52 weeks ended 27 December 2008

(2007: 52 weeks ended 29 December 2007)

| | Note | Group 2008 £'000 | Group 2007 £'000 | Parent Company 2008 £'000 | Parent Company 2007 £'000 |
|---|---|---|---|---|---|
| Operating activities | | | | | |
| Cash generated from operations (see below) | | 59,163 | 74,685 | 59,494 | 74,867 |
| Income tax paid | | (14,807) | (12,585) | (14,771) | (12,585) |
| Net cash inflow from operating activities | | 44,356 | 62,100 | 44,723 | 62,282 |
| Investing activities | | | | | |
| Acquisition of property, plant and equipment | 11 | (40,758) | (42,343) | (40,758) | (42,343) |
| Acquisition of intangible assets | 10 | (686) | - | (686) | - |
| Proceeds from sale of property, plant and equipment | | 2,200 | 7,625 | 2,200 | 7,625 |
| Interest received | 6 | 857 | 1,234 | 857 | 1,234 |
| Net cash outflow from investing activities | | (38,387) | (33,484) | (38,387) | (33,484) |
| Financing activities | | | | | |
| Sale of own shares | 22 | 698 | 1,952 | 698 | 1,952 |
| Shares purchased and cancelled | 22 | (9,738) | (25,688) | (9,738) | (25,688) |
| Dividends paid | 22 | (14,535) | (13,242) | (14,535) | (13,242) |
| Government grants received | | 8,083 | 358 | 8,083 | 358 |
| Net cash outflow from financing activities | | (15,492) | (36,620) | (15,492) | (36,620) |
| Net decrease in cash and cash equivalents | | (9,523) | (8,004) | (9,156) | (7,822) |
| Cash and cash equivalents at the start of the year | | 11,581 | 19,585 | 11,214 | 19,036 |
| Cash and cash equivalents at the end of the year | 16 | 2,058 | 11,581 | 2,058 | 11,214 |

Cash flow statement - cash generated from operations

| | Note | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|---|---|
| Profit for the financial year | | 34,095 | 36,351 | 34,211 | 30,450 |
| Depreciation | 11 | 26,010 | 24,548 | 26,010 | 24,548 |
| Profit on sale of property, plant and equipment | | (771) | (1,951) | (771) | (1,951) |
| Release of government grants | | (84) | (16) | (84) | (16) |
| Gain on curtailment of defined benefit pension scheme | | (6,969) | - | (6,969) | - |
| Share based payment expenses | 20 | 1,047 | 555 | 1,047 | 555 |
| Finance income | 6 | (857) | (1,234) | (857) | (1,234) |
| Unrealised exchange gain relating to property, plant and equipment | | (353) | (65) | (353) | (65) |
| Income tax expense | 8 | 15,375 | 14,792 | 15,259 | 20,693 |
| Increase in inventories | | (2,244) | (1,479) | (2,244) | (1,479) |
| (Increase) / decrease in debtors | | (2,764) | (3,908) | (2,764) | 18,986 |
| (Decrease) / increase in creditors | | (8,001) | 6,885 | (7,670) | (15,827) |
| (Decrease) / increase in pension liability | | (592) | 207 | (592) | 207 |
| Increase in provisions | | 5,271 | - | 5,271 | - |
| Cash from operating activities | | 59,163 | 74,685 | 59,494 | 74,867 |

# 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 10 March 2009.

### (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"), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. 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. A minor presentational change has been made to the income statement reallocating profit on sale of properties from cost of sales to other income. There is no impact on net profit.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report and business review on pages 8 to 36. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive's report on pages 13 to 17. In addition note 2 to the accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and the business continues to be strongly cash generative. As a consequence, the directors believe that the Group is well placed to manage its business risk successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 accounting policies set out below have been applied consistently throughout the Group and to all years presented in these consolidated accounts and are unchanged from previous years. A minor presentational change has been made to the income statement reallocating profit on sale of properties from cost of sales to other income. As a result the comparative figures for 2007 have been restated as follows – gross profit has reduced from £367.6m to £365.4m, and other income has increased from £nil to £2.2m. There is no impact on net profit. From 1 January 2008 the following standards, amendments and interpretations became effective and were adopted by the Group:

- IFRIC 10 Interim financial reporting and impairment
- IFRIC 11 Group and treasury share transactions
- IFRIC 13 Customer loyalty programmes
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Instruments

The adoption of the above has not had a significant impact on the Group's profit for the year or equity.

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.

The key estimates and judgements that have the most significant impact on the accounts are as follows:

*Lease classification*

Judgement has to be applied as to whether the Group's shop leases are operating leases or finance leases – see note 23 for how this is determined.

*Post retirement benefits*

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions including the discount rate, inflation rate, mortality rates and expected return on scheme assets. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2008 are given in note 20.

*Impairment of property, plant and equipment*

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For example, bakery equipment may be impaired if it is no longer in use and/or shop fittings may be impaired if sales in that shop fall. When a review for impairment is conducted the recoverable amount is determined based on value in use calculations which include management's estimates of future cash flows generated by the assets and an appropriate discount rate.

*Depreciation of property, plant and equipment*

Depreciation is provided so as to write down the assets to the residual values over their estimated useful lives, both of which require management's judgement (see accounting policy (g)).

*Provisions*

Provision is required in respect of closed shops for which the Group has on-going lease commitments. Management exercise judgement as to whether the shop will be sublet to a third party taking into account current market conditions and, if so, for how long and at what rent, in order to estimate the future net holding cost to the Group until the lease can be exited. This estimate is then discounted (where the impact would be material) at a rate that reflects the current time value of money and the risks specific to the liability. In respect of our exit from the Belgian operation estimates have been made of the costs of exiting from our shops there, and the consideration that we might receive in respect of assigning the leases. Any adjustment to our estimate will be included in the 2009 accounts.

### (c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 27 December 2008. The comparative period is the 52 weeks ended 29 December 2007.

(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) Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1.

### (e) 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.

# Notes to the Consolidated Accounts

continued

Significant accounting policies (continued)

(f) Intangible assets

The Group's only intangible asset is accounting software which is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Amortisation is recognised in the income statement on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Software | 5 years |

(g) 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 (k)). 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 available for use.

(h) Investments

Investments in subsidiaries are carried at cost less impairment.

(i) 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.

(j) 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.

(k) 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. Impairment reviews are carried out on an individual shop basis unless there are a number of shops in the same location, in which case the impairment review is based on the location.

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.

(l) 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.

(m) 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.

(n) 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 total equity.

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Group 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.

# Notes to the Consolidated Accounts
continued

Significant accounting policies (continued)

(p) Provisions

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

(i) Restructuring

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

(ii) Closed shops

Provision is made for vacant and partly sublet properties for the shorter of the remaining period of the lease and the period until, in the directors' opinion, they will be able to exit the lease commitment. Significant assumptions are applied in making these calculations and such provisions are assessed by reference to the best available information at the balance sheet date.

(q) Revenue

(i) Goods sold

Revenue from the sale of goods is recognised as income on receipt of cash and is stated after deduction of discounts, promotions and value added taxation.

