'We have overseen dramatic changes to the business over the last 2 years in order to bring about a recovery. We remain confident that these changes will significantly improve both the sales and margin performance in the medium term'

2007 was the second year of the Uniq turnaround.

By the start of the year we had reduced the financial risks facing the business by selling two business units at excellent prices and used the proceeds to repay our bank debts and substantially offset the pension fund deficit. Additionally, we had:

- appointed new experienced and entrepreneurial leadership in each of our three divisions and made substantial progress in decentralising accountability and responsibility to the lowest appropriate level;
- reconnected with our customers and started to increase the pace of our organisation;
- delivered some success in cost reduction, lean manufacturing and supply chain management and were managing a number of ongoing cost reduction projects; and
- commenced the long term task of building our brands and innovation capabilities.

During 2007 the economic environment became harsher as we faced unusual adverse weather patterns during the summer, in the second half we saw the start of unprecedented raw material inflation and Christmas and the New Year were overshadowed by doubts about consumer demand following the credit crunch.

Despite all of this, we are pleased with progress as we delivered sales growth, reduced operating losses and, most important of all, we significantly improved our capability across our businesses. We are pursuing an increasing number of opportunities with existing and new customers to build our businesses.

In prior years we have allocated our group costs between the three divisions. This year in order to reflect the separate entrepreneurial business unit structure we have put in place we have separately disclosed our group costs. This will help to explain better the underlying trading of each of our divisions.

	2007			Variance*		
	H1	H2	Full year	H1	H2	Full year
Net external revenue	£m	£m	£m			
UK	167.6	177.6	345.2	5.5%	1.3%	3.3%
Northern Europe	101.1	107.5	208.6	1.9%	(2.1)%	(0.2)%
France	91.6	90.7	182.3	4.1%	7.6%	5.8%
Group Continuing	360.3	375.8	736.1	4.1%	1.7%	2.9%
Operating profit/(loss)	£m	£m	£m	£m	£m	£m
UK	(1.6)	7.5	5.9	0.1	8.6	8.7
Northern Europe	(0.5)	(2.9)	(3.4)	3.0	(2.5)	0.5
France	(1.1)	1.3	0.2	(2.9)	3.2	0.3
Group Costs	(3.4)	(2.9)	(6.3)	(2.7)	0.5	(2.2)
Group Continuing	(6.6)	3.0	(3.6)	(2.5)	9.8	7.3

* Using constant exchange rates

The group costs are essentially the costs of running a PLC and include the cost of the board, and a small central finance and administration team. The comparative full year figures were favourably impacted by £2.0m of one-off items, namely: £0.9m curtailment gain on unfunded pension obligations and £1.1m with respect to settlement of an insurance claim. Without these non recurring items group costs have increased slightly to £6.3m.

‘We have been successful in attracting more high calibre management talent because of the culture we are developing’

The UK made a profit for the year of £5.9m – a most encouraging turnaround from a loss of £2.8m in 2006. All of this improvement came through in the second half with much of it coming from the recovery in performance at Minsterley. In Northern Europe we have reduced the losses in Germany by more than 40%, accelerated growth in Poland and tackled further legacy issues in The Netherlands which caused a material reversal in profitability in the second half. In France we reversed the decline in frozen branded sales, achieved growth overall of 5.8% and delivered a small profit.

UK

Having established the 6 new business units in 2006 our aim in 2007 was to consolidate the capabilities in each business, start to spread best practice across the division through a small central coaching team, build customer intimacy, control our costs and manage our margins more effectively, while continuing to address the fundamental challenge of delivering improved innovation and premium differentiated growth.

In the M&S supplier review, our selection as strategic partner in the three core categories of ‘food to go’, fish/deli and premium desserts is a reflection of how far we have progressed in a relatively short time. In such a partnership we would expect to increase our share of M&S business, develop joint business plans, co-invest and co-innovate. We would drive further premium differentiated growth on top of that already planned through the M&S store investment programme. The supplier review is not yet concluded as we have yet to finalise our commercial discussions. However, we believe this will lead to further investment opportunities.

