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John Menzies plc Annual Report 2003

John Menzies plc
Annual Report 2003

All around the world and just around the corner

John Menzies is focused on customers who need efficient, time critical logistics services. Our two specialist divisions, Menzies Distribution and Menzies Aviation, are both leaders in their markets. Both rely on people as their greatest asset; use leading edge technology; and constantly strive to deliver excellent customer service.

All around the world...

North America

As part of the ongoing review of our portfolio our Canadian operations were sold during the year and we closed our operations at Oakland and Dallas. Other stations within the region performed well with an excellent return from our Los Angeles station which continues to prosper in a highly competitive environment.

Caribbean

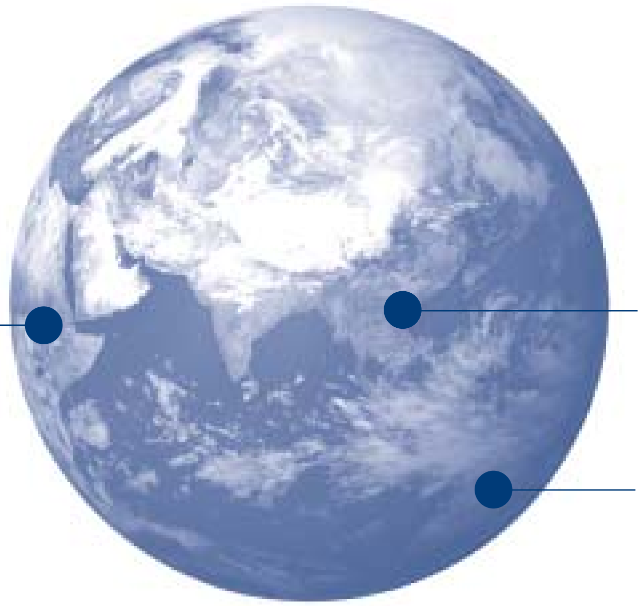
Our Caribbean portfolio continued to prosper and the outlook for 2004 is bright with the announcement of an exclusive deal at Santo Domingo, Dominican Republic to provide a full ground handling service within the airport's cargo area.

United Kingdom

During the year our new ground handling offering to Low Cost Airlines cemented its position as the handler of choice for low cost carriers. In December a joint venture was signed with easyJet to provide all passenger and ramp handling at their main hub, London Luton Airport.

Europe

Our European stations performed well during the year. At Amsterdam, a previously underperforming station, a positive result was returned and the station was awarded "Best Independent Handler" by the airport authority, reinforcing our commitment to delivering excellent customer service.



Africa

We now have three relatively young but successful franchise operations with local partners in Africa. This reaffirms our view that working with local partners is a valuable route to market.

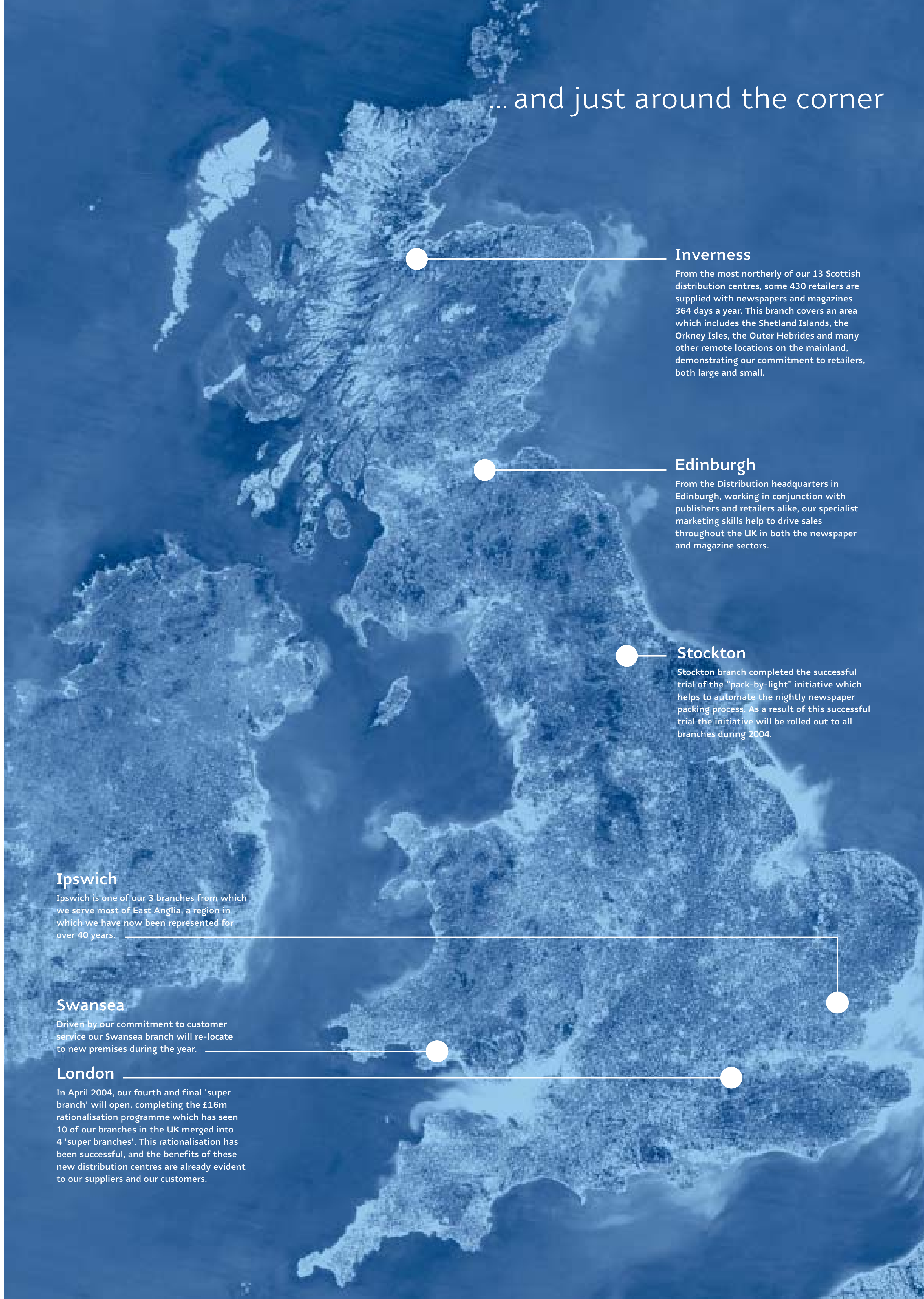
Asia

Operations in Macau and Hong Kong were badly affected by the outbreak of the SARS virus during 2003. However, overall volumes have now returned and we expect a strong performance during 2004.

Australia & New Zealand

Contract gains have aided our operations in New Zealand and a new management team is focused on raising returns in this region.

... and just around the corner



Inverness

From the most northerly of our 13 Scottish distribution centres, some 430 retailers are supplied with newspapers and magazines 364 days a year. This branch covers an area which includes the Shetland Islands, the Orkney Isles, the Outer Hebrides and many other remote locations on the mainland, demonstrating our commitment to retailers, both large and small.

Edinburgh

From the Distribution headquarters in Edinburgh, working in conjunction with publishers and retailers alike, our specialist marketing skills help to drive sales throughout the UK in both the newspaper and magazine sectors.

Stockton

Stockton branch completed the successful trial of the "pack-by-light" initiative which helps to automate the nightly newspaper packing process. As a result of this successful trial the initiative will be rolled out to all branches during 2004.

Ipswich

Ipswich is one of our 3 branches from which we serve most of East Anglia, a region in which we have now been represented for over 40 years.

Swansea

Driven by our commitment to customer service our Swansea branch will re-locate to new premises during the year.

London

In April 2004, our fourth and final 'super branch' will open, completing the £16m rationalisation programme which has seen 10 of our branches in the UK merged into 4 'super branches'. This rationalisation has been successful, and the benefits of these new distribution centres are already evident to our suppliers and our customers.

The new team have taken up the reins with vigour and have conducted a bottom up review of our core operations. Their early actions are already having a positive impact, and I firmly believe that their backgrounds and experience will serve the Group well in the years to come.

Results

The Group has made good progress, with profits at the operating level, before Menzies Pension Fund charges, increasing by 15.1% to £25.2m. In addition, management has focused particular attention on cash flow, with a very substantial improvement in free cash flow to £20.7m, £14.7m greater than last year.

In common with many other companies, our pension fund, previously more than fully funded, has been materially affected by the sharp falls in the stock market and as a result we recommenced contributions during the year. The impact on profits of a swing from a £3.6m pensions credit to a £1.2m charge more than offset the above increase in operating profits. The Board has decided to adopt the FRS 17 accounting treatment for pensions for 2004. More detail is provided in the Financial Review.

Menzies Distribution is a highly efficient operation, closely managed with good cost control, and has benefited from continued investment in the business, its own inventiveness and some buoyancy in its markets. All this has resulted in a very satisfactory improvement in the division's results.

Menzies Aviation has had another difficult year, bearing the impact of SARS which particularly affected our operations in Macau and Hong Kong, and of a weak cargo market at Heathrow where volumes, both import and export, were disappointing. Nonetheless the division marginally outperformed the previous year and trading was materially stronger in the last quarter of the year.

Dividend

Your Board is recommending a final dividend of 12.6p per share, maintaining our full year level at 18.1p.

Strategy

Both our divisions are capable of further growth. Distribution has a well proven and strong base and we will seek to add to this base wherever possible. On the Aviation side the focus is very much on return on capital with a period of consolidation to establish a sound platform of profitable businesses from which to deliver shareholder value.

Board

As I previewed in last year's statement, David Mackay retired from the Chief Executive role at the end of May after 40 years of service with the Company. His contribution to the strategic development of the Group has been enormous, reinforced by his loyalty and determination, and our thanks are very much due to him.

Patrick Macdonald, as Chief Executive, and Paul Dollman, as Finance Director, have taken up the reins with vigour and have conducted a bottom up review of our core operations and of the opportunities for building on these. Their early actions are already having a positive impact, and I firmly believe that their backgrounds and experience will serve the Group well in the years to come.

WILLIAM THOMSON, CHAIRMAN

Menzies Distribution is an industry leader in providing range management and space planning advice to a wide number of retailers. Its 'Space Ranger' service helps to ensure that the right range of titles are in the right place at the right time.

Peter Smith, who reaches 60 this year, steps down as Chief Executive of Menzies Aviation following the AGM at the end of April. He has developed this business over the last 8 years from small beginnings to being one of the major international players in this field and we are most grateful to him for his unfailing commitment in building it into a worldwide business.

We are delighted that, after extensive evaluation of external and internal candidates, Craig Smyth has been promoted to succeed Peter. Craig has been with this business for most of his career, rising to Finance Director and latterly to Director responsible for the Americas. We envisage that, after a suitable period, Craig will be appointed to the Board.

Charles Ramsay is due to retire later this year. In the light of this we are recruiting a non-executive director with an appropriate financial background, who will also take over the Chairmanship of the Audit Committee from Michael Walker, who has been appointed as the Senior Independent Non-Executive Director.

Corporate Governance

Following the Higgs Report the new rules and guidelines which have been established as part of the new Combined Code come into effect for companies with a financial year commencing on or after 1st November 2003. These set out an ethos for the management of a company which we generally support and for the most part already comply with. We are in the course of adopting specific policies appropriate to the Company.

Following the changes to the Board noted above, we will have three independent non-executive directors. The founding Menzies family members remain substantial shareholders of the Company and as such it is appropriate that they be represented on the Board and its committees. Dermot Jenkinson and Ian Harrison both have relevant business experience, and, I believe, act in the best interests of all shareholders.

Investor Communications

I am delighted that our work in maintaining close contact with our investors has again been recognised, with the highly regarded IR Magazine 2003 Grand Prix award for Best Smaller Company investor relations.

Staff

Customer satisfaction is a key ingredient in any business, but particularly so in the Service Industry. An essential element of this is the quality of staff and I would like to record my thanks to our staff for their dedication and contribution.