(r) Government grants

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

(s) Expenses

(i) Operating lease payments

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

(t) Finance income and expense

(i) Finance income

Finance income comprises interest receivable on cash balances and foreign exchange movements relating to overseas bank accounts. 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 movements on our Euro bank borrowings.

(u) Income tax

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

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

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

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

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.

(v) IFRSs available for early adoption not yet applied

The following standards and amendments to standards which will be relevant to 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 14: IAS 19 - *The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction* applicable for accounting periods beginning on or after 1 January 2009.
- Amendments to IAS 23: *Borrowing costs* applicable for accounting periods beginning on or after 1 January 2009.
- Amendments to IFRS 2: *Share based payment* applicable for accounting periods beginning on or after 1 January 2009.
- Amendments to IAS 1: *Presentation of financial statements* applicable to accounting periods beginning on or after 1 January 2009.

These standards amendments are not currently expected to have a significant 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.

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.

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.

Counterparty risk is also considered low. All of the Group's surplus cash is held with highly rated banks, in line with Group policy.

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 operates with net current liabilities because all sales are for cash and limited stocks are held given their perishable nature. It is therefore reliant on the continued strong performance of the retail portfolio to meet its short term liabilities. Any increase in short term liquidity risk can be mitigated by reducing the capital expenditure budget. In the longer term the Group remains cash positive, and if necessary would be able to obtain substantial debt funding.

The Group has overdraft facilities of £5,000,000 and €3,000,000 of which £3,563,000 and €2,019,000 was undrawn at 27 December 2008 (2007: £20,000,000).

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.

Given that market risk is not significant, sensitivity analysis would not be meaningful.

# Notes to the Consolidated Accounts

continued

2. Financial Risk Management (continued)

Currency Risk

Following the decision to exit from the Belgian operation the Group will have no regular transactions in foreign currency although there may be occasional purchases, mainly of capital items, denominated in foreign currency. Whilst certain costs such as electricity and wheat can be influenced by movements in the US dollar, actual contracts are priced in sterling. In respect of those key costs which are volatile, such as electricity and flour, the price may be fixed for a period of time in line with Group policy. All such contracts are for the Group's own expected usage.

Interest rate

The Group has low exposure to interest rate risk. Interest only arises on its bank deposits and overdrafts. Net financial income in the year was £857,000.

Equity prices

The Group has no equity investments other than its subsidiaries.

Capital Management

The Board defines capital as the equity of the Group. The Group remains net cash positive with funding requirements met by cash generated from retail operations. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The Board's policy on dividend levels is to progressively and prudently reduce dividend cover. There are no externally imposed capital requirements and there were no changes to the Group's approach to capital management during the year.

The Board will continue to consider purchasing its own shares on the market dependent on market prices and surplus cash levels. The trustees of the Greggs Employment Benefit Trust also purchase shares for future satisfaction of employee share options. The Board is proposing a ten for one share split in order to make the Company's shares more accessible and appealing, particularly to small shareholders the Company's own employees. This is subject to the approval of shareholders at the AGM on 13 May.

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 27 December 2008 (2007: £nil).

*Fair values*

The fair value of the Group's financial assets and liabilities is not materially different from their carrying values. Financial assets and liabilities comprise principally of trade receivables and trade payables and the only interest bearing balances are the bank deposits and borrowings which attract interest at variable rate.

*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)

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Depreciation on owned property, plant and equipment | 26,010 | 24,548 |
| Profit on disposal of fixed assets (including disposal of properties - note 4) | (771) | (1,951) |
| Release of government grants | (84) | (16) |
| Payments under operating leases - property rents | 38,935 | 36,718 |
| Auditors' remuneration | | |
| Audit of these accounts | 178 | 165 |
| Audit of subsidiaries' accounts pursuant to legislation | - | 5 |
| Other services pursuant to such legislation | 3 | 7 |
| Audit of pension schemes' accounts | 9 | 11 |
| Other services relating to taxation | 58 | 54 |
| All other services | 4 | 16 |

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. Exceptional items

The following items have been presented separately on the face of the consolidated income statement in order to show separately the underlying trading performance of the Group:

Profit on disposal of properties

During 2008 the Company had a profit on disposal of properties of £1,064,000, principally relating to the disposal of a freehold development site in Scotland.

During 2007 the Company disposed of bakery sites in Newcastle upon Tyne, Glasgow and Manchester together with several freehold shops. The profit arising on disposal of properties of £2,193,000 principally related to the sale of the redundant Carricks bakery site in Newcastle. The other bakery disposals were linked to the relocation to improved facilities in Scotland and the North West.

Curtailment of defined benefit pension scheme

An exceptional credit of £6,969,000 has arisen on the curtailment of the defined benefit scheme following a change in the calculation assumptions. The scheme is now closed as regards the accrual of future benefits and the assumptions regarding future payments increases have therefore been changed from being salary based to inflation based.

Restructuring costs

A one-off restructuring charge of £3,715,000 was taken in 2008 which reflects our expected exit costs from our Belgian operation, the costs of closing two Bakers Oven shops in January 2009 which were not suitable for conversion to Greggs, and an increase in previously disclosed provisions for the restructuring of Bakers Oven in the North and Scotland to reflect the worsening property market.

# Notes to the Consolidated Accounts

continued

## 5. Personnel expenses

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

| | Group and Parent Company 2008 Number | 2007 Number |
|---|---|---|
| Management | 640 | 632 |
| Administration | 370 | 352 |
| Production | 2,788 | 2,794 |
| Shop | 15,616 | 15,049 |
| | 19,414 | 18,827 |

The aggregate personnel costs of these persons were as follows:

| | Note | Group and Parent Company 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Wages and salaries | | 232,601 | 213,267 |
| Compulsory social security contributions | | 17,207 | 16,357 |
| Pension costs - defined contribution plans | 20 | 2,889 | 1,825 |
| Pension costs - defined benefit plans | 20 | (300) | 1,840 |
| Equity settled transactions | 20 | 1,047 | 555 |
| | | 253,444 | 233,844 |

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:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Cost of sales | 1,194 | 1,389 |
| Distribution and selling costs | 2,841 | 3,261 |
| Administrative expenses | 559 | 647 |
| | 4,594 | 5,297 |

## 6. Finance income

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Interest income on cash balances | 428 | 1,118 |
| Foreign exchange gain | 429 | 116 |
| | 857 | 1,234 |

## 7. Profit attributable to Greggs plc

Of the Group profit for the year, £34,211,000 (2007: £30,390,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by section 230 of the Companies Act 1985 from presenting its own income statement.