We have been successful in attracting more high calibre management talent because of the culture we are developing. All of this progress has equipped us better to tackle the tougher economic environment we faced as the year progressed.

Our Northampton ‘food to go’ operation continues to lead the way in terms of customer intimacy and innovation. We supply M&S and the airline catering market with sandwiches, wraps and other ‘food to go’ products. We are investing in new capacity to support the double digit growth we project for the next few years. We have a rolling programme of new product introductions and upgrades and have recently introduced a top tier gourmet range in bags. In January 2008 we launched an entirely new product category – the Fresh Salad Wrap, a delicious and healthy Asian style carbohydrate free snack and sales are ahead of our launch plan.

A critical priority for 2007 has been to recover the profit margins in our desserts business through price increases and an extensive programme of productivity improvements. The success of our lean manufacturing initiatives at Minsterley has transformed this site's efficiency and we achieved breakeven in the final quarter with the help of Christmas.

In January we managed a very successful launch of desserts and breakfast products for Tesco and we have improved the profitability of the Müller contract at Paignton, while Evercreech, our premium desserts supplier, was selected as a strategic partner with M&S. Unfortunately, as a result of our robust pricing policy and the Minsterley legacy, we have also lost volume in desserts and have been unable to generate enough new business to be sufficiently confident of building the volumes we need to fill our capacity. Consequently, the overall profitability of our desserts businesses remains unacceptable. We have taken an impairment charge to write down the value of our Minsterley assets and continue to review all options to improve the returns from these businesses.

Pinneys has excellent chef and fish procurement skills, which have resulted in great success in the last year with the M&S Cook! range. In spring 2008 we are launching a new range of chilled fish products for a well known fish brand and our Spalding salad business continues to cut costs to compensate for low volumes.

We have addressed the structural inefficiency in our supply chain, resulting from the changed shape of our business, by exiting the national distribution centre at Gloucester. We are now able to transport product direct from the factories to the customers' regional distribution centres. The result is a faster and more efficient route to market.

'During the year we reorganised our production to focus on low cost centres of excellence in Northern Europe'

Northern Europe

In Northern Europe, prior to 2007 we had successfully decentralised to country focused business units to achieve local accountability with the ability to react to the needs of local markets, customers and consumers. In 2007 we have modified our approach to reflect the scale of our factories and the need to leverage our productivity, innovation and marketing expertise across borders. We also decided to decentralise further within Germany to business units focused on the national Nadler brand, our regional brands Pfennigs and Hopf, the private label/hard discount market and field sales.

During the year we reorganised our production to focus on low cost centres of excellence. We completed the planned closure of Bremerhaven, so that all fish production is now in Poznan. We transferred potato salad production from Bottrop in Germany to the specialist facility at Losser in The Netherlands, so that Bottrop is now focused on the private label and hard discount market. In parallel with these changes we renegotiated pay and conditions for the German workforce. Taken together these projects will deliver a full annual saving of around £4m of which about 60% came through in 2007.

We were successful in reversing the decline of the Nadler brand in salads through improving the product quality of our core range and reworking the packaging. As a result, branded sales grew by 4.0% in the second half and our market share increased from 6.6% to 7.3% during the year. The improved product quality also had a beneficial impact on our sales into the own label salad market. While similar attention on market analysis and product improvement has gone into the fish side of the business we have not been able to offset an unexpected 5.5% decline in the overall market for fish marinades. We have maintained the Nadler market share at 11.8% and are developing plans to modernise the product range.

The establishment of Poland as a stand alone business unit has helped us benefit from this rapidly developing market by delivering sales growth for the year of 33%. Lisner remains the market leading brand in fish and spreads, with 24.5% and 56.4% market share respectively, and we are establishing a strong number 2 position in the fast evolving prepared salad market. The combination of high sales growth in the Polish market, the volume transferred from Bremerhaven and a shortage of skilled labour has required us to strengthen management in a number of key functional areas to improve production efficiency and planning. We are well advanced in this.