Prospects

The new year has got off to a positive start in both our businesses. I am in no doubt that we have a talented management team and that the outlook for the Group is encouraging.

William Thomson

WILLIAM THOMSON
CHAIRMAN

Our task is clear. We must protect and improve our core by building on our reputation for operational excellence. This means getting the basics right and building sustainable platforms for growth.

PATRICK MACDONALD, CHIEF EXECUTIVE

Summary

We have delivered, I believe, an encouraging result for 2003. We are now reaping the benefits of the management actions taken to improve performance, including stronger capital discipline, tighter working capital management, a streamlined management structure and cost reductions at Aviation and in the Corporate Centre. As a result we have achieved strong free cash flow in 2003.

Performance

Turnover for 2003 was £1,240.7m, up 3.7% on 2002. Distribution turnover was 4.3% higher at £1,001.0m, largely as a result of newspaper cover price increases and a strong performance from magazines. Aviation revenue rose by 1.2% to £239.7m reflecting a difficult marketplace, particularly the impact of the SARS virus on international airline travel.

Total operating profit before the costs of the Menzies Pension Fund ("MPF") was £25.2m, £3.3m (15.1%) ahead of 2002. Distribution operating profits were 8.7% higher at £31.2m. Aviation made an operating profit of £4.1m, up £0.4m on last year.

As calculated under SSAP 24, the MPF incurred a charge for the full year of £1.2m, in line with expectations. This is an adverse swing of £4.8m from the 2002 credit of £3.6m. As a result, headline operating profit before tax (see note 1) of £23.9m was £2.0m below last year and headline earnings per share (EPS) was 28.9p per share, down 4.0p on last year.

The Board has decided to adopt FRS 17 in 2004 to provide investors with greater clarity of earnings going forward. The cash contribution to the MPF in 2003 was £4.5m and the profit and loss charge under FRS 17 would have been £4.4m. In 2004, we expect a cash contribution of between £5m and £5.5m and a profit and loss charge under FRS 17 of around £5m.

There were exceptional costs of £17.2m mainly due to the write down of the carrying values of our assets in Menzies World Cargo UK and Talma Peru. Although both businesses are expected to trade profitably during 2004, trading conditions remain difficult and do not support the full carrying value of goodwill. The cash element of the exceptional costs totalled £3.0m and this reflects the restructuring costs at Aviation and the Corporate Centre. As a result, FRS 3 EPS was (7.3)p, down 25.5p on last year.

Cashflow

The greater emphasis on cash flow during the year resulted in a robust performance. Despite the recommencement of contributions to the MPF, free cash flow (see note 2) improved by £14.7m from £6.0m in 2002 to £20.7m in 2003 as a result of tighter working capital management and better trading. However, there are some timing differences and the underlying improvement is around £8m.

With the £20m redemption of preference shares during the year, net debt at the end of 2003 was £63.3m compared to £58.2m at the end of 2002. Due to the timing differences noted above, underlying net debt is considered to be around £70m.

1. Headline profit before tax is defined as profit before tax, goodwill amortisation and exceptional items.
2. Free cash flow is the cash generated by the business after capital investment, interest, tax and preference dividends and before acquisitions, disposals and ordinary dividends.

At Distribution the constant drive to apply innovation to our processes saw the completion of the 'Pack-by-light' trial. 'Pack-by-light' helps to partly automate the nightly newspaper packing process. This highly successful innovation will be rolled out to our branch network during 2004.

Menzies Distribution

(£m)	2003	2002	Variance
Turnover	1,001.0	959.6	+4.3%
Operating profit	31.2	28.7	+8.7%

Menzies Distribution has again performed successfully with results driven by newspaper cover price increases and strong magazine launches, particularly in the second half.

Sales were up 4.3% overall with newspapers 5.7% up and magazines up by 4.6%. The only disappointment was stickers where sales fell by 19.6% (2002 was boosted by strong World Cup sales).

Operating profit was up 8.7% reflecting the full year benefit derived from the branch rationalisation programme and tight cost control. The last remaining element of the branch rationalisation programme (East London) remains on course to be completed by summer 2004.

Menzies Distribution remains committed to introducing new technology to improve service levels. 'Pack-by-light' technology, a real time system for controlling the newspaper packing process, is being introduced across the branch network. This will produce a parcel-specific contents note thereby providing better documentation for retailers. We continue to invest in industry leading allocation systems for newspapers and magazines. Working with publishers, each day we determine the allocation of publications to our customers. We also process returns and inform newspaper publishers of the previous day's sales for each of their publications.

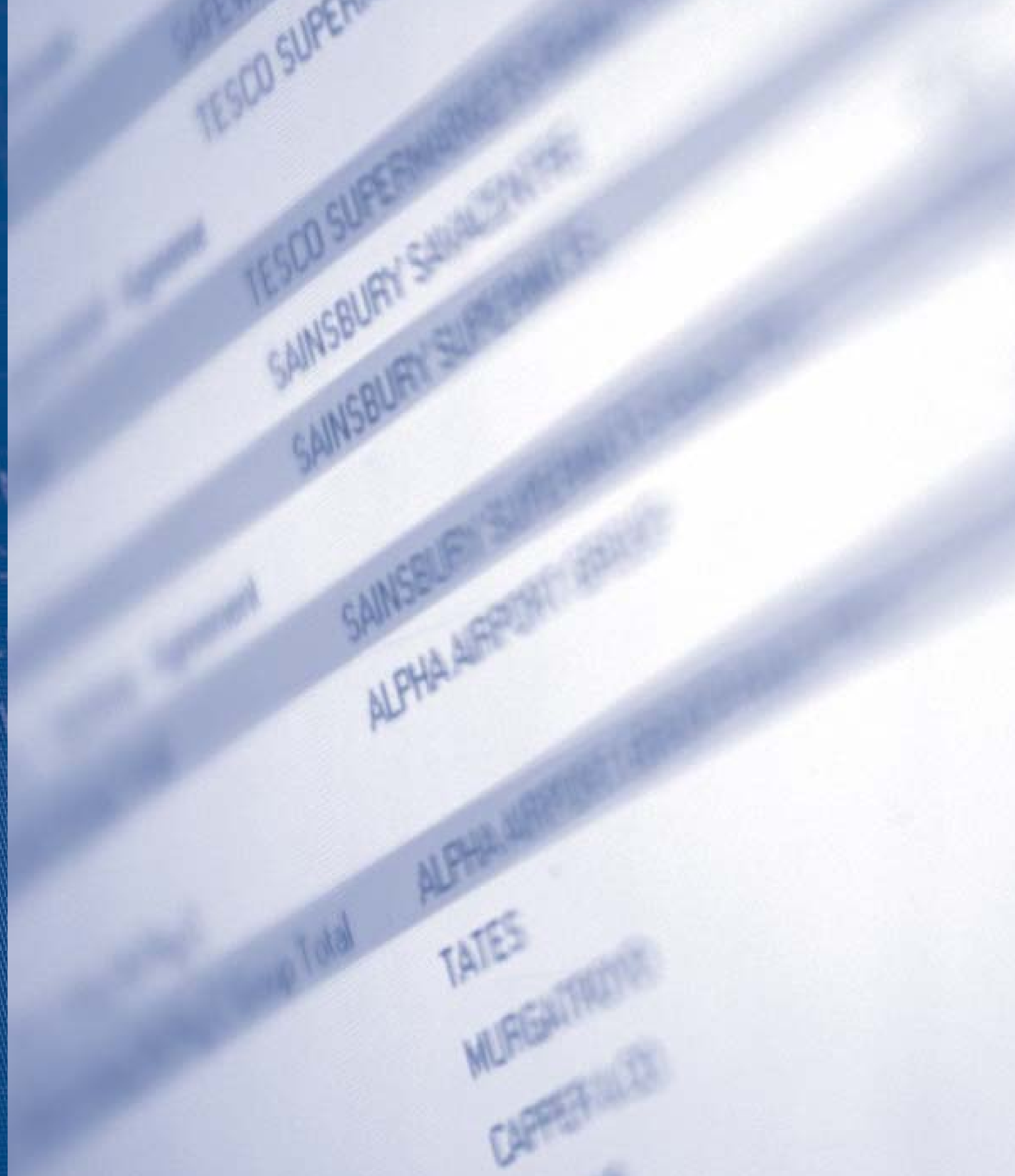
Menzies Distribution is an industry leader in providing range management and space planning advice to a wide number of retailers. Unique software has supported the introduction of 'Space Ranger', a free service to independent retailers to help ensure that the right range of titles are in the right place at the right time.

'Menzies Superleague', supported by our advanced systems, gives publishers the opportunity to drive promotional and sales building activity through a nationwide network of 4,500 independent retailers. This commitment to customers was recognised when Distribution won the ACE Press Award 2003 for Service and Communication to Retailers by a Wholesaler.

The DTI has recently announced that the current vertical agreement exclusion for the newspaper and magazine industry will be repealed in May 2005. We believe the current system of exclusive territories provides the greatest range for retailers and consumers and is the lowest cost route to market. It is also the model used widely in the EU. We remain committed to supporting the industry and are well placed to meet potential developments in the competitive environment.

Menzies Aviation's Hermes cargo management system is a significant investment in software which has enhanced our service offering to airlines and freight forwarders. It helps to manage airside and landside events and provides real time tracking of our cargo operations, including EDI messaging which can interface with our customers' systems.

Menzies Distribution continues to invest in industry leading allocation systems for newspapers and magazines. Working with publishers, each day we determine the allocation of publications to our customers.



Menzies Aviation has developed a ground handling product specifically for low cost airlines. In December 2003, we secured a four year joint venture with easyJet to perform all their passenger and aircraft handling at their base at London Luton Airport.

Menzies Aviation

(£m)	2003	2002	Variance
Turnover	239.7	236.9	+1.2%
Operating profit	4.1	3.7	+10.8%

Menzies Aviation delivered an encouraging performance with profits of £4.1m, up 10.8% on 2002 despite difficult trading conditions experienced during the year. In particular, the SARS virus had a significant impact on our operations at Macau and Hong Kong. Markets were generally more stable in the second half of the year.

The management structure was simplified and we now have a director with clear responsibility for each of our three regions, UK and Europe, Asia Pacific and the Americas. We have reduced overheads by £1.3m per annum, with full effect in 2004.

UK and Europe

Volumes at MWC UK were flat but losses were reduced due to cost savings. We acquired Fr8, the cargo handling facility at Schiphol airport, towards the end of 2002. Initial results were disappointing but we have taken rigorous actions and fourth quarter results were better. Turnover on our Connect contracts grew significantly as a result of the new contract for bussing workers on the Heathrow Terminal 5 construction project. European ground handling revenue was 21.3% up with higher activity at Prague and Bucharest airports. Our operations at Rome were sold in early 2003 at book value.

Our increased emphasis on operational excellence was recognised when Amsterdam Schiphol Airport awarded its prestigious 'Best Handler' Award for 2003 to Menzies Aviation.

We have developed a ground handling product for low cost airlines which we initiated with bmibaby at East Midlands in late 2002. In December 2003, we secured a four year joint venture with easyJet to perform all their passenger and aircraft handling at their base at London Luton Airport.

Americas

North American trading remained difficult and we are focusing on reducing costs and winning new business. Our operations at Dallas and Oakland were closed and we will continue efforts to turn around other poorly performing stations. We sold our Canadian stations in Toronto and Ottawa for a book loss of £1.1m.

Turnover in Latin America and the Caribbean grew by 3.1% and the region remains profitable. However, new contract wins in Mexico were not as profitable as expected, as schedules were reduced, and we are taking action to reduce costs.

Asia Pacific

Conditions remain difficult in Australia and JASA, acquired in late 2002, has underperformed. Management is focused on turning this around. New Zealand has performed strongly since securing a major new contract. The adverse profit impact of the SARS virus was £1.6m and particularly hit our operations at Macau and Hong Kong, but we have seen recovery in the second half with overall volumes returning to expected levels.

The continued success of our business lies in our people and importantly, their development. Staff training continues to have focus and be delivered in the business and 2004 will see further development opportunities.