## 8. Income tax expense

### Recognised in the income statement

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 14,735 | 15,786 |
| Adjustment for prior years | (298) | 700 |
| | 14,437 | 16,486 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 866 | (873) |
| Adjustment for prior years | 72 | (821) |
| | 938 | (1,694) |
| Total income tax expense in income statement | 15,375 | 14,792 |

### Reconciliation of effective tax rate

| | 2008 | 2008 £'000 | 2007 | 2007 £'000 |
|---|---|---|---|---|
| Profit before tax | | 49,470 | | 51,143 |
| Income tax using the domestic corporation tax rate | 28.5% | 14,099 | 30.0% | 15,343 |
| Non-deductible expenses | 2.7% | 1,322 | 1.0% | 498 |
| Non-qualifying depreciation | 2.2% | 1,092 | 2.2% | 1,149 |
| Disposal of non-qualifying assets | (0.7%) | (334) | (1.8%) | (892) |
| Impact of phasing out of Industrial Buildings Allowance | (1.2%) | (578) | 0% | - |
| Impact of change in deferred tax rate to 28% | 0% | - | (2.3%) | (1,185) |
| Adjustment re prior years | (0.4%) | (226) | (0.2%) | (121) |
| Total income tax expense in income statement | 31.1% | 15,375 | 28.9% | 14,792 |

### Tax recognised directly in equity

| | | 2008 Current tax £'000 | 2008 Deferred tax £'000 | 2008 Total £'000 | 2007 Total £'000 |
|---|---|---|---|---|---|
| Relating to equity-settled transactions | | (21) | 153 | 132 | 179 |
| Relating to defined benefit plans | - special contribution (SORIE) | (280) | 280 | - | 20 |
| | - actuarial gains (SORIE) | - | (3,532) | (3,532) | 436 |
| | | (301) | (3,099) | (3,400) | 635 |

# Notes to the Consolidated Accounts

continued

## 9. Earnings per share

### Basic earnings per share

Basic earnings per share for the year ended 27 December 2008 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year ended 27 December 2008 as calculated below.

### Diluted earnings per share

Diluted earnings per share for the year ended 27 December 2008 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 27 December 2008 as calculated below.

### Adjusted earnings per share

Basic and diluted earnings per share have been calculated for the years ended 27 December 2008 and 29 December 2007 which exclude the exceptional items. These have been calculated by dividing profit attributable to ordinary shareholders excluding the exceptional items by the relevant weighted average number of ordinary shares as calculated below.

### Profit attributable to ordinary shareholders

| | 2008 Excluding exceptional items £'000 | 2008 Exceptional items (Note 4) £'000 | 2008 Total £'000 | 2007 Excluding Exceptional items £'000 | 2007 Exceptional items (Note 4) £'000 | 2007 Total £'000 |
|---|---|---|---|---|---|---|
| Profit for the financial year attributable to equity holders of the parent | 31,119 | 2,976 | 34,095 | 34,158 | 2,193 | 36,351 |
| Basic earnings per share | 307.3p | 29.4p | 336.7p | 322.1p | 20.7p | 342.8p |
| Diluted earnings per share | 306.1p | 29.3p | 335.4p | 319.9p | 20.5p | 340.4p |

### Weighted average number of ordinary shares

| | 2008 Number | 2007 Number |
|---|---|---|
| Issued ordinary shares at start of year | 10,635,091 | 11,161,563 |
| Effect of own shares held | (336,305) | (394,749) |
| Effect of shares purchased and cancelled | (173,483) | (162,626) |
| Weighted average number of ordinary shares during the year | 10,125,303 | 10,604,188 |
| Effect of share options on issue | 41,156 | 74,959 |
| Weighted average number of ordinary shares (diluted) during the year | 10,166,459 | 10,679,147 |

## 10. Intangible assets

### Group and Parent Company

| | Software £'000 |
|---|---|
| **Cost** | |
| Balance at 31 December 2006 and 29 December 2007 | - |
| Balance at 30 December 2007 | - |
| Additions | 686 |
| Balance at 27 December 2008 | 686 |
| **Amortisation** | |
| Balance at 31 December 2006, 29 December 2007 and 27 December 2008 | - |
| **Carrying amounts** | |
| At 31 December 2006 and 29 December 2007 | - |
| At 30 December 2007 | - |
| At 27 December 2008 | 686 |

The software relates to a new accounting system which will be available for use in 2009 at which time amortisation will commence.

# Notes to the Consolidated Accounts
continued

11. Property, plant and equipment

Group

| | Land and buildings £'000 | Plant and equipment £'000 | Fixtures and fittings £'000 | Under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 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 |
| Balance at 30 December 2007 | 99,777 | 87,647 | 145,576 | - | 333,000 |
| Additions | 1,197 | 7,569 | 18,101 | 13,891 | 40,758 |
| Disposals | (986) | (5,816) | (4,998) | - | (11,800) |
| Reclassification | 6 | (331) | 325 | - | - |
| Effect of movements in exchange rate | - | 19 | 519 | - | 538 |
| Balance at 27 December 2008 | 99,994 | 89,088 | 159,523 | 13,891 | 362,496 |
| **Depreciation** | | | | | |
| 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 |
| Balance at 30 December 2007 | 15,558 | 51,700 | 68,959 | - | 136,217 |
| Depreciation charge for the year | 2,038 | 8,877 | 15,095 | - | 26,010 |
| Disposals | (520) | (5,449) | (4,402) | - | (10,371) |
| Effect of movements in exchange rate | - | 18 | 167 | - | 185 |
| Balance at 27 December 2008 | 17,076 | 55,146 | 79,819 | - | 152,041 |
| **Carrying amounts** | | | | | |
| 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 |
| At 30 December 2007 | 84,219 | 35,947 | 76,617 | - | 196,783 |
| At 27 December 2008 | 82,918 | 33,942 | 79,704 | 13,891 | 210,455 |

Parent Company

| | Land and buildings £'000 | Plant and equipment £'000 | Fixtures and fittings £'000 | Under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 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 |
| Balance at 30 December 2007 | 100,287 | 88,180 | 146,064 | - | 334,531 |
| Additions | 1,197 | 7,569 | 18,101 | 13,891 | 40,758 |
| Disposals | (986) | (5,816) | (4,998) | - | (11,800) |
| Reclassification | 6 | (331) | 325 | - | - |
| Effect of movements in exchange rate | - | 19 | 519 | - | 538 |
| Balance at 27 December 2008 | 100,504 | 89,621 | 160,011 | 13,891 | 364,027 |
| **Depreciation** | | | | | |
| 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 |
| Balance at 30 December 2007 | 15,835 | 51,970 | 69,350 | - | 137,155 |
| Depreciation charge for the year | 2,038 | 8,877 | 15,095 | - | 26,010 |
| Disposals | (520) | (5,449) | (4,402) | - | (10,371) |
| Effect of movements in exchange rate | - | 18 | 167 | - | 185 |
| Balance at 27 December 2008 | 17,353 | 55,416 | 80,210 | - | 152,979 |
| **Carrying amounts** | | | | | |
| 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 |
| At 30 December 2007 | 84,452 | 36,210 | 76,714 | - | 197,376 |
| At 27 December 2008 | 83,151 | 34,205 | 79,801 | 13,891 | 211,048 |

# Notes to the Consolidated Accounts
continued

11. Property, plant and equipment (continued)

Land and buildings

The carrying amount of land and building comprises:

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | £'000 | £'000 | £'000 | £'000 |
| Freehold property | Shops | 12,538 | 13,445 | 12,538 | 13,445 |
| | Bakeries | 61,248 | 61,324 | 61,248 | 61,324 |
| | Other | 8,041 | 8,307 | 8,274 | 8,540 |
| | | 81,827 | 83,076 | 82,060 | 83,309 |
| Long leasehold property | Bakeries | 1,007 | 1,033 | 1,007 | 1,033 |
| Short leasehold property | Shops | 84 | 110 | 84 | 110 |
| | | 82,918 | 84,219 | 83,151 | 84,452 |

Property, plant and equipment under construction

Assets under construction at 27 December 2008 comprised a new bakery whilst those at 29 December 2007 comprised a new bakery and an extension to an existing bakery.