The Netherlands business deteriorated as a result of the failure to manage the relationship between brand and own label. We remain the clear branded market leader with 26.8% of the market. Our market share of own label however, fell from 16% to 9% as we were not close enough to our key customers. New management which started in August 2007 were already addressing this issue but not before a major fall in profitability in the second half of 2007.

In order to improve the quality of our new product development we have established a food innovation centre for salads in Losser and concentrated our fish expertise in Poland.

France

The achievement of the French team in 2007 has been exceptional. This was the division where we started the change programme last and yet we have seen tremendous progress already across all aspects of the business. We started the year with the St. Hubert spreads business and the Marie convenience foods business sharing one head office, with the branded frozen ready meals business in steep decline and excessive cost in both the head office and the factories. We ended the year having separated out and sold the St. Hubert spreads business, downsized the remaining head office by 20% to 200, turned the frozen branded business into growth and reduced factory headcount by 120. All of this has been achieved while maintaining the excellent growth of the chilled business and turning a loss into small profit.

The restructuring activities have reduced annual costs by £7m of which about two thirds came through in 2007. We have always emphasised the long term success of this business will depend largely on our ability to build on the inherent strengths of the Marie brand. The comprehensive

'The achievement of the French team in 2007 has been exceptional. This was the division where we started the change programme last and yet we have seen tremendous progress already across all aspects of the business'

Marie relaunch has involved a repositioning of the brand, improvements in recipes, relaunched packaging, a restructuring of discounts and allowances for our customers, a strengthened field sales force and a change in culture within the business to speed up innovation and decision making. To support all this activity we spent £9.6m on media and marketing and plan to build this investment further as the recovery gathers pace.

We had a reasonably high success rate with our new product initiatives during the year in Frozen. The biggest success has been in Individually Quick Frozen (IQF) ready meals for stir frying. We have increased our market share from 17.8% to 20.3%. Also successful were the frozen pizzas where we increased share from 9.5% to 10.2%. Less successful was the market decline seen in quiche (where we are the market leader) and fish ready meals (where we are losing share). The frozen market has maintained flat to modest growth and is highly competitive. While we are pleased with the progress this year in arresting the decline, we do not underestimate the challenge that remains to sustain consistent growth longer term.

In Chilled we have reached an overall market share of 4.8% again on the back of a strong stream of new products such as the 'Fresh and Good' range of ready meals, the Luang international cuisine launched under the Marie umbrella brand and the Weight Watchers expanded range. Our fastest growing chilled segment is ready meals where we enjoy a market share of 21.6%.

The initial focus of attention has been on the branded side of the business. However, we have created a new business unit serving the food service market and we are confident this additional focus will generate exciting growth opportunities, especially in the evolving restaurant catering market. We have also brought our private label and hard discount business under the branded commercial management because we see opportunities to manage the categories more effectively using a co-ordinated approach.

Pricing in the French market is more regulated than in the UK. However, gradually the law is changing to allow more flexibility in retail pricing with the objective of driving down consumer prices. This is increasing the competitive pressure on suppliers and it causes greater uncertainty around our ability to pass on raw material price increases in a timely manner. In the second half of 2007, this lag effect held back the profit recovery by approximately £2m.

Despite the competitive environment, we are confident all the changes we are managing through the business has created a strong momentum of improvement and that Marie has a bright future.

Outlook

The board has overseen dramatic changes to the business management and structure over the last two years in order to bring about a recovery across all divisions. We remain confident that these changes will significantly improve both the sales and margin performance throughout the business in the medium term. We expect the economic climate to be tougher in 2008 than in 2007.

In the UK, the tough economic environment and the lag in inflation recovery has increased the challenge of maintaining profit at last year's level. The M&S supplier review and our desserts review could also have a significant impact and are expected to pave the way for a stronger and more profitable UK business in the medium term.

In Northern Europe we are making the expected progress on the ground to improve our capability to deliver margin recovery in 2008 which will be weighted to the second half.

In France the foundations of the recovery were laid in 2007 and, although 2008 has started slowly, we remain confident of achieving progress both at sales and profit level.

We are committed to unlocking significant value for shareholders.

Geoff Eaton
Chief executive, 25 March 2008