GILLIAN GIBSON, MENZIES DISTRIBUTION

MARIE KEAY, MENZIES AVIATION

Strategy

I took over in May 2003 and during the summer, in conjunction with divisional management, undertook a review of our businesses. The Group is now following a three step approach. Firstly, get the basics right – John Menzies is a service business specialising in time critical logistics and we need to deliver great service at the right price to our customers. Secondly, build scaleable platforms by innovating to provide our customers with a unique service offering. Thirdly, grow from strength: extend our offering in areas where we have expertise, developing new opportunities and acquisitions which create sustainable shareholder value. These steps are underpinned by strong 'engines' driving finance (the application of capital discipline and shareholder value measures such as economic value added), process (operational quality, the development of metrics and continuous improvement) and people (development of skills and management capability to build our businesses).

At Distribution, we are building on the business' reputation for delivering operational excellence. This means continuing to introduce new technology to improve customer service and controlling costs through process improvement. In addition, we will seek appropriate opportunities to grow by product innovation, added value services and continued attention to customer needs.

Aviation spans a broad portfolio. Whilst we have some stations that are performing strongly, we also have some operations that face structural challenges. The medium term objective is to fix the underperformers and focus on getting the basics right (operational excellence, customer service, cost management). We will concentrate on 'adjacency', selectively seeking expansion opportunities primarily with existing stations and existing customers.

Corporate

The cost saving programme undertaken in the summer has produced annualised savings of £1.0m. We have amalgamated our Corporate offices into one location and the central team is now re-shaped to service the Group's needs more effectively.

People

In my first year with John Menzies plc, I have visited our different businesses around the UK and abroad and have been impressed with the expertise and enthusiasm of our people at all levels. I would like to thank them for their hard work and professionalism during 2003.

Regrettably, the changes at Aviation and the Corporate Centre involved some redundancies but both teams are now better able to face the challenges ahead.

Building robust succession planning for the Group is essential and in 2004, in addition to our commitment to training for staff, management development is a priority. We will place greater emphasis on leadership skills and the sharing of best practices.

Outlook

Distribution remains tightly managed and is committed to delivering excellent customer value. It is an industry leader in technical innovation and is well placed to meet potential developments in the competitive environment.

Aviation has been repositioned to perform more robustly in current market conditions and benefit from any market uplift. This process will continue in 2004. Its challenge is to perform consistently across all stations and to realise its shareholder value potential.

The medium term fundamentals of our markets remain good and the outlook for the Group in 2004 is positive.

PATRICK MACDONALD
CHIEF EXECUTIVE

During 2003 we achieved strong cashflow. This resulted from action taken to improve performance including strong capital discipline, a streamlined management structure and cost reduction at Aviation and the Corporate Centre.

PAUL DOLLMAN, GROUP FINANCE DIRECTOR

Overview

The trading results before exceptional items can be summarised as follows:

	2003 £m	2002 £m	Change %
Turnover			
Distribution Services	1,001.0	959.6	4.3
Aviation Services	239.7	236.9	1.2
Total	1,240.7	1,196.5	3.7
Operating profit			
Distribution Services	31.2	28.7	8.7
Aviation Services	4.1	3.7	10.8
Total	35.3	32.4	9.0
Central costs	(6.5)	(7.0)	7.1
Pension (debit) / credit	(1.2)	3.6	++
Interest	(3.7)	(3.1)	(19.4)
Headline PBT*	23.9	25.9	(7.7)
Headline Earnings per share**	28.9p	32.9p	(12.2)

**Headline PBT is defined as profit before tax, goodwill amortisation and exceptional items.*

***Headline earnings per share is defined as profit after tax, minority interest and preference dividends, but before goodwill amortisation and exceptional items, divided by the weighted average number of ordinary shares in issue.*

Menzies Distribution has again performed very well during 2003 showing an increase in operating profit of 8.7% to £31.2m. This is achieved by continuing to invest in new technology to improve customer service and by controlling costs through process improvement. Menzies Aviation has had a challenging year as the aviation market suffered from difficult trading conditions, particularly the SARS virus outbreak in the Far East. Despite these difficulties the Division achieved an increase in operating profit to £4.1m.

Central costs of £6.5m reduced by 7.1% from the previous year as a result of the business rationalisation programme undertaken in the second half of 2003. Headline earnings per share reduced to 28.9p from 32.9p due to the increased pension charge, higher interest and a higher effective tax rate of 27.6% compared with 21.6% in 2002.

Shareholders' funds were £81.7m at December 2003 compared with £115.4m at December 2002. Principal movements were the scheduled redemption of £20m of 8.58% preference shares in June and dividends of £11.2m.

In addition, post-exceptional profit for the year of £3.1m was offset by taxation of £6.2m combined with an increase in share capital of £0.4m and currency translation movements of £0.3m.

The Group generated an operating cashflow of £40.6m compared to £22.9m in 2002. Disposal of businesses, loan notes redeemed and share issues raised a further £5.3m. £20m was used to repay the 8.58% preference shares. Some £19.7m was re-invested in the business whilst dividend and tax payments accounted for £13.8m. Net debt increased from £58.2m to £63.3m. Excluding the effect of refinancing the preference shares, underlying net debt fell by £14.9m. However, there are some timing differences and the underlying improvement is around £8m. Underlying net debt is considered to be around £70m.

Interest

The net interest charge is analysed as follows:

	2003 £m	2002 £m
Bonds	2.6	2.6
US dollar term loan	0.9	1.1
Overdrafts/cash	0.2	(0.5)
Associates	–	(0.1)
Net interest charge	3.7	3.1

The increase in the interest charge results mainly from the repayment of the preference shares in June 2003.

Pensions

The Group continued to account for pension costs in respect of the Menzies Pension Fund during the year under SSAP 24. As anticipated the SSAP 24 profit and loss account credit for 2002 of £3.6m has been replaced by a £1.2m pension charge in 2003.

Additional detailed disclosures required under the transitional arrangements of FRS 17 are given in Note 4. These disclosures show a net FRS 17 deficit, after deferred tax, of £26.3m.

The Board has decided to adopt FRS 17 in full for 2004 to provide investors with greater clarity of earnings going forward. The following table summarises the profit and loss account and balance sheet impacts as if FRS 17 had been fully adopted for 2003:

	£m	2003 £m
Profit and loss account		
Current service cost		(5.0)
Expected return on pension scheme assets	9.7	
Interest on pension liabilities	(9.1)	
Net financial return		0.6
Net charge		(4.4)
Balance Sheet		
Shareholders' funds		81.7
Pension adjustment (net of deferred taxation)		(62.6)
Adjusted shareholders' funds		19.1
Profit and loss reserve per Accounts		38.4
Pension adjustment (net of deferred taxation)		(62.6)
Profit and loss deficit		(24.2)

The Board has been proactive on this front and has taken a number of decisions to reduce fund liabilities and address the potential fund deficit. These include the recommencement of contributions to the pension fund in the second half of 2003 in the amount of £4.5m, closing the defined benefit final salary scheme to new members for a period of five years and introducing a defined contribution scheme.

The cash contribution to the pension fund in 2004 is expected to be between £5m and £5.5m.

Goodwill

Capitalised goodwill amounts to £45.1m compared to £69.0m in 2002.

In addition to the regular goodwill amortisation of £3.6m exceptional impairment provisions have been made in respect of the Group's joint venture operation in Peru of £7.8m and £4.7m predominantly in respect of cargo operations in the UK.

Under FRS 11 there is a requirement to carry out an impairment review of the carrying value of goodwill where there is an adverse change in the business or market.

As a result of a more competitive trading environment in Peru, following the liberalisation of the aviation cargo market, the Board has reviewed the carrying value of goodwill in this business and considers it to be impaired. Given the uncertainty in this market it is considered prudent to provide for full impairment and £7.8m has been charged as an operating exceptional item. A similar impairment review has been carried out in respect of Menzies World Cargo's UK operations and £4.7m has been charged as an operating exceptional item.

These impairment charges may be reversed in the future if there is a change in economic circumstances.

Goodwill of £4.3m was realised on the disposal of the Group's 49% interest in Aeroporti di Roma Handling SpA.

Exceptional items

During the year the Group incurred £15.7m of exceptional costs in respect of Aviation Services. These comprise:

- goodwill impairment provisions for cargo operations of £12.5m, described above,
- rationalisation costs of £2.1m in the second half of 2003, mainly staff costs,
- a £1.1m loss on disposal of aviation operations in Canada in June.

In addition Central Services rationalisation costs of £0.9m were incurred.

Taxation

The effective Headline tax rate for the year was 27.6% compared with 21.6% in 2002 and is analysed as:

	%
Tax due at UK rate	30.0
Non tax-deductible items	1.8
Unrelieved overseas losses	10.5
Overseas rate impact	0.8
Utilisation of tax losses	(5.9)
Adjustments in respect of prior years	(9.6)
Headline tax rate	27.6

The tax rate on Headline earnings continues to be below the standard UK rate as a result of the realisation of both carry forward overseas tax losses and the resolution of prior year matters with the Inland Revenue. Exceptional items of £17.2m attracted tax relief of £0.4m. Goodwill amortisation of £3.6m does not attract any tax relief. Tax paid during the year was £2.4m. Payments are expected to increase for the 12 months to December 2004.

Fixed Assets

Purchases of fixed assets totalled:

	Property £m	Plant & Equip-ment £m	Total £m
Distribution Services	0.5	5.5	6.0
Aviation Services	1.0	9.9	10.9
Central Services	–	0.1	0.1
	1.5	15.5	17.0

During the year Distribution Services continued the fit-out of the major new units in Central Scotland and East London and invested some £4m in new technology.

Aviation Services capital expenditure included some £2.5m on equipment to service new contracts. In addition some £3m of new buses were purchased to service the growing Connect business at Heathrow.

Working Capital

Working Capital movement is analysed as follows:

	2003 £m	2002 £m
Stocks	(2.1)	0.4
Debtors	4.4	0.4
Creditors	6.0	(6.1)
	8.3	(5.3)

Significant management attention has been focused on improving the Group's working capital position. In particular, the net cash inflow in 2003 reflected improved debtor collection within Aviation Services and higher trade creditors at Distribution Services as a result of the year ending on 27th December.

Cashflow

	£m	2003 £m	£m	2002 £m
Operating Profit		24.0		25.5
Depreciation		15.8		14.0
Goodwill amortisation		1.8		1.5
Pension prepayment		(3.3)		(3.6)
Working capital		8.3		(5.3)
Cash spend on exceptionals		(3.9)		(4.9)
Non cash items		(2.1)		(4.3)
Operating cash flow		40.6		22.9
Purchase of fixed assets	(17.0)		(14.0)	
Sale of fixed assets	0.8		1.5	
Net capital expenditure		(16.2)		(12.5)
Dividends from associates and joint ventures		3.5		4.6
Net interest paid		(3.7)		(3.5)
Preference and minority dividends paid		(1.1)		(1.8)
Tax paid		(2.4)		(3.7)
Free cash flow		20.7		6.0
Preference shares redeemed		(20.0)		–
Loan notes redeemed		0.3		3.3
Equity dividends paid		(10.3)		(9.9)
Acquisitions		(3.5)		(22.1)
Disposals		4.6		5.8
Shares		0.4		1.8
Total movement		(7.8)		(15.1)
Opening net debt		(58.2)		(46.8)
Currency movement		2.7		3.7
Closing net debt		(63.3)		(58.2)

Acquisitions and disposals

In February the Group acquired an 80% interest in Atlantis Air Cargo Management Inc., based in Panama.

In March the Group sold its 49% interest in Aeroporti di Roma Handling SpA.

The Group's Aviation Services operation in Canada was sold in June.

Treasury operations

From a Treasury perspective the main financial risks faced by the Group are liquidity, interest rate fluctuations and foreign exchange exposures. The Board has approved policies for each of these risks, which are managed on a day-to-day basis by Group Treasury. The purpose of these policies, which remained unchanged throughout the year, is to ensure that adequate funds are available to the Group at all times and that financial risks arising from the Group's operating and investment activities are carefully managed. Accordingly, Group policy is not to enter into transactions of a speculative nature.