12. Investments

Parent Company

| | Shares in subsidiary undertakings £'000 |
|---|---|
| **Cost** | |
| As at 31 December 2006, 29 December 2007 and 27 December 2008 | 5,828 |
| **Impairment** | |
| As at 31 December 2006, 29 December 2007 and 27 December 2008 | 638 |
| **Carrying amount** | |
| As at 31 December 2006, 29 December 2007 and 27 December 2008 | 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

13. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Property, plant and equipment | - | - | 14,828 | 15,804 | 14,828 | 15,804 |
| Employee benefits | (1,800) | (965) | - | - | (1,800) | (965) |
| Short term temporary differences | (874) | (524) | - | - | (874) | (524) |
| Tax (assets) / liabilities | (2,674) | (1,489) | 14,828 | 15,804 | 12,154 | 14,315 |

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

| | Balance at 31 December 2006 £'000 | Recognised in income £'000 | Recognised in equity £'000 | Balance at 29 December 2007 £'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 |

The movements in temporary differences during the year ended 27 December 2008 were as follows:

| | Balance at 30 December 2007 £'000 | Recognised in income £'000 | Recognised in equity £'000 | Balance at 27 December 2008 £'000 |
|---|---|---|---|---|
| Property, plant and equipment | 15,804 | (976) | - | 14,828 |
| Employee benefits | (965) | 2,264 | (3,099) | (1,800) |
| Short term temporary differences | (524) | (350) | - | (874) |
| | 14,315 | 938 | (3,099) | 12,154 |

# Notes to the Consolidated Accounts
continued

13. Deferred tax assets and liabilities (continued)

Parent Company

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| Property, plant and equipment | - | - | 14,089 | 15,065 | 14,089 | 15,065 |
| Employee benefits | (1,800) | (965) | - | - | (1,800) | (965) |
| Short term temporary differences | (874) | (524) | - | - | (874) | (524) |
| Tax (assets) / liabilities | (2,674) | (1,489) | 14,089 | 15,065 | 11,415 | 13,576 |

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

| | Balance at 31 December 2006 £'000 | Recognised in income £'000 | Recognised in equity £'000 | Balance at 29 December 2007 £'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 |

The movements in temporary differences during the year ended 27 December 2008 were as follows:

| | Balance at 30 December 2007 £'000 | Recognised in income £'000 | Recognised in equity £'000 | Balance at 27 December 2008 £'000 |
|---|---|---|---|---|
| Property, plant and equipment | 15,065 | (976) | - | 14,089 |
| Employee benefits | (965) | 2,264 | (3,099) | (1,800) |
| Short term temporary differences | (524) | (350) | - | (874) |
| | 13,576 | 938 | (3,099) | 11,415 |

14. Inventories

| | Group and Parent Company | |
|---|---|---|
| | 2008 £'000 | 2007 £'000 |
| Raw materials and consumables | 8,801 | 6,618 |
| Work in progress | 3,351 | 3,290 |
| | 12,152 | 9,908 |

15. Trade and other receivables

| | Group and Parent Company | |
|---|---|---|
| | 2008 £'000 | 2007 £'000 |
| Trade receivables | 387 | 216 |
| Other receivables | 8,438 | 6,113 |
| Prepayments | 13,873 | 13,605 |
| | 22,698 | 19,934 |

All amounts fall due within one year.

16. Cash and cash equivalents

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| Cash and cash equivalents in the balance sheet | 4,433 | 11,581 | 4,433 | 11,214 |
| Bank overdraft | (2,375) | - | (2,375) | - |
| Cash and cash equivalents in the statement of cash flows | 2,058 | 11,581 | 2,058 | 11,214 |

17. Trade and other payables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| Bank overdraft | 2,375 | - | 2,375 | - |
| Trade payables | 26,807 | 29,776 | 26,807 | 29,776 |
| Amounts owed to subsidiary undertakings | - | - | 7,807 | 7,476 |
| Other taxes and social security | 6,136 | 5,769 | 6,136 | 5,769 |
| Other payables | 15,423 | 16,646 | 15,423 | 16,646 |
| Accruals and deferred income | 11,805 | 15,981 | 11,805 | 15,981 |
| Deferred government grants | 215 | 11 | 215 | 11 |
| | 62,761 | 68,183 | 70,568 | 75,659 |

18. Current tax liability

The current tax liability of £8,337,000 in the Group and the Parent Company (2007: Group £9,008,000, Parent Company £9,088,000) represents the amount of income taxes payable in respect of current and prior years.

19. Other payables

| | Group and Parent Company | |
|---|---|---|
| | 2008 £'000 | 2007 £'000 |
| Deferred government grants | 8,221 | 426 |

# Notes to the Consolidated Accounts

continued

20. 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 | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Present value of funded obligations | (69,563) | (78,461) |
| Fair value of plan assets | 63,830 | 77,781 |
| Recognised liability for defined benefit obligations | (5,733) | (680) |

This scheme was closed to future accrual during the year and a curtailment gain arose at that time reflecting a change to the actuarial assumption regarding inflation of member benefits.

*Liability for defined benefit obligations*

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

| | Group and Parent Company | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Opening defined benefit obligation | 78,461 | 74,823 |
| Service cost | 600 | 2,735 |
| Interest cost | 4,488 | 3,937 |
| Actuarial gains | (5,133) | (2,207) |
| Benefits paid | (2,076) | (1,612) |
| Contributions by employees | 192 | 785 |
| Gain on curtailment of scheme | (6,969) | - |
| | 69,563 | 78,461 |

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

| | Group and Parent Company | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Opening fair value of plan assets | 77,781 | 72,940 |
| Expected return | 5,388 | 4,832 |
| Actuarial losses | (17,747) | (797) |
| Contributions by employer | 292 | 1,633 |
| Contributions by employee | 192 | 785 |
| Benefits paid | (2,076) | (1,612) |
| Closing fair value of plan assets | 63,830 | 77,781 |

The amounts recognised in the income statement are as follows:

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Current service cost | 600 | 2,735 |
| Interest on obligation | 4,488 | 3,937 |
| Expected return on plan assets | (5,388) | (4,832) |
| Gain on curtailment of scheme | (6,969) | - |
| Total included in employee benefit expense | (7,269) | 1,840 |

The amounts are recognised in the following line items of the income statement:

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Cost of sales | (63) | 390 |
| Distribution and selling costs | (91) | 555 |
| Administrative expenses | (146) | 895 |
| Other income | (6,969) | - |
| | (7,269) | 1,840 |

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 losses of £11,711,000 (2007: net gains of £903,000).

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

| | Group and Parent Company | |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Equities | 43,519 | 58,173 |
| Bonds | 6,127 | 2,166 |
| Property | 605 | 1,106 |
| Cash/other | 13,579 | 16,336 |
| | 63,830 | 77,781 |
| Actual return on plan assets | (12,359) | 4,480 |

The plan assets include ordinary shares issued by the Company with a fair value of £1,840,000 (2007: £2,468,000).

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

*Principal actuarial assumptions (expressed as weighted averages):*

| | Group and Parent Company | |
|---|---|---|
| | 2008 | 2007 |
| Discount rate | 6.4% | 5.7% |
| Expected rate of return on plan assets | 6.4% | 6.9% |
| Future salary increases | n/a | 4.4% |
| Future pension increases | 2.9% | 2.9% |

# Notes to the Consolidated Accounts

continued

20. Employee benefits (continued)

Mortality rate assumptions have been taken from the A92 pre-retirement and AP92c2025 post-retirement tables. The mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members.

Examples of the resulting life expectancies are as follows:

Life expectancy from age 65 (years)

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Member aged 65 in 2008 | 21.4 | 23.9 | 18.9 | 21.9 |
| Member aged 65 in 2028 | 23.4 | 25.7 | 20.1 | 23.1 |

The other demographic assumptions have been set having regard to the latest trends in the scheme.

*History of plan*

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

| | Group and Parent Company | | | | |
|---|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
| Present value of defined benefit obligation | (69,563) | (78,461) | (74,823) | (69,538) | (58,283) |
| Fair value of plan assets | 63,830 | 77,781 | 72,940 | 59,808 | 47,231 |
| Deficit | (5,733) | (680) | (1,883) | (9,730) | (11,052) |

*Experience adjustments*

| | Group and Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 £'000 | | 2007 £'000 | | 2006 £'000 | | 2005 £'000 | | 2004 £'000 | |
| Experience adjustments on plan liabilities | 5,133 | 7.4% | 2,207 | 2.8% | 180 | 0.2% | (6,414) | 9.2% | (2,613) | 9.2% |
| Experience adjustments on plan assets | (17,747) | 27.8% | (797) | 1.0% | 2,561 | 3.5% | 4,069 | 6.8% | 1,710 | 6.8% |
| Net actuarial experience adjustments | (12,614) | | 1,410 | | 2,741 | | (2,345) | | (903) | |

The Group expects to contribute £nil to its defined benefit plan in 2009.

**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 £2,889,000 (2007: £1,825,000) 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, September 2006 and June 2008 and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004, September 2004, August 2006 and April 2008.

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 grants of options have been made under this scheme in March 2007, March 2008 and August 2008.

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 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 |
| Long Term Incentive Plan 2 | March 2008 | Senior executives | nil | 12,660 | Three years' service and EPS growth of 3-10% over RPI on average over those three years | 10 years |
| Executive Share Option Scheme 13 | April 2008 | Senior employees | 4579p | 61,850 | Three years' service and EPS growth of 3-5% over RPI on average over those three years | 10 years |
| Savings Related Share Option Scheme 10 | June 2008 | All employees | 3938p | 76,102 | Three years' service | 3.5 years |
| Long Term Incentive Plan 3 | August 2008 | Senior executives | nil | 18,021 | Three years' service and EPS growth of 3-10% over RPI on average over those three years | 10 years |

# Notes to the Consolidated Accounts
continued

20. Employee benefits (continued)

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

| | 2008 Weighted average exercise price | 2008 Number of options | 2007 Weighted average exercise price | 2007 Number of options |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 3783p | 267,358 | 3642p | 400,569 |
| Lapsed during the year | 3715p | (22,108) | 3495p | (74,314) |
| Exercised during the year | 2909p | (7,533) | 3023p | (61,975) |
| Granted during the year | 3457p | 168,633 | nil | 3,078 |
| Outstanding at the end of the year | 3667p | 406,350 | 3783p | 267,358 |
| Exercisable at the end of the year | 3744p | 88,984 | 2730p | 15,241 |

The options outstanding at 27 December 2008 have an exercise price in the range of £nil to £45.790 and have a weighted average contractual life of 5.15 years. The options exercised during the year had a weighted average market value of £43.36 (2007: £48.46).

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.

| | 2008 Long Term Incentive Plan 2 | 2008 Executive Share Option Scheme 13 | 2008 Savings Related Share Option Scheme 20 | 2008 Long Term Incentive Plan 3 | 2007 Long Term Incentive Plan 1 |
|---|---|---|---|---|---|
| | March 2008 | April 2008 | June 2008 | August 2008 | March 2007 |
| Fair value at grant date | £41.18 | £7.63 | £9.18 | £34.00 | £44.10 |
| Share price | £44.75 | £45.79 | £43.76 | £37.62 | £47.46 |
| Exercise price | £nil | £45.79 | £39.38 | £nil | £nil |
| Expected volatility | 21.8% | 21.9% | 21.9% | 22.8% | 19.5% |
| Option life | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected dividends | 2.77% | 2.71% | 2.83% | 3.38% | 2.40% |
| Risk free rate | 5.25% | 5.00% | 5.00% | 5.00% | 5.25% |

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:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Share options granted in 2004 | - | 38 |
| Share options granted in 2005 | 129 | 160 |
| Share options granted in 2006 | 236 | 289 |
| Share options granted in 2007 | 100 | 68 |
| Share options granted in 2008 | 582 | - |
| Total expense recognised as employee costs | 1,047 | 555 |

21. Provisions

| | Group and Parent Company Restructuring Provision £'000 |
|---|---|
| Balance at 30 December 2007 | - |
| Additional provision in the year | 3,715 |
| Transfer from trade and other payables | 1,556 |
| Balance at 27 December 2008 | 5,271 |
| Included in current liabilities | 2,843 |
| Included in non-current liabilities | 2,428 |
| | 5,271 |

The restructuring provision relates to the withdrawal from the Belgian operation and the restructuring of the Bakers Oven business. With regard to the Belgian operation the provision includes write off of assets, redundancy and future rental costs. With regard to Bakers Oven restructuring the provision includes costs in respect of the closure of shops.

The key area of uncertainty relates to the net future rental costs to be incurred on closed shops and, in particular, whether the shops can be sublet until lease exit. The provision assumes that subletting is unlikely in the current climate. The provision is expected to be substantially utilised within three years such that the impact of discounting would not be material.

The amount transferred from trade and other payables was not previously included in provisions as it was not, in itself, material.