The Group Treasurer reports formally on a monthly basis to a Treasury Committee under the chairmanship of the Group Finance Director and operates within scope and authorisation levels specified by the Board.

Liquidity: operations are financed by a mixture of shareholders' funds, long term bonds and bank borrowings. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Surplus cash is currently held, and Group policy is to make major deposits only with substantial institutions with high credit ratings. In addition to its fully drawn down term loans the Group has £68.2m of unutilised committed facilities, which mature by January 2007.

Interest rate fluctuations: the Group's policy is to arrange core debt with fixed rate borrowings. The £35m bonds are fixed at 7.362%. Foreign currency bank borrowings totalling £34.8m are floating at rates ranging from 1.25% to 3.525%, which mature within the next 12 months. Other borrowings and cash deposits are at variable rates.

Foreign exchange exposures: the Group's exposure to currency risk at a transactional level is minimal, with day-to-day transactions of overseas subsidiaries largely carried out in local currency.

The Group's exposure to balance sheet translation risk in respect of its overseas net investments is minimised by borrowings in the functional currency of the investment and by use of derivative financial instruments, which have the effect of converting sterling borrowings into borrowings of the functional currency.

Approximately 11% of Group turnover and 34% of assets are denominated in overseas currencies. The Group does not actively hedge exchange rate movements on the translation of overseas profits except where those profits are effectively matched by foreign currency interest costs.

The majority of the Aviation Services operations are located outside the UK and operate in currencies other than sterling. The rates of exchange to sterling for those currencies which have principally affected the Group's results are shown in the table below.

Credit risk: the Group is exposed to credit related losses in the event of non-performance by counterparties to financial instruments, but does not expect any failure by them to meet their obligations given the policy of selecting only counterparties with high credit ratings.

Further disclosure in respect of the above is included in Note 16 to the Accounts.

PAUL DOLLMAN
GROUP FINANCE DIRECTOR

	Average for year to Dec 2003	Year end 27 Dec 2003	Average for year to Dec 2002	Year end 28 Dec 2002
US$	1.636	1.776	1.502	1.602
Euro	1.451	1.426	1.592	1.539

WILLIAM THOMSON (Notes 1,4) was appointed Chairman in May 2002, and has been a non-executive director since 1987. He is Chairman of E G Thomson (Holdings) Ltd, British Assets Trust plc and Fidelity Japanese Values plc, and a non-executive director of Dobbies Garden Centres. Age 63.

PATRICK MACDONALD was appointed to the Board on 1st January 2003, and became Chief Executive following David Mackay's retirement in May 2003. Previously with GE Capital as Vice President responsible for global sourcing, he has also held senior positions with
The Boston Consulting Group and Unilever.

IAIN CALLAGHAN was appointed to the Board in January 1997 as Managing Director of Menzies Distribution. Since joining the Group in 1965, he has worked in most functions of this business. He is also a Trustee of the Association of Newspaper and Magazine Wholesalers and a member of the newspaper and magazine industry's Joint Industry Stakeholder Group. Age 56.

PETER SMITH joined the Group as Chief Executive of Menzies Aviation in 1996. His career in aviation has included senior positions in the UK and overseas as well as a period as an independent consultant to the airline industry. He was appointed a director in 1999, and leaves after the Annual General Meeting in 2004. Age 59.

PAUL DOLLMAN was appointed as Group Finance Director in 2002. A chartered accountant, he was previously Finance Director for William Grant & Sons Ltd, and has also held senior financial positions with Inveresk PLC, Maddox Group plc and Clydesdale Retail Group. Age 47.

DERMOT JENKINSON (Notes 1,2,3,4) was appointed to the Board in 1986 where he held various executive responsibilities prior to assuming a non-executive role in 1999. He is co-founder and Chairman of beCogent Ltd, and is a director of a number of other private companies. Age 49.

IAN HARRISON (Notes 1,2,3) was appointed a non-executive director in 1987 and is Chairman of the Remuneration Committee. He is a director of Record Currency Management Limited. Age 47.

CHARLES RAMSAY (Notes 1,2,3) was appointed a non-executive director in 1990. He is Chairman of Cockburns of Leith Ltd. He will retire from the Board this year. Age 67.

MICHAEL WALKER (Notes 1,2,3,4) joined the Board in 1995 and was appointed senior independent non-executive director in 2003. He is Chairman of the Audit Committee.
He is also Chairman of solicitors Maclay Murray & Spens, and is a director of Securities Trust of Scotland plc, Murray VCT 2 plc and Murray VCT 3 plc. Age 51.

DAVID COLTMAN (Notes 1,3) was appointed a non-executive director in 2001. He has held various senior positions with airlines in the UK and with United Airlines in Chicago, and is Chairman of Edinburgh Worldwide Investment Trust plc. Age 61.

NOTES 1. Non-executive, 2. Member of Audit Committee, 3. Member of Remuneration Committee, 4. Member of Nominations Committee
David Mackay retired from the Board on 20th May 2003.

Financial Report

Directors

The names of the directors of the Company are listed on page 24.

The directors who retire by rotation at the Annual General Meeting are Mr D J Jenkinson, Mr M J Walker and Mr D A Coltman who, being eligible, offer themselves for re-election.

Principal Activities

The principal activities of the Company and its subsidiaries ("the Group") are the wholesale distribution of newspapers and magazines and the provision of cargo and ground handling services at airports. A review of the development of the business is contained in the Chief Executive's Review on pages 8 to 17.

Going Concern

After making appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the accounts.

Dividends

The directors recommend the payment of a final dividend of 12.6 pence per ordinary share, payable on 30th June to members on the Register at the close of business on 4th June 2004. The shares will be quoted as ex-dividend on 2nd June 2004.

This final dividend, together with the interim dividend of 5.5 pence per ordinary share paid on 1st December 2003, makes a total dividend of 18.1 pence per ordinary share for the year ended 27th December 2003.

Annual General Meeting

A separate document has been sent to all shareholders containing the Notice of Meeting and explaining the Special Business to be transacted at the Annual General Meeting to be held on 30th April 2004 at the Roxburghe Hotel, Edinburgh.

Substantial Shareholdings

In addition to the directors' interests, the Company has been notified of the following interests of three per cent or more in its issued ordinary share capital at 15th March 2004:

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co. Ltd	4,990,000	8.7
Mr J M Menzies	4,189,650	7.3
Mr D F Ramsay	2,639,878	4.6
Mrs S J Speke	2,039,920	3.6
Mrs K P Slater	1,981,552	3.5

Corporate Governance

The Board is committed to high standards of corporate governance.

Following the publication of the Higgs Review and Smith Report, the Combined Code set out in the Listing Rules of the Financial Services Authority (the Code) has been significantly expanded, and applies to companies for years starting on 1st November 2003. It will therefore apply in full to the Group next year.

The Board supports the spirit behind this expanded Code and expects to achieve compliance except as noted below, and has already implemented a number of changes. Due to the history of this Company, and particularly the continuing involvement of the Menzies family which established a prudent and supportive ethos within the Company from an early stage in its development, the Board will continue to include and to benefit from the involvement of certain non-executive directors who are not considered to be independent under the Code. They will continue to serve on the Board's committees. Following the retirement of C A Ramsay and the expected appointment of a new independent non-executive director during the year, the Board will include three independent and two non-independent non-executive directors as defined by the Code.

For the current Annual Report, the provisions of the "previous" Code apply, and the Board confirms that it supports the Principles of Good Governance and Code of Best Practice contained in it. These principles are included in the Board's own Code of Practice which outlines the role and responsibilities of the Board and is regularly reviewed and updated as necessary. The Board has complied with these Principles with the exception of the appointment of directors who are not independent as defined within them to its committees.

Board of Directors

The Board comprises six non-executive directors, including the Chairman, and four executive directors, providing a wide range of skills and experience. Their biographies are on page 24. The roles of the Chairman, who is non-executive, and Chief Executive are separate and clearly defined. Following a review of its practices during the year, the Board now appoints non-executive directors for an initial term of three years, and has recognised the role of a senior independent director.

The Board met nine times during the year, with a formal schedule of matters specifically reserved to it for decision. These include the approval of financial statements, acquisitions and disposals, material agreements, major non-recurring projects, treasury policies, major capital expenditures and strategic plans. It also delegates specific responsibilities with written terms of reference to the Board Committees detailed below. Information of an appropriate quality is issued in a timely manner to assist the Board in performing its duties. All Board meetings were attended by all directors with the exception of Mr Walker and Mr Harrison who each attended eight meetings.

New directors receive appropriate induction and training. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice and training as appropriate at the expense of the Company.

The Board has established four committees with defined terms of reference, as follows:

Group Executive Committee

The Group Executive Committee is chaired by the Chief Executive and consists of the executive directors together with certain senior executives. It is responsible for the implementation of strategy and plays a central role in planning, budgeting and in risk identification and management within the Group's operations. It normally meets ten times a year.

Nominations Committee

A Nominations Committee comprising the Chairman and two non-executive directors is responsible for recommending new members to the Board for appointment. It has adopted terms of reference modelled closely on the new Code, and meets as required. The Chief Executive normally attends its meetings. The Board as a whole is responsible for the appointment of its own members and for nominating them for election by shareholders on first appointment and thereafter for re-election at three yearly intervals.

Remuneration Committee

The Report on Directors' Remuneration on pages 32 to 36 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to directors' remuneration have been applied. The committee is chaired by Mr Harrison and meets at least twice a year.

Audit Committee

The Audit Committee assists the Board in the execution of its responsibilities for corporate governance and internal control, and has adopted terms of reference modelled closely on the new Code. It consists of four non-executive directors, chaired by Mr Walker, and meets three times a year. It reviews the Group's internal control structure, approves the outsourced internal audit (Controls Assurance) and external audit programmes, approves the fees for each, and reviews reports from management, from the external Controls Assurance specialists, and from the external auditors on their work. It also reviews the Group's financial statements and any proposed changes in accounting policies prior to approval by the Board. Furthermore, it keeps under review the objectivity and independence of the external auditors and the nature and extent of the non-audit services which they provide.

Communication

The Group has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through its annual and interim reports, results and other announcements, and presentations to institutional shareholders, the Group seeks to present its strategy and performance in an objective and balanced manner.

The Group received several awards for investor relations during the year: in the UK PLC Awards for 2002, for Best Investor Communication; and in the IR Magazine awards, for Best Investor Relations in the Support Sector, the Grand Prix for Best Smaller Company Investor Relations, and was highly recommended in the award for Best Investor Relations Officer in the Non-FTSE 100 Sector. Information is also available through the Group's website at www.johnmenziesplc.com.

Shareholders attending the Annual General Meeting are invited to ask questions during the meeting and also to meet the directors after the formal business of the meeting has concluded. The Chairmen of the Audit and Remuneration Committees are also available to answer questions from any shareholder at this meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the meeting.

Internal Control

The directors are responsible for the Group's system of internal control, which covers financial, operational and compliance controls together with risk management. Whilst no system can provide absolute guarantee and protection against material loss, the system is designed to give the directors reasonable assurance that problems can be identified promptly and remedial action taken as appropriate.
The directors have reviewed the effectiveness of the system of internal control for the accounting period under review.

The key features of the Group's internal control system are:

Control Environment

A key factor in the Group's approach to internal control is the recognition of the need for risk awareness and the ownership of risk management by executives at all levels. Each operating Division has its own Board. A Statement of Group Policies and Procedures sets out the responsibilities of these Divisional Boards, including authority levels, reporting disciplines and responsibility for risk management and internal control. Certain activities, including treasury, taxation, insurance, pension and legal matters are controlled centrally with reports reviewed by the Board as appropriate.

Risk Identification and Review

Key identified risks are reviewed at both Group and operating Divisional Board level on an ongoing basis, with a formal annual review of risks and controls supported by the Group's Controls Assurance provider. The Chief Executive and Group Finance Director have regular formal meetings with each Divisional Board to review their performance, strategy and risk management. Annual compliance statements on internal control are certified by each Divisional Board.