# Notes to the Consolidated Accounts
continued

22. Capital and reserves

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

Group

| | 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 | 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 |

| | Issued capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 30 December 2007 | 2,127 | 13,533 | 312 | 129,622 | 145,594 |
| Shares purchased and cancelled | (47) | - | 47 | (9,738) | (9,738) |
| Total recognised income and expense | - | - | - | 25,013 | 25,013 |
| Sale of own shares | - | - | - | 698 | 698 |
| Share-based payments | - | - | - | 1,047 | 1,047 |
| Dividends | - | - | - | (14,535) | (14,535) |
| Tax items taken directly to reserves | - | - | - | (132) | (132) |
| Balance at 27 December 2008 | 2,080 | 13,533 | 359 | 131,975 | 147,947 |

Parent Company

| | 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 |

| | Issued capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 30 December 2007 | 2,127 | 13,533 | 312 | 128,221 | 144,193 |
| Shares purchased and cancelled | (47) | - | 47 | (9,738) | (9,738) |
| Total recognised income and expense | - | - | - | 25,129 | 25,129 |
| Sale of own shares | - | - | - | 698 | 698 |
| Share-based payments | - | - | - | 1,047 | 1,047 |
| Equity dividends | - | - | - | (14,535) | (14,535) |
| Tax items taken directly to reserves | - | - | - | (132) | (132) |
| Balance at 27 December 2008 | 2,080 | 13,533 | 359 | 130,690 | 146,662 |

# Notes to the Consolidated Accounts
continued

22. Capital and reserves (continued)

Share capital and share premium

| | Ordinary shares 2008 Number | 2007 Number |
|---|---|---|
| In issue and fully paid at start of year | 10,635,091 | 11,161,563 |
| Purchased and cancelled | (236,044) | (526,472) |
| In issue and fully paid at the end of the year | 10,399,047 | 10,635,091 |

At 27 December 2008 the authorised share capital comprised 25,000,000 ordinary shares (2007: 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 236,044 shares with a nominal value of £47,000 were purchased for cancellation for a consideration of £9,738,000.

Own shares held

Deducted from retained earnings is £13,242,000 (2007: £13,940,000) 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 325,774 shares (2007: 345,416 shares) with a market value at 27 December 2008 of £11,415,000 (2007: £16,235,000) 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:

| | 2008 Per share pence | 2007 Per share pence |
|---|---|---|
| 2006 final dividend | - | 78.0p |
| 2007 interim dividend | - | 46.0p |
| 2007 final dividend | 94.0p | - |
| 2008 interim dividend | 49.0p | - |
| | 143.0p | 124.0p |

The proposed final dividend in respect of 2008 amounts to 100.0 pence per share (£10,073,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| 2006 final dividend | - | 8,387 |
| 2007 interim dividend | - | 4,855 |
| 2007 final dividend | 9,565 | - |
| 2008 interim dividend | 4,970 | - |
| | 14,535 | 13,242 |

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Less than one year | 34,780 | 33,405 |
| Between one and five years | 102,268 | 101,287 |
| More than five years | 46,090 | 54,723 |
| | 183,138 | 189,415 |

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.

24. Capital commitments

During the year ended 27 December 2008, the Group entered into contracts to purchase property, plant and equipment for £1,308,000 (2007: £1,884,000). These commitments are expected to be settled in the following financial year.

25. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 12) and its directors and executive officers.

Trading transactions with subsidiaries - Group

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

Trading transactions with subsidiaries - Parent Company

| | Rent paid | | Interest received | | Amounts owed to related parties | | Amounts owed by related parties | |
|---|---|---|---|---|---|---|---|---|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| Greggs Properties Limited | - | - | - | - | 1,375 | 1,060 | - | - |
| Dormant subsidiaries | - | - | - | - | 6,416 | 6,416 | - | - |

The Greggs Trust is also a related party and during the year the Company made a donation to the Greggs Trust of £300,000 (see Corporate Social Responsibility on pages 18 to 25).

# Notes to the Consolidated Accounts
continued

25. Related parties (continued)

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) | |
|---|---|---|---|---|
| | 2008 (or date of cessation if earlier) | 2007 (or date of appointment if later) | 2008 (or date of cessation if earlier) | 2007 (or date of appointment if later) |
| Mike Darrington (non-executive) | 36,300 | 45,300 | - | - |
| Ken McMeikan (appointed 1 June 2008) | 5,316 | - | - | - |
| Richard Hutton | 2,333 | 1,494 | 215,000* | 215,000* |
| Raymond Reynolds | 4,328 | 3,588 | - | - |
| Stephan Curran (non-executive) (retired 13 May 2008) | 3,700 | 3,700 | - | - |
| Derek Netherton (non-executive) | 1,000 | 1,000 | - | - |
| Bob Bennett (non-executive) | - | - | - | - |
| Julie Baddeley (non-executive) | - | - | - | - |
| Ian Gibson (non-executive) (retired 29 February 2008) | 522 | 522 | - | - |
| Roger Whiteside | - | - | - | - |

* Included within the holding of A. J. Davison referred to on page 34.

Details of directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration report on pages 71 to 80. Total remuneration is included in personnel expenses (see note 5).

There have been no changes since 27 December 2008 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 committee met seven times during 2008, with each member attending as follows:

| Name | Number of meetings held whilst a Committee member | Number of meetings attended by a Committee member |
|---|---|---|
| Julie Baddeley | 7 | 7 |
| Bob Bennett | 7 | 7 |
| Roger Whiteside (appointed 17 March 2008) | 4 | 4 |
| Stephen Curran (retired 13 May 2008) | 3 | 2 |
| Sir Ian Gibson (retired 29 February 2008) | 2 | 1 |

At these meetings, amongst other items, the Committee considered:

- The terms of service and remuneration levels for new Executive appointments;
- The competitiveness of the Company's total reward package, including the level of annual and long term incentive opportunity;
- The effectiveness of the annual bonus plan.

In addition, each year the Committee considers Greggs' total remuneration policy in the context of market and best practice.

Andrew Davison (the Company Secretary and legal adviser) and Nicola Bailey (the Company's Group People Director) have supported the Committee in their deliberations. The Committee appointed Monks Partnership to assist in generally determining the remuneration of its senior management team and devising share based incentive plans.

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. 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 2008).

Where possible, the Committee will also seek to structure bonus arrangements 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.

# Directors' Remuneration Report

continued

Overview of Remuneration Policy

| | Objective | Performance period | Basis of delivery |
|---|---|---|---|
| Base Salary | Reflects market levels based on role and individual skill and experience | Reviewed annually | Individual performance and contribution recognised to ensure market competitiveness |
| Annual Bonus (inc Profit Share) | Incentivises achievement of annual targets and objectives consistent with the short to medium term strategic needs of the business | Reviewed annually | Balanced approach based on financial, strategic and personal objectives Penalty applied to strategic and personal objectives if financial target missed |
| LTIP | Incentivises long term value creation Alignment with shareholders interests Retention incentive | Annual award Three year performance period | Award subject to demanding EPS targets Maximum reward will only occur for upper quartile performance |
| Pension | Provides a market competitive level of provision with good flexibility while minimising risk to the Company | Cost increases in line with salary growth | Defined contribution benefits |

## Annual Bonus

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

For 2008 the maximum target bonus levels were established on the following basis:

| | | Elements of bonus | | |
|---|---|---|---|---|
| | Maximum bonus achievable as a % of basic salary | Financial target | Strategic target | Personal objectives |
| Mike Darrington | 95% | 65% | - | 35% |
| Ken McMeikan | 90% | 70% | - | 30% |
| Richard Hutton | 70% | 60% | 20% | 20% |
| Raymond Reynolds | 70% | 60% | 20% | 20% |

Each element can be measured and rewarded separately. However, a penalty is applied if the financial target is not met. The penalty is a 1/3rd reduction if the financial target is missed by up to 5% and a penalty of 2/3rd reduction if the financial target is missed by between 5% and 15%. If the financial target is missed by more than 15% then no bonus will be paid for any element, although the individual directors would still be eligible to participate in the "all employee" profit sharing scheme.