A Treasury Review Committee meets regularly to review the adequacy of the Group's facilities against potential utilisation and commitments.

Financial Reporting

There is a comprehensive Group-wide system of financial reporting. Figures reported include profit, cash flows, capital expenditure, balance sheet and relevant performance indicators. Each operating Division prepares an annual budget which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken at least twice during the year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate.

Investment Appraisal

There are clearly defined investment guidelines for capital expenditure. All such expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board. Post investment appraisals are conducted for all major capital projects.

Audit Committee

The Audit Committee considers reports from management, the Controls Assurance provider and the external auditors, and makes its recommendations to the Board, prior to the approval of the Annual Report.

Employees

The Board recognises that the Group's success depends on the quality and performance of its employees.

The principles of equal opportunities are recognised through published employment policies which are designed to attract, retain and motivate quality staff, and to give full consideration to the employment of disabled people. Should an employee become disabled when working for the Company, efforts would be made to continue their employment, and retraining would be provided if necessary.

The Board believes in creating throughout the Group a culture based on sound ethical practices which is open and free from discrimination and harassment, and will not tolerate discrimination in any form.

Employees are encouraged to become involved in the financial performance of the Group; its savings-related share option scheme is open to all UK employees, of whom some 1,500 are members.

Internal communications are designed to ensure that employees throughout the Group are kept informed about the direction and performance of their own Division and the Group as a whole. The Group magazine "The Reporter" and Menzies Aviation's "The MAG" are issued on a regular basis and the interim and final results are circulated throughout the business.

Over the past year our investment in employee training has increased. All new staff are provided with training, which for Menzies Distribution staff is supported by newly developed interactive CD-Rom training. The Group recognises the importance of employee and management development in securing the future of the business, and is developing new initiatives to provide advice, support and training to Divisional management.

Supplier Payment Policy

The Group does not operate a standard code in respect of payments to suppliers. Each Division is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including the terms of payment. It is Group policy that payments to suppliers be made in accordance with the agreed terms, provided that the supplier has performed in accordance with all relevant terms and conditions.

The Company does not have any trade creditors, so the number of creditor days outstanding at the year end was nil.

Donations

Donations to various charitable, community and arts organisations totalling £100,000 were made during the year. Individual employees are encouraged to be active members of their local communities, and this total includes donations to causes supported by them.

It is the Company's policy not to make political donations, and no political donations were made during the year.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and authorising the Board to set their remuneration will be proposed at the Annual General Meeting.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) factors play an increasing role in the attitudes of investors, government and customers towards businesses. Indeed, a considered approach to CSR is an underlying factor in any determination to provide quality services. The directors consider that this overall approach is prevalent throughout the Group. For 2002, they retained the Responsible Corporation Ltd, independent specialists in this field, to review this so as to help them to maintain a reasonable and balanced CSR profile reflecting the nature of the business. Responsible Corporation worked with the Group in 2002 to benchmark its CSR position, to understand its key risks and to assist it in formulating an appropriate action plan, and endorsed the Group's Corporate Social Responsibility report in its 2002 Annual Report. The following comments update that report:

Summary

The Group has in place appropriate policies to cover its key CSR risks. Its management structure and senior managers' responsibilities naturally cover CSR factors as part of the Group's determination to provide quality service.

The continuing priority given to appropriate cost management ensures that the business and environmental drivers work in the same direction. The Group's UK CO_2 emissions cannot be considered as having a high environmental impact, and the Group has also taken a leading role in the recycling of unsold newspapers and magazines.

Key CSR Factors

Given the nature of the Group's business, there are two main areas which it needs to ensure are covered by CSR policies since they relate to risks to reputation and consequently to revenues. Other policies are of secondary importance relatively for the Group.

The Group's position on these key areas is as follows:

Health and Safety

The Group has suitable policies in place, together with systems for implementation and feedback, supplemented by training and regular audits. Both Divisions recognise that implementation through the alignment of current working practices to best practice is critical. In particular Menzies Aviation, in addition to a general drive to improve Health and Safety standards in all stations, is extending its Behavioural Risk Improvement schemes, piloted last year, to its operations in certain other airports. It has also established during the year a standardised global accident reporting system designed to enable clear definition and recording of reportable accidents to UK standards which will enable it to focus clearly on any improvements required.

Each Division has a Health and Safety Committee which meets monthly, supported by trained managers, which reviews statistics and how their records, already low by their industry standards, can be improved. The Group Board receives a monthly report on any significant matters, and an annual report on health and safety covering training, statistics and activity during the year.

By the nature of accidents, there can be no guarantee that they will never recur. The measures taken by the Group are intended to place emphasis on prevention and continuing vigilance.

Environment

The key environmental impacts of the Group are through energy usage, principally fuel and electricity consumption, in addition to waste from returned unsold copies of newspapers and magazines specific to Menzies Distribution.

Estimates of CO_2 emissions indicate that the Group cannot be considered as having a high environmental impact. Other environmental impacts within the Group are low due to the nature of the business. As the normal budgetary controls and business efficiency targets act to constrain and progressively improve the environmental impact of the Company's operations, there is no added value in maintaining derived CO_2 emissions targets.

The need to reduce fuel costs, with consequential benefits to CO_2 emissions, is addressed by optimising delivery schedules in order to keep costs down to a minimum.

Delivery schedule optimisation is a key business driver for Menzies Aviation's trucking and coaching services, and particularly for Menzies Distribution, which has grasped the initiative in this area as evidenced by the award received in 2002 from The European Institute of Transport Management. In addition, the effectiveness of the news/magazine supply chain is underlined by the Freight Transport Association's 1998 survey, which states that it "delivers a higher line volume of the shortest life product to a higher number of consumers through a greater number of retail outlets during a more compressed time period than any supply chain previously studied by the Consultants". This is underpinned by a report to be published shortly on the Biffaward Programme on Sustainable Resource Use administered by the Royal Society for Nature Conservation and Biffa Waste Management Ltd which recommends that, in order to avoid a significant increase in certain emissions, "The magazine supply chain should continue to support the principles of geographical wholesaler agreements and consolidated supply." The report also examines the potential use of alternative fuel such as LPG, but concludes that it offers, on a net basis, "little potential advantage".

Controls over waste for unsold newspapers and magazines are closely linked to the need to reduce operating costs by matching so far as possible supply with demand. By providing quality information quickly to the publishers, and by developing sophisticated demand tracking systems, Menzies Distribution continually seeks to minimise the levels of surplus copy consistent with maintaining full availability of product so far as possible at all times within the 21,500 retail outlets served by the Group. Menzies Distribution manages the collection and consolidation of unsold newspapers from these 21,500 retail units for recycling. Unsold magazines, with their high grade paper, are likewise collected, cleansed, consolidated and delivered to recycling plants, in an initiative commended by the Institute of Logistics and Transport. Some 50,000 tonnes of magazines and periodicals and 65,000 tonnes of newspapers are recycled from Menzies Distribution customers each year.

There are thus clear business drivers which closely align the key environmental impacts of the Group with control of costs, whether in energy usage or in waste from unsold product.

By order of the Board

C A ANDERSON
SECRETARY

15th March 2004

Remuneration Committee

The Remuneration Committee determines the remuneration of the Chairman and the executive directors on behalf of the Board and shareholders. It has formal Terms of Reference set by the Board, and has during the year adopted new terms of reference modelled on the new Combined Code. Its members are all non-executive directors as identified on page 24 under the chairmanship of Mr Harrison. The Company Secretary is secretary of the Committee.

The Chairman of the Committee accounts to shareholders at the Annual General Meeting for the decisions of the Committee.

The Chief Executive attends meetings as appropriate, as does Mrs S O'Donnell, Group Human Resources Manager, who has been appointed by the Committee to provide information to assist it in its deliberations.

Members of the Remuneration Committee have no personal financial interest other than as shareholders in the matters to be decided and no day-to-day involvement in the running of the business of the Group.

In considering and determining suitable remuneration packages for the executive directors the Remuneration Committee has given full consideration to the relevant best practice provisions set out in the Combined Code.

Remuneration Policy

The Group recognises that its continuing success depends on the quality and motivation of its employees. The policies followed by the Group aim to ensure that its remuneration practices are competitive, thereby enabling it to attract, retain and motivate executives who have the experience, skills and talents to operate and develop its businesses to their maximum potential. These practices are reviewed each year to ensure that they support the Group's business objectives and the creation of shareholder value. The Remuneration Committee follows these principles with regard to the executive directors, and also reviews the principles underlying the remuneration of senior executives.

Basic Salary and Benefits

The Group's policy for the current and future years is that directors' salaries should be maintained at competitive levels for comparable positions reflecting, where appropriate, the international nature of its business, and that additional reward for success be built in to the remuneration package through incentives designed to share with directors any increasing profitability of the Group and increased wealth generated for shareholders. The principal benefits-in-kind are the provision of a car (or car allowance), private medical insurance and life cover.

Performance Related Bonuses

The executive directors participate in a bonus scheme which is subject to the achievement of challenging Group and individual business targets designed to encourage excellent performance. The Committee has discretion to vary bonus payments for each executive director based on performance. The maximum potential payment for 2003 was 50% of basic salary for the Chief Executive and 45% for the other executive directors. Bonus payments are subject to the approval of the Committee and are non-pensionable.

Share Options

Share options are granted to each executive director normally on an annual basis at a level of one times salary. All grants are discretionary, and awards may be varied depending on specific circumstances. Mr Dollman and Mr Macdonald were granted options at three times salary during 2002 and 2003 respectively, reflecting market conditions at the time of their recruitment, and would normally expect to receive annual grants of options.

Prior to September 2000, share options were not subject to any performance hurdle. Given the Group's shareholding profile, it was considered that the interests of directors and shareholders were already adequately aligned.

Options granted since the adoption of the current share option scheme in September 2000 have been subject to a performance hurdle and lapse if this is not achieved. The Committee considers that any performance hurdles should be kept as simple as possible, and should be closely aligned to shareholder interest, and that currently the use of an earnings per share ratio to determine performance best meets these combined requirements.

The options granted in November 2000 lapsed during the year as the performance target was not met. Options granted in April 2002 have a performance condition which requires the Group to exceed the three-year growth target approved by the Board in February 2002. Options granted in May 2003 are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 9.27% to 25.97% in the three years to December 2005, adjusted to normalise pension and tax charges. Mr Dollman was granted options, following his appointment, in November 2002 with the three-year growth target as approved by the Board in February 2002 on an interim basis. This was changed during the year to the May 2003 option performance hurdle, thus ensuring that his and the other executive directors' hurdles were fully aligned.

In addition the Group operates a savings-related share option scheme which all UK employees, including executive directors, are entitled to join. Under this scheme, options are granted over the Company's shares at a discount of 20% from the prevailing market price at the time of grant to eligible employees at an aggregate value based on savings of up to £250 per month over three years, with savings scaled back if an invitation is oversubscribed.

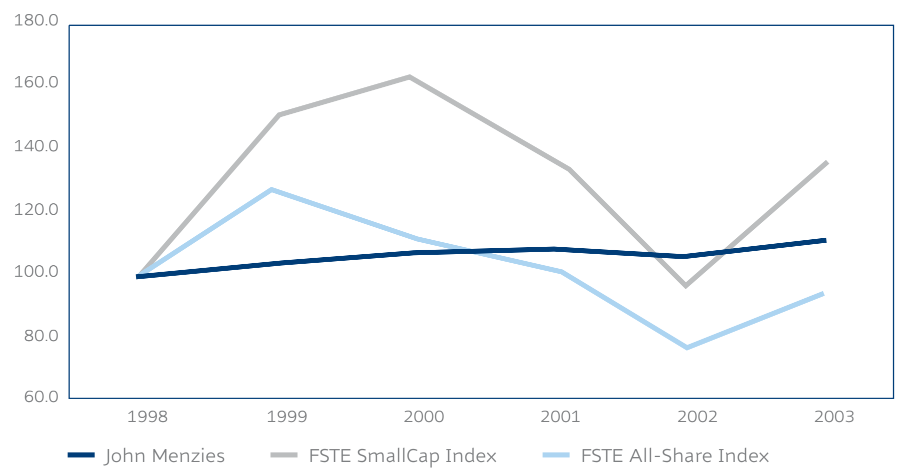
Service Contracts

Each of the executive directors has a service contract with the Company, the dates of which are listed in the table of remuneration below.
The Group's policy on notice periods is that they should be for an initial period of two years following appointment, reducing thereafter to 12 months' notice, with any termination payment restricted to the actual loss incurred by the director. Mr Smith, Mr Dollman and Mr Macdonald each have service contracts on this basis. The service contracts for Mr Mackay, who retired in May 2003, and for Mr Callaghan provided for payment of two years' salary; Mr Callaghan's contract was amended during the year to reduce the notice period to 12 months as above, and to further restrict the companies by which he could be employed following any termination of his service contract.

The Remuneration Committee considers that the notice periods stated above are reasonable and in the interests of shareholders having due regard to prevailing market conditions and practice among companies of comparable size.

Performance Graph

The following graph compares the Company's total shareholder return for the five years to December 2003 with the equivalent performance of the FTSE All-Share and SmallCap Indices. It should be noted when reviewing the comparisons that, since 1998, the Group has completed a fundamental strategic change, from a mixed retail/wholesale operation to one focused on newspaper and magazine distribution and aviation services. The directors therefore consider that the most appropriate comparison is with these two indices, as set out below.



Non-executive Directors

The remuneration of the non-executive directors is determined by the Board on the recommendation of the Chief Executive on an annual basis within the limits contained in the Articles of Association and takes account of market rates based on independent advice as required.
The directors involved, together with the Chairman, do not have service contracts, their terms and conditions being determined by the Board on election or re-election by shareholders, and do not participate in any of the Group's bonus, share or pension schemes. Each director's date of reappointment is shown in the table of remuneration on page 34.

Directors' and Officers' Liability Insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries.

The following sections of this Report have been audited.

Directors' Emoluments

Directors' emoluments for the year to 27th December 2003 (28th December 2002) are:

Name (Date of service contract or appointment) (a)	Salary/fees £'000	In lieu of pension £'000	Bonus £'000	Car allowance £'000	Benefits £'000	Other £'000	Total December 2003 £'000	Total December 2002 £'000
W R E Thomson (9.5.03)	103	–	–	–	–	–	103	82
P J Macdonald (25.8.02)	325	50 (b)	–	15	3	–	393	–
P B Dollman (8.8.02)	227	–	–	13	4	–	244	133
I M Callaghan (13.12.96)	271	–	50	13	1	–	335	349
P S Smith (1.12.99) (c)	210	–	–	13	9	–	232	289
D J Jenkinson (7.9.01)	24	–	–	–	–	–	24	23
I C L Harrison (2.5.02)	29	–	–	–	–	–	29	26
C A Ramsay (7.9.01)	24	–	–	–	–	–	24	23
M J Walker (2.5.02) (d)	29	–	–	–	–	–	29	26
D A Coltman (7.9.01)	44	–	–	–	–	–	44	43
D J Mackay (5.5.93) (e)	154	–	–	–	8	339	501	562
Payments to former directors	–	–	–	–	–	–	–	201
Total							1,958	1,757

Notes

(a) For executive directors, this is the date of their service contract, and for non-executive directors, the latest date of reappointment to the Board.

(b) Provision of pension benefits under the Group's approved pension arrangements is restricted as a consequence of the Finance Act 1989 (the 'earnings cap'). Mr Macdonald elected to receive a salary supplement in lieu of the balance of his pension entitlement.

(c) Mr Smith, who leaves the Company after the 2004 AGM, will receive a termination payment of up to one year's salary under his service contract together with an appropriate proportion of any annual bonus on the 2004 performance of Menzies Aviation to be determined by the Remuneration Committee.

(d) Mr Walker's fees are paid to Maclay Murray & Spens.

(e) Mr Mackay retired on 20th May 2003 after almost 40 years service. Following his retirement and in recognition of the contribution he had made to the Group, he was gifted his company car which at that time had an estimated market value of £26,150, and was granted an ex gratia award of 100,000 ordinary shares by a share trust at a market value of £312,500. He also waived all rights over all his outstanding share options except his savings-related share options, which the Board had resolved that he may retain under the rules of the scheme, the exercise prices of which ranged from 391p to 520p per share.

Share Options

Name	At 28th December 2002	Granted during period	Exercised/ lapsed during period (b)	At 27th December 2003 or date of retirement	Exercise price (pence)	Date exerciseable from	Expiry date
P J Macdonald	–	360,577	–	360,577 (d)	312	13.5.06	12.5.13
	–	2,709*	–	2,709*	286	1.12.06	1.6.07
P B Dollman	205,166	–	–	205,166 (d)	329	8.11.05	7.11.12
	2,680*	–	–	2,680*	275	1.11.05	1.5.06
	–	593*	–	593*	286	1.12.06	1.6.07
I M Callaghan	15,000	–	–	15,000	653	25.2.97	24.2.04
	10,000	–	–	10,000	501	27.2.98	26.2.05
	10,000	–	–	10,000	520	1.3.99	28.2.06
	25,000	–	–	25,000	461	21.2.00	20.2.07
	70,300	–	–	70,300	492	7.4.01	6.4.08
	25,000	–	–	25,000	391	28.1.03	27.1.10
	54,331	–	54,331 (e)	–	399	20.11.03	19.11.10
	67,458	–	–	67,458 (f)	331	10.4.05	9.4.12
	2,680*	–	–	2,680*	275	1.11.05	1.5.06
	–	78,723	–	78,723 (d)	312	13.5.06	12.5.13
P S Smith	10,000	–	–	10,000	596	16.10.98	15.10.05
	5,000	–	–	5,000	520	1.3.99	28.2.06
	5,000	–	–	5,000	461	21.2.00	20.2.07
	5,000	–	–	5,000	404	10.10.00	9.10.07
	15,000	–	–	15,000	492	7.4.01	6.4.08
	10,000	–	–	10,000	348	18.2.02	17.2.09
	25,000	–	–	25,000	391	28.1.03	27.1.10
	40,897	–	40,897 (e)	–	399	20.11.03	19.11.10
	55,891	–	–	55,891 (f)	331	10.4.05	9.4.12
	2,680*	–	–	2,680*	275	1.11.05	1.5.06
	–	64,103	–	64,103 (d)	312	13.5.06	12.5.13
	–	593*	–	593*	286	1.12.06	1.6.07
D J Mackay (g) (Retired 20.5.03)	25,000	–	–	25,000	501	27.2.98	20.5.04
	25,000	–	–	25,000	520	1.3.99	20.5.04
	30,000	–	–	30,000	461	21.2.00	20.5.04
	123,000	–	–	123,000	492	7.4.01	20.5.04
	18,549	–	–	18,549	391	28.1.03	20.5.04
	225,563	–	225,563 (e)	–	399	20.5.03	20.5.04
	2,680*	–	–	2,680*	275	20.5.03	30.11.03

Notes:

(a) All the above options were issued under the executive share option scheme at nil cost with the exception of those items marked * which have been issued under the Group's savings-related share option scheme.

(b) No options were exercised during the year or up to date of retirement (see (g) below).

(c) The market price for shares in John Menzies plc ranged from 253.5p to 359p during the period and was 317.5p at 27th December 2003.

(d) These options are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 9.27% to 25.97% in the three years to December 2005, adjusted to normalise pension and tax charges. The performance condition for Mr Dollman's options was initially set as at (f), but was changed during the year so as to align it with the other executive directors'.

(e) These options were subject to the performance condition that growth in headline earnings per share for the three years to 30th April 2003 be equal to or greater than 6% above the level of the UK RPI. The condition was not met, and these options have therefore lapsed.

(f) These options require the Group to exceed the three-year growth target approved by the Board in February 2002, failing which the options will lapse.

(g) Mr Mackay waived all his outstanding options following his retirement with the exception of those marked *.

Pensions

Scheme Benefits

The executive directors are members of the Menzies Pension Fund, a defined benefit contributory scheme which provides pension on retirement at age 60 of up to two-thirds of pensionable earnings, or the 'earnings cap' if lower together with additional benefits as below. Pensionable earnings are based on salary excluding bonuses.

Unfunded Arrangement

The pensionable salaries for Mr Macdonald, Mr Smith and Mr Dollman are restricted as a consequence of the 'earnings cap'. Of these directors, Mr Macdonald has elected to receive a salary supplement in lieu of his unapproved pension entitlement, and the others have an unfunded pension undertaking from the Company to provide in total the same level of pension as if the 'earnings cap' did not apply. This entitlement is effective from their date of appointment as a director.

Pension details are as follows:

				Transfer Value (b) (c)		
Director	Age	Increase in accrued pension during year £'000	Total accrued pension entitlement at 27th Dec 2003 (a) £'000	27th Dec 2003 £'000	28th Dec 2002 £'000	Increase excl members' contributions £'000
P J Macdonald	41	3	3	21	–	17
P B Dollman	47	6	8	65	11	43
I M Callaghan	56	18	152	2,269	1,754	501
P S Smith	59	8	39	733	515	212
D J Mackay (*)	60	10(d)	226	4,427	4,109	312

*(to date of retirement)

Notes:

(a) The pension benefits disclosed above include unfunded benefits. Unfunded transfer values at 27th December 2003 totalled £289,000.

(b) Transfer values represent the value of assets which the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent sums payable to individual directors and therefore cannot be added meaningfully to annual remuneration.

(c) Transfer values have been calculated in accordance with 'Retirement Benefit Schemes (GN 11)' published by the Institute of Actuaries and the Faculty of Actuaries. This methodology determines the values attributable to the deferred pensions for younger members by reference mainly to the UK All-Share Index and for members nearing normal retirement date mainly to the Gilts Over 15 Years Index. The movements in the transfer values shown above are therefore strongly influenced by the movements in these indices. At the year end the UK All-Share Index showed a significant rise whereas the Gilts Over 15 Years Index only showed a small increase over the year.

(d) The increase in Mr D J Mackay's accrued pension reflects the difference in benefits between 28th December 2002 and 20th May 2003.

Annual General Meeting

This Report will be tabled for consideration by shareholders at the Annual General Meeting to be held on 30th April 2004.

By order of the Board

C A ANDERSON
SECRETARY

15th March 2004

The interests, all ordinary shares, of the directors in the share capital of the Company at 27th December 2003 and 28th December 2002 were as follows:

		2003	2002
W R E Thomson	Beneficial	4,000	4,000
P J Macdonald	Beneficial	6,150	-
P B Dollman	Beneficial	3,150	-
I M Callaghan	Beneficial	10,194	10,194
P S Smith	Beneficial	20,501	16,501
D J Jenkinson	Beneficial	2,258,360	2,258,360
	Note 1	2,514,885	2,514,885
	Non-beneficial	3,570,360	3,570,360
I C L Harrison	Beneficial	2,122,832	2,122,832
	Note 1	2,514,885	2,514,885
	Non-beneficial	82,350	82,350
C A Ramsay	Beneficial	1,712,600	1,712,600
	Non-beneficial	759,286	759,286
M J Walker	Beneficial	1,000	1,000
D A Coltman	Beneficial	7,000	7,000

Notes

1. These holdings are joint beneficial interests.
2. In addition to the above holdings, Mr Thomson and Mr Walker, as directors of a subsidiary which is a trustee of employee trusts in which they have no beneficial interest, have non-beneficial interests in 545,527 shares.
3. There have been no subsequent changes to these interests as at 15th March 2004.