As Mike Darrington retired from his full time position as Group Managing Director on 31 July 2008, his bonus payment is pro-rated for the 7 month period of his executive appointment. Ken McMeikan was appointed to the Board from 1 June 2008. His bonus payment is pro-rated accordingly.

For 2009 the maximum target bonus levels will be established on the following basis:

| | | Elements of bonus | | |
|---|---|---|---|---|
| | Maximum bonus achievable as a % of basic salary | Financial target | Strategic target | Personal objectives |
| Ken McMeikan | 90% | 60% | 20% | 20% |
| Richard Hutton | 70% | 60% | 20% | 20% |
| Raymond Reynolds | 70% | 60% | 20% | 20% |

Whilst each element can be measured separately, failure to exceed the profit level achieved in 2008 will result in no bonus being earned for either the financial or strategic elements.

## Long Term Incentive Plan ("LTIP")

Under this scheme, the Committee invites the participants (including executive directors) to use a proportion (not more than 50%) of their post tax annual bonus (including profit share) to acquire shares in the Company and will then grant nil cost options to match the pre-tax value of the sum invested with a match of up to 2:1 available. These nil cost options will be exercisable normally after three years and only if certain performance criteria have been met. For the initial award, made in 2007, performance targets were set as average growth in earnings per share of 3% above RPI for a 1:1match and 7.5% above RPI 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 RPI for a 1:1 match and 10% above the RPI for a 2:1 match, providing a further stretch in order to achieve the maximum award. Given the low level of bonus payments for 2008, the Committee will not offer participation in the LTIP in 2009.

## Other share based incentive schemes

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. Any future grants of options to executive directors pursuant to the Senior Executive Share Option Schemes 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. No options were granted to executive directors pursuant to the Senior Executive Share Option Schemes in 2008. However, as they will not be offered participation in the LTIP in 2009 and the proposed new Performance Share Plan will not be available until 2010 (if approved by shareholders), the Committee intends to grant options to the executive directors pursuant to the Senior Executive Share Option Schemes in 2009.

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

## Performance Share Plan

Shareholder approval is being sought in 2009 for the introduction of a Performance Share Plan from 2010. The plan would replace the current Long Term Incentive Plan which is dependent on the level of annual bonus and hence balanced towards short term performance. The introduction of a Performance Share Plan, under which an award of shares will be made in line with the level awarded under the current LTIP, restricted for three years and vesting in full or part, subject to the achievement of a combination of EPS growth and total shareholder return targets, will provide a greater focus on achieving key long term business goals and increased shareholder value.

# Directors' Remuneration Report

continued

## Non-executive directors

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/Ken McMeikan, Richard Hutton and Raymond Reynolds) who periodically seek advice from external consultants as to the appropriate market rates applicable. Such advice was obtained in 2008 from Monks Partnership.

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

## Policy on Performance Conditions

The performance conditions attaching to share options granted to the executive directors under the Company's Senior Executive Share Option Schemes have varied according to the date of grant. Such conditions are set by the Committee to establish challenging performance objectives linked to shareholder return. Executive directors are not eligible to have executive share options granted in the same year as participation in the LTIP. The Committee intends that if any executive share options are granted in the future, performance conditions will continue to be settled on this basis. 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. Given the low level of bonus payments for 2008, the Committee will not offer participation in the LTIP in 2009. Instead it proposes to grant options to a number of senior executives in the Company including Ken McMeikan, Richard Hutton and Raymond Reynolds pursuant to the Company's Senior Executive Share Option Schemes.

## Policy on Service Contract Notice Periods and Payments on Early Termination

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

- the Chief Executive should have a service contract terminable on one year's notice served by either the Company or the director;
- other 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. 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*

Ken McMeikan has a service contract with the Company dated 8 April 2008. His continuous period of service with the Company commenced on 1 June 2008.

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.

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 and permanent health insurance.

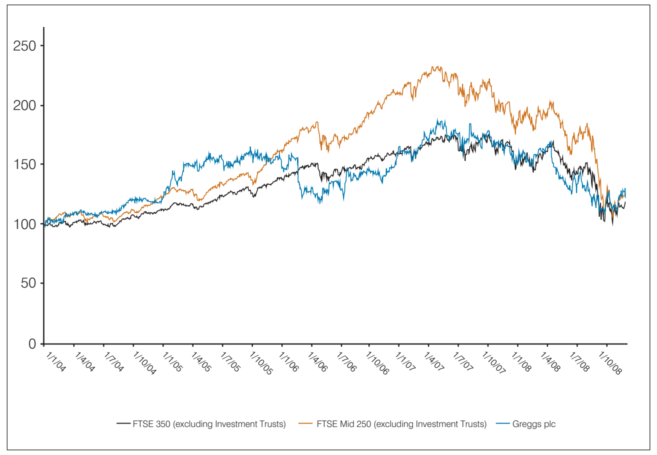
*Non-executive directors*

The non-executive directors do not have service contracts with the Company. However, each of them does have a letter of appointment. These are dated 25 February 2002 for Derek Netherton, 1 December 2003 for Bob Bennett, 19 June 2008 for Mike Darrington, 1 March 2005 for Julie Baddeley and 21 February 2008 for Roger Whiteside respectively. 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

This information relates to both the Parent Company and the Group.

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).

| | Salary/fees set for 2009 £ | Salary/fees paid in 2008 £ | Estimated value of benefits 2008 £ | Annual profit share 2008 £ | Annual bonus 2008 £ | Total 2008 £ |
|---|---|---|---|---|---|---|
| Executive | | | | | | |
| Mike Darrington (until 31 July 2008) | - | 285,833 | 25,626 | 8,424 | 14,204 | 334,087 |
| Ken McMeikan (appointed 1 June 2008) | 438,000 | 247,917 | 13,409 | 1,144 | 17,450 | 279,920 |
| Richard Hutton | 242,000 | 235,000 | 19,595 | 11,633 | 2,350 | 268,578 |
| Raymond Reynolds | 227,000 | 220,000 | 11,370 | 10,890 | 1,944 | 244,204 |
| Chairman | | | | | | |
| Derek Netherton | 115,000 | 115,000 | - | - | - | 115,000 |
| Non-executive | | | | | | |
| Stephen Curran (resigned 13 May 2008) | - | 13,798 | - | - | - | 13,798 |
| Bob Bennett | 40,000 | 40,000 | - | - | - | 40,000 |
| Julie Baddeley | 40,000 | 40,000 | - | - | - | 40,000 |
| Ian Gibson (resigned 29 February 2008) | - | 5,917 | - | - | - | 5,917 |
| Roger Whiteside (appointed 17 March 2008) | 35,500 | 28,127 | - | - | - | 28,127 |
| Mike Darrington (from 1 August 2008) | 35,500 | 14,792 | - | - | - | 14,792 |
| Total | 1,173,000 | 1,246,384 | 70,000 | 32,091 | 35,948 | 1,384,423 |

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

In 2007, profits exceeded targets and, therefore annual bonuses were payable in addition to profit share – 50% of the combined annual bonus and profit share figure could be invested by the individuals in the LTIP, which is subject to further performance conditions as previously described. In 2008, despite achieving many of the personal performance targets, the financial targets were not met and have, therefore, depressed bonus payments.

The fees payable to the non-executive directors reflect their respective membership and chairmanship of the relevant Board Committees. In the case of Stephen Curran and Bob Bennett, they also reflect their roles as Senior Independent Director.

The basic non-executive fees for 2009 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 (if not Chairman of a Committee).

# Directors' Remuneration Report

continued

### 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:

| | Number of options during the year | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 30 December 2007 Number | Granted Number | Exercised Number | Lapsed Number | At 27 December 2008 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 | 4,000 | - | - | - | 4,000 | 40.770 | - | - | Aug 06 | Aug 09 | Aug 16 | Executive |
| | 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 |
| | 4,000 | - | - | - | 4,000 | 40.770 | - | - | Aug 06 | Aug 09 | Aug 16 | Executive |
| | 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 £nil (2007: £1,641), including £nil (2007: £nil) 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 Schemes, 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, earnings per share growth must be greater than 2% per annum above growth in the Retail Prices index. On the grant awarded in August 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.

Options granted under the all employee SAYE scheme are not subject to performance conditions.

The following table sets out details of the Long Term Incentive Plan share options (all of which were granted at nil cost to the executive director concerned and subject to the performance conditions referred to on page 73 held by, or granted to, each director during the year, according to the register of director's interests:

| | Date of grant | Options held under the plan at 30 December 2007 | Options granted during 2008 | Options exercised during 2008 | Options lapsed during 2008 | Options held under the plan at 27 December 2008 | 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 |
| | Mar 08 | - | 2,846 | - | - | 2,846 | 44.75 | Mar 11 | Mar 18 |
| Raymond Reynolds | Mar 07 | 610 | - | - | - | 610 | 47.46 | Mar 10 | Mar 17 |
| | Mar 08 | - | 2,510 | - | - | 2,510 | 44.75 | Mar 11 | Mar 18 |
| Ken McMeikan | Aug 08 | - | 18,021 | - | - | 18,021 | 37.62 | Aug 11 | Aug 18 |

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 27 December 2008 was £35.04. The highest and lowest mid-market prices of ordinary shares during the financial year were £47.08 and £30.07 respectively.

### Pensions

Until the scheme was closed to further accrual from 1 April 2008 Richard Hutton and Raymond Reynolds earned pension benefits under the Greggs 1978 Retirement and Death Benefit Scheme, the Company's defined benefit scheme. This scheme, which required a contribution of 6.6% of pensionable salaries from members, provided for up to two-thirds of final pensionable salary, dependant on length of pensionable service. From 1 April 2008 all executive directors received contributions into the Company's money purchase defined contributions pension schemes. No pension benefits were earned or accrued in respect of any non-executive director except Mike Darrington who accrued benefits up to 29 February 2008 whilst still an 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:

| Director | Date of birth | Date service commenced | Accrued annual pension entitlement at age 65 as at 27 December 2008 £ | Accrued annual pension entitlement at age 65 as at 29 December 2007 £ | Increase in accrued pension entitlement for the year £ | Increase in accrued pension entitlement for the year net of inflation of 5.0% £ | Transfer value of increase in accrued pension entitlement for the year £ |
|---|---|---|---|---|---|---|---|
| Mike Darrington | 8/3/42 | 15/8/83 | - | 145,561 | 6,598 | - | - |
| Richard Hutton | 3/6/68 | 1/1/98 | 18,522 | 18,825 | (303) | - | - |
| Raymond Reynolds | 4/11/59 | 1/12/86 | 69,535 | 52,544 | 16,991 | 14,365 | 159,641 |

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 5.0% 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: Mike Darrington retired on 1 March 2008 and, therefore, no longer has accrued benefits in the scheme. The increase in accrued pension entitlement shown above is for the period 30 December 2007 to 29 February 2008.

# Directors' Remuneration Report

continued

| | Cash equivalent transfer value as at 29 December 2007 £ | Cash equivalent transfer value as at 27 December 2008 £ | Increase in the cash equivalent transfer value since 29 December 2007 £ |
|---|---|---|---|
| Director | | | |
| Richard Hutton | 133,749 | 160,867 | - |
| Raymond Reynolds | 489,044 | 845,329 | 156,085 |

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 and Group Money Purchase Scheme for the benefit of executive directors during this financial year.

| | Contribution in respect of 2008 £ | Contribution in respect of 2007 £ |
|---|---|---|
| Director | | |
| Mike Darrington | - | - |
| Ken McMeikan | 37,188 | - |
| Richard Hutton | 27,309 | 17,427 |
| Raymond Reynolds | 24,199 | 8,750 |

### Approval by Shareholders

At the Annual General Meeting of the Company to be held on 13 May 2009, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 10 March 2009.

Signed on behalf of the Board

**Julie Baddeley**

Director
Chair of Remuneration Committee
10 March 2009

# Financial Calendar

| Announcement of results and dividends | |
|---|---|
| Half year | Early August |
| Full year | Early March |
| **Dividends** | |
| Interim | Mid October |
| Final | Late May |
| Annual report posted to shareholders | Early April |
| Annual General Meeting | 13 May 2009 |

# 10 Year History

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 (as restated)* | 2006† | 2007~ | 2008§ |
|---|---|---|---|---|---|---|---|---|---|---|
| Turnover (£'000) | 308,678 | 339,008 | 377,556 | 422,600 | 456,978 | 504,186 | 533,435 | 550,849 | 586,303 | 628,198 |
| Earnings before interest and tax (£'000) | 21,691 | 26,044 | 31,597 | 35,334 | 39,167 | 45,763 | 47,143 | 38,747 | 49,909 | 48,613 |
| Profit on ordinary activities before taxation (£'000) | 21,520 | 26,356 | 32,742 | 36,666 | 40,472 | 47,751 | 50,159 | 40,239 | 51,143 | 49,470 |
| Shareholders' funds (£'000) | 80,896 | 88,169 | 103,554 | 119,965 | 134,150 | 157,156 | 181,475 | 144,891 | 145,594 | 147,947 |
| Earnings per share (pence) | 135.1 | 162.3 | 190.2 | 209.2 | 230.5 | 270.5 | 282.1 | 241.2 | 342.8 | 336.7 |
| Dividend per share (pence) | 45.0 | 55.0 | 65.0 | 72.5 | 80.0 | 96.0 | 106.0 | 116.0 | 140.0 | 149.0 |
| Capital expenditure (£'000) | 22,403 | 21,397 | 27,385 | 42,143 | 32,361 | 25,090 | 41,687 | 30,023 | 42,343 | 40,758 |
| Net book value of fixed assets (£'000) | 108,786 | 113,285 | 124,123 | 148,184 | 160,704 | 163,110 | 180,826 | 184,325 | 196,783 | 210,455 |
| Number of shops in operation at year end | 1,084 | 1,105 | 1,144 | 1,202 | 1,231 | 1,263 | 1,319 | 1,336 | 1,368 | 1,409 |

*restated for the transition to IFRSs †includes £3.5m Bakers Oven restructuring costs ~includes one-off property gains of £2.2m
§ includes £4.3m exceptional credit

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