GROUP PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 27th December 2003 (52 weeks ended 28th December 2002)

	Notes	Before exceptional items £m	Exceptional items (Note 5) £m	2003 Total £m	Before exceptional items £m	Exceptional items (Note 5) £m	2002 Total £m
Turnover: Group and share of joint ventures and associates	2	1,240.7	–	1,240.7	1,196.5	–	1,196.5
Less share of:							
Joint ventures		(16.5)	–	(16.5)	(13.7)	–	(13.7)
Associates		(20.9)	–	(20.9)	(50.0)	–	(50.0)
Group turnover		1,203.3	–	1,203.3	1,132.8	–	1,132.8
Net operating costs	3	(1,181.5)	(15.5)	(1,197.0)	(1,112.0)	(1.4)	(1,113.4)
Continuing operations		21.8	(15.5)	6.3	20.8	(0.7)	20.1
Discontinued operation		–	–	–	–	(0.7)	(0.7)
Group operating profit / (loss)		21.8	(15.5)	6.3	20.8	(1.4)	19.4
Share of operating (loss) / profit in							
Joint ventures		(0.4)	(0.6)	(1.0)	–	–	–
Associates		2.6	–	2.6	4.7	(1.0)	3.7
Total operating profit / (loss)	2	24.0	(16.1)	7.9	25.5	(2.4)	23.1
Loss on disposal of businesses	5	–	(1.1)	(1.1)	–	(2.3)	(2.3)
Profit / (loss) on ordinary activities before interest		24.0	(17.2)	6.8	25.5	(4.7)	20.8
Net interest payable	7	(3.7)	–	(3.7)	(3.1)	–	(3.1)
Profit / (loss) on ordinary activities before taxation		20.3	(17.2)	3.1	22.4	(4.7)	17.7
Taxation	8	(6.6)	0.4	(6.2)	(5.6)	–	(5.6)
Profit / (loss) after taxation		13.7	(16.8)	(3.1)	16.8	(4.7)	12.1
Minority interests	22			(0.1)			(0.1)
(Loss) / profit for the financial year				(3.2)			12.0
Dividends (including non–equity)	9			(11.2)			(12.1)
Retained loss for the financial year				(14.4)			(0.1)
Earnings per ordinary share	10						
Headline		28.9p			32.9p		
FRS 3				(7.3)p			18.2p
Headline / FRS 3 diluted		28.9p		(7.3)p	32.9p		18.2p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 weeks ended 27th December 2003 (52 weeks ended 28th December 2002)

	2003 £m	2002 £m
(Loss) / profit for the financial year	(3.2)	12.0
Currency translation	0.3	(2.7)
Total recognised (losses) / gains for the financial year	(2.9)	9.3

GROUP AND COMPANY BALANCE SHEETS

as at 27th December 2003 (28th December 2002)

	Notes	Group £m	Group 2003 £m	Group £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets							
Intangible assets	11		27.4		34.6	–	–
Tangible assets	12		116.3		116.1	4.7	4.8
Investments	13						
– joint ventures							
Goodwill		–		8.9		–	–
Share of gross assets		1.4		4.1		–	–
Share of gross liabilities		(0.7)		(3.5)		–	–
Shareholder loans		0.3		0.6		–	–
			1.0		10.1	–	–
– associates			23.2		32.0	–	–
– other			3.9		3.6	–	–
– subsidiaries			–		–	97.9	98.6
Total investments			28.1		45.7	97.9	98.6
			171.8		196.4	102.6	103.4
Current assets							
Stocks			12.9		10.8	–	–
Debtors – amounts due after more than one year	14		51.9		48.6	42.5	42.5
– amounts due within one year	14		90.4		96.7	79.2	130.0
Cash at bank and in hand	16		32.1		55.7	5.7	2.6
			187.3		211.8	127.4	175.1
Creditors: amounts falling due within one year							
Bank loans and overdrafts	16		(27.1)		(22.3)	(6.6)	(15.7)
Other	15		(157.1)		(153.0)	(91.4)	(86.0)
			(184.2)		(175.3)	(98.0)	(101.7)
Net current assets			3.1		36.5	29.4	73.4
Total assets less current liabilities			174.9		232.9	132.0	176.8
Creditors: amounts falling due after more than one year							
Loans and other borrowings	16		(68.2)		(91.5)	(62.8)	(91.5)
Other	15		(1.5)		(2.8)	–	–
Provision for liabilities and charges							
Deferred taxation	19		(14.4)		(12.9)	–	0.3
Other	19		(9.0)		(10.2)	–	–
			81.8		115.5	69.2	85.6
Capital and reserves							
Called up share capital	20		14.3		14.3	14.3	14.3
Share premium account	21		6.0		5.6	6.0	5.6
Profit and loss account	21		38.4		72.5	25.9	42.7
Capital redemption reserve	21		21.6		1.6	21.6	1.6
Equity shareholders' funds			80.3		94.0	67.8	64.2
Non–equity share capital	20		1.4		21.4	1.4	21.4
Shareholders' funds	23		81.7		115.4	69.2	85.6
Minority interests	22		0.1		0.1	–	–
			81.8		115.5	69.2	85.6

The accounts were approved by the Board of Directors on 15th March 2004 and signed on its behalf by:

Patrick Macdonald, Chief Executive

Paul Dollman, Group Finance Director

for the 52 weeks ended 27th December 2003 (52 weeks ended 28th December 2002)

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	24a		40.6		22.9
Dividends from joint ventures and associates			3.5		4.6
Returns on investments and servicing of finance					
Interest received		1.9		1.3	
Interest paid		(5.6)		(4.8)	
Preference dividends paid		(1.0)		(1.8)	
Minority interest dividends		(0.1)		–	
Net cash outflow from returns on investments and servicing of finance			(4.8)		(5.3)
Tax paid			(2.4)		(3.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(17.0)		(14.0)	
Sale of tangible fixed assets		0.8		1.5	
Net cash outflow from capital expenditure and financial investment			(16.2)		(12.5)
Acquisitions and disposals					
Investment in joint ventures and associates		(1.9)		(0.2)	
Purchase of subsidiaries		(1.6)		(21.5)	
Net overdrafts acquired with subsidiaries		–		(0.4)	
Disposal of associates		4.7		5.8	
Net cash disposed of with subsidiaries	25	(0.1)		–	
Net cash inflow / (outflow) from acquisitions and disposals			1.1		(16.3)
Equity dividends paid			(10.3)		(9.9)
Net cash inflow / (outflow) before use of liquid resources and financing			11.5		(20.2)
Management of liquid resources					
Decrease / (increase) in short term deposits		30.0		(16.9)	
Net cash inflow / (outflow) from management of liquid resources			30.0		(16.9)
Net cash inflow / (outflow) before financing			41.5		(37.1)
Financing					
Proceeds from shares issued		0.4		1.8	
Redemption of preference shares		(20.0)		–	
Loan notes redeemed		0.3		3.3	
(Decrease) / increase in loans		(29.2)		32.5	
Net cash (outflow) / inflow from financing			(48.5)		37.6
(Decrease) / increase in cash in the year	24b,c		(7.0)		0.5

1. Accounting policies

Accounting convention and presentation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. There were no material differences between reported profits and historical profits on ordinary activities of the Group both before and after taxation. In accordance with Section 230 of the Companies Act 1985 no profit and loss account is presented for the Company. A summary of the more significant accounting policies, which have been consistently applied, is given below.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, joint ventures and associates from the effective date of acquisition or to the date of deemed disposal.

Turnover

Distribution Services – revenue is recognised on the invoiced value of goods sold.

Aviation Services – cargo revenue is recognised at the point of departure for exports and at the point that the goods are ready for dispatch for imports. Other ramp, passenger and aviation related services income is recognised in accordance with when the service was performed. Turnover excludes value added and sales taxes, charges collected on behalf of customers and intercompany transactions.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, including acquisition expenses, less accumulated depreciation. Depreciation is provided on a straight line basis at the following rates:

Freehold and long leasehold properties
– over 50 years.

Short leasehold properties
– over the remaining lease term.

Plant and equipment
– over the estimated life of the asset.

Stocks

Stocks, being goods for resale and consumables, are stated at the lower of purchase cost and net realisable value.

Pensions

The cost of providing retirement benefits in the Group defined benefit scheme is charged to the profit and loss account over the period of the relevant employee's service. Variations identified at each actuarial valuation date are spread over the average remaining service lives of members. Pension costs are assessed in accordance with the advice of qualified actuaries. With regard to defined contribution schemes and a non–Group defined benefit scheme, in which the Group participated, the profit and loss charge represents contributions made.

Deferred taxation

Deferred tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in accounts. Deferred tax is not provided on unremitted earnings of subsidiaries, joint ventures and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Goodwill

Goodwill, representing the excess of purchase consideration over the fair value of net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful life of up to 20 years. Goodwill arising on each aquisition is reviewed separately for impairment as necessary and, where appropriate, charged to the profit and loss account. Goodwill arising on acquisitions prior to April 1998 (Note 21) has been set off directly against reserves in line with the provisions of FRS 10.

Foreign currencies

Foreign currency assets and liabilities of the Group are translated at the rates of exchange ruling at the balance sheet date. The trading results of overseas subsidiaries, joint ventures and associates are translated at the average exchange rate ruling during the year, with the exchange difference between average rates and the rates ruling at the balance sheet date being taken to reserves.

Any differences arising on the translation of the opening net investment, including goodwill, in overseas subsidiaries, joint ventures and associates, and of applicable foreign currency loans, are dealt with as adjustments to reserves. All other exchange differences are dealt with in the profit and loss account.

Foreign currency contracts are accounted for as hedges and matched with the accounting treatment of the relevant hedged item.

Leases

Assets acquired under finance leases are capitalised in the balance sheet and are depreciated over their useful lives or over the lease term, whichever is shorter. The interest element of the rental obligations is charged to the profit and loss account as incurred.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over applicable lease periods.

2. Segmental analysis

	Turnover		Pre-exceptional operating profit/(loss)		Net assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
By class of business						
Distribution Services	1,001.0	959.6	31.2	28.7	26.9	30.2
Aviation Services	239.7	236.9	4.1	3.7	109.3	137.0
	1,240.7	1,196.5	35.3	32.4	136.2	167.2
Central Services	–	–	(6.5)	(7.0)	–	–
Pension (debit) / credit and prepayment	–	–	(1.2)	3.6	51.9	48.6
	1,240.7	1,196.5	27.6	29.0	188.1	215.8
Goodwill amortisation	–	–	(3.6)	(3.5)	–	–
	1,240.7	1,196.5	24.0	25.5	188.1	215.8
Reconciliation of net assets:						
Net debt					(63.3)	(58.2)
Unallocated net liabilities					(43.0)	(42.1)
Net assets					81.8	115.5
By geographical origin						
United Kingdom	1,104.2	1,053.2	21.6	21.1	123.8	122.9
Continental Europe	57.8	62.9	3.3	2.3	17.6	26.1
Americas	53.9	57.5	(1.5)	(0.6)	13.5	29.3
Rest of the World	24.8	22.9	0.6	2.7	33.2	37.5
	1,240.7	1,196.5	24.0	25.5	188.1	215.8
Joint Ventures and Associates included above						
Distribution Services						
Joint ventures	11.6	8.6	–	(0.2)	–	0.7
Associates	12.9	14.1	0.2	0.1	0.7	0.8
Aviation Services						
Joint ventures	4.9	5.1	0.1	0.6	1.0	9.4
Associates	8.0	35.9	3.7	6.2	22.5	31.2
	37.4	63.7	4.0	6.7	24.2	42.1
Goodwill amortisation						
– joint ventures	–	–	(0.5)	(0.4)	–	–
– associates	–	–	(1.3)	(1.6)	–	–
	37.4	63.7	2.2	4.7	24.2	42.1
Joint Ventures and Associates by geographical origin						
United Kingdom	24.5	22.9	0.2	(0.2)	0.7	1.7
Continental Europe	0.2	25.9	(0.2)	0.9	0.3	5.7
Americas	4.7	4.9	(0.2)	0.3	0.7	9.2
Rest of the World	8.0	10.0	2.4	3.7	22.5	25.5
	37.4	63.7	2.2	4.7	24.2	42.1

Turnover by geographical origin and destination do not materially differ.

Goodwill amortisation is attributable to Distribution Services – £0.4m (2002: £0.4m) and Aviation Services – £3.2m (2002: £3.1m).

The results of acquisitions during the year were not material.

3. Net operating costs

	2003 £m	Continuing £m	Discontinued £m	2002 £m
Goods for resale and consumables	927.5	885.3	–	885.3
Other operating charges	53.4	48.7	–	48.7
Employment costs (Note 4)	183.0	162.5	–	162.5
Goodwill amortisation (Note 11)	1.8	1.5	–	1.5
Depreciation (Note 12)	15.8	14.0	–	14.0
Exceptional operating expenses (Note 5)	15.5	0.7	0.7	1.4
	1,197.0	1,112.7	0.7	1,113.4
Other operating charges include:				
Hire charges – plant and machinery	7.2	6.7	–	6.7
Rent of properties	21.4	18.5	–	18.5
Loss on disposal of fixed assets	0.1	0.4	–	0.4
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:				
Statutory UK audit	0.3			0.3
Overseas audit	0.2			0.2
Due diligence work:				
– United Kingdom	–			0.1
– Rest of the World	0.1			0.1

The auditors' remuneration for the parent company was £15,000 (2002: £15,000).

4. Employees

	2003 £m	2002 £m
Wages and salaries	163.2	150.3
Social security costs	16.2	14.5
	179.4	164.8
Pension charge / (credit)	3.6	(2.3)
	183.0	162.5

The average number of full time equivalent persons employed during the year was:

	2003 number	2002 number
Distribution Services	3,938	4,037
Aviation Services	6,664	5,874
Central Services	54	59
	10,656	9,970

The numbers above include 4,924 full time equivalent persons employed outside the UK (2002: 4,424).

4. Employees (continued)

Pension schemes

With regard to the principal Group funded defined benefit scheme in the UK (the Menzies Pension Fund), to which the employees contribute, the charge to the profit and loss account is assessed in accordance with independent actuarial advice from Aon Consulting ("the Actuary") using the projected unit method. Certain Group subsidiaries operate overseas and participate in a number of pension schemes, which are largely of a defined contribution nature. The profit and loss charge for defined contribution schemes represents the contributions made. A subsidiary company participated in the UK defined benefit scheme of a third party and accordingly the profit and loss charge in respect of this particular scheme represented the contributions made during the period of participation.

SSAP 24 regular pension costs

The net pension charge / (credit) to the profit and loss account is analysed as follows:

	2003 £m	2002 £m
Menzies Pension Fund		
Regular pension cost	2.7	2.8
Interest on balance sheet prepayment	(4.0)	(3.7)
Amortisation of deficit / (surplus)	2.5	(2.7)
	1.2	(3.6)
Other schemes	2.4	1.3
	3.6	(2.3)

In respect of the Menzies Pension Fund, the Actuary prepared a valuation update as at December 2002 when the market value of the scheme's assets was £119.6m. The actuarial value represented 116% of the value of the benefits that had accrued to members, yielding a surplus of £15.3m. The next actuarial valuation will be prepared as at December 2003.

Interest on the balance sheet prepayment is calculated using a market related rate of investment return of 8.25%. The deficit / surplus over the balance sheet prepayment is charged / credited to the profit and loss account on a straight line basis over the anticipated remaining service lives of the current members. The assumptions used in the actuarial valuation to determine the valuation results were:

	%
Rate of return on investments	8.25
Rate of increase in salaries	2.75
Rate of increase in pensions	3.25
Rate of increase in price inflation	2.25

Employer contributions of £4.5m (2002: nil) were paid during the year.

4. Employees (continued)

FRS 17 disclosures

The Actuary undertook a valuation update of the Menzies Pension Fund as at 29th December 2003 (2002: 31st December) for the purposes of disclosure under FRS 17.

In deriving the results the Actuary used the projected unit method and the following financial assumptions:

	2003 %	2002 %	2001 %
Rate of increase in salaries	3.25	2.75	3.25
Rate of increase in pensions	3.25	3.25	3.25
Rate of increase in price inflation	2.75	2.25	2.75
Discount rate	5.40	5.50	5.75

Net pension (liability) / asset

The assets in the scheme and the expected rates of return as at 29th December 2003 were as follows:

	Long term rate of return %	Value at December 2003 £m	Long term rate of return %	Value at December 2002 £m	Long term rate of return %	Value at December 2001 £m
Equities	8.0	117.9	9.5	99.6	8.5	134.4
Bonds	5.4	30.9	5.8	19.7	6.0	21.7
Cash	3.0	4.7	3.0	0.6	3.0	2.2
Total market value of assets		153.5		119.9		158.3
Present value of scheme liabilities		(191.1)		(164.7)		(148.2)
(Deficit) / surplus in scheme		(37.6)		(44.8)		10.1
Related deferred tax asset / (liability)		11.3		13.4		(3.0)
Net pension (liability) / asset		(26.3)		(31.4)		7.1

If FRS 17 had been adopted in the Accounts, the Group's net assets and profit and loss reserve would be as follows:

	£m	£m	£m
Net assets per Accounts	81.8	115.5	116.4
Pension adjustment (net of deferred taxation)	(62.6)	(65.4)	(24.4)
Net assets	19.2	50.1	92.0
Profit and loss reserve per Accounts	38.4	73.5	73.6
Pension adjustment (net of deferred taxation)	(62.6)	(65.4)	(24.4)
Profit and loss (deficit) / reserve	(24.2)	8.1	49.2

4. Employees (continued)

FRS 17 disclosures

Had the Group adopted FRS 17 early, profit and loss reserves would have been adjusted as follows:

Amounts charged to profit and loss account	2003 £m	2002 £m
Current service cost	5.0	4.9
Past service costs	–	–
Total amount charged to profit and loss account	5.0	4.9

Amounts included as other finance costs	£m	£m
Expected return on pension scheme assets	9.7	12.6
Interest on pension liabilities	(9.1)	(8.5)
Net financial return	0.6	4.1

Amounts recognised in the statement of total recognised gains and losses	£m	£m
Actual return less expected return on assets	14.0	(46.0)
Experience gains / (losses) on liabilities	2.1	(4.7)
Impact of changes in assumptions relating to the present value of scheme liabilities	(9.0)	(3.4)
Actuarial gain / (loss)	7.1	(54.1)

Movement in the (deficit) / surplus during the year	£m	£m
(Deficit) / surplus in the Fund brought forward	(44.8)	10.1
Current service cost	(5.0)	(4.9)
Employer contribution	4.5	–
Past service costs	–	–
Net financial return	0.6	4.1
Actuarial gain / (loss)	7.1	(54.1)
Deficit in the Fund carried forward	(37.6)	(44.8)

FRS 17 five year history

The following disclosures will be built up over time as a five year history	% of scheme assets/ liabilities	2003 £m	% of scheme assets/ liabilities	2002 £m
Difference between actual and expected return on scheme assets	9%	14.0	38%	(46.0)
Experience gains / (losses) on scheme liabilities	1%	2.1	3%	(4.7)
Amount recognised in statement of total recognised gains and losses	4%	7.1	33%	(54.1)

5. Exceptional items

	Notes	2003 £m	2002 £m
Exceptional operating expenses:			
Aviation Services	a	(14.6)	(0.7)
Central Services	b	(0.9)	–
Discontinued operation	c	–	(0.7)
		(15.5)	(1.4)
Distribution Services – joint venture	d	(0.6)	–
Aviation Services – associate	e	–	(1.0)
Total exceptional operating expenses		(16.1)	(2.4)
Non-operating exceptional items:			
Net loss on disposal of businesses	f	(1.1)	(2.3)
Total non-operating exceptional items		(1.1)	(2.3)
Total exceptional items		(17.2)	(4.7)

a 2003: Goodwill impairment required following the Board's review of the carrying value of goodwill in the Group's joint venture in Peru, as a result of uncertainty in this market – £7.8m, and following an adverse change in the business and market predominantly at Menzies World Cargo – £4.7m (Note 11).

Costs incurred as a result of the business rationalisation programme undertaken during the year – £2.1m.

2002: Cost of rationalising excess capacity, comprising asset write downs, property costs and related staff costs.

b Costs incurred as a result of the business rationalisation programme undertaken during the year – £0.9m.

c On 30th October 2002 the Group was fined €8.64m (£5.6m) by the European Commission for restriction of cross-border trading in Nintendo products.

In December 2002 Nintendo agreed to settle a legal action raised against them by the Group in the amount of €7.5m (£4.9m).

These amounts were paid in February 2003.

d Provision against investment in joint venture (Note 13).

e The Group's share of the cost of reducing excess capacity in Aeroporti di Roma Handling SpA.

f 2003: On 10th March the Group sold its 49% interest in Aeroporti di Roma Handling SpA for a consideration equal to net book value.

On 20th June the Group sold its Aviation Services operation in Canada at a loss of £1.1m.

2002: On 28th February the Group sold Mecanix, a vehicle repair and maintenance facility at Heathrow, at a loss of £0.2m.

On 31st March the Group closed its Aviation Services operation in South Korea at a cost of £1.0m.

On 1st April the Group sold its Aviation Services operation in Germany at a loss of £1.1m.

6. Directors

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 32 to 37.

7. Interest

	2003 £m	2002 £m
Receivable:		
Bank deposits	(2.1)	(1.4)
Share of associates	–	(0.1)
	(2.1)	(1.5)
Payable:		
Bank loans and overdrafts	5.8	4.6
Net interest payable	3.7	3.1

8. Taxation

(a) Analysis of charge in year	2003 £m	2002 £m
Current tax		
UK corporation tax on profits for the year	5.4	4.5
Overseas tax	0.9	1.2
Adjustments to prior years' liabilities	(2.3)	(3.8)
Share of joint ventures	0.1	0.2
Share of associates	0.6	1.6
Total current tax	4.7	3.7
Deferred tax		
Origination and reversal of timing differences	1.4	1.9
Adjustments to prior years' liabilities	0.1	–
Total deferred tax	1.5	1.9
Tax on profit on ordinary activities	6.2	5.6

The tax charge includes a credit of £0.4m (2002: nil) in respect of exceptional items.

The tax charge for the year is higher (2002: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

(b) Factors affecting tax charge for the year	2003 £m	2002 £m
Profit on ordinary activities before tax	3.1	17.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	0.9	5.3
Effects of:		
Permanent differences (principally goodwill amortisation and exceptional items)	6.2	3.4
Capital allowances in excess of depreciation and other timing differences	(0.4)	(0.8)
Pension prepayment	(1.0)	(1.1)
Utilisation of tax losses	(1.4)	(1.3)
Adjustments to prior years' liabilities	(2.3)	(3.8)
Unrelieved overseas losses	2.5	1.6
Higher tax rates on overseas earnings	0.2	0.4
Current tax charge for year	4.7	3.7

8. Taxation (continued)

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief, or the Group's existing capital losses could not be utilised. The total amount unprovided for is £1.9m (2002: £1.6m). At present it is not envisaged that any tax will become payable in the foreseeable future.

Some of the Group's overseas operations, particularly in the Netherlands, Hong Kong, Germany and the USA, have generated tax losses in the past, the future utilisation of which is uncertain. The Group has therefore not recognised a deferred tax asset of £22.2m (2002: £17.3m) in respect of tax losses of overseas companies.

No deferred tax asset has been provided in respect of capital losses within the Group. There are no current and binding contracts to sell any of the Group's assets and no sales are anticipated in the foreseeable future. The recoverability of these losses is therefore uncertain and as such, has not been provided in the accounts. The amount at 30% which may be recovered against future capital gains is £9.7m (2002: £8.5m).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, joint ventures and associates. As the earnings are continually reinvested, no tax is expected to be payable on them in the foreseeable future.

9. Dividends

	2003 £m	2002 £m
Dividends on equity shares:		
Ordinary – Interim paid, 5.5p (2002: 5.5p) per share	3.1	3.1
– Final proposed, 12.6p (2002: 12.6p) per share	7.2	7.2
Dividends on non-equity shares:		
Preference shares	0.9	1.8
	11.2	12.1

Dividends of £0.1m (2002: £0.1m) were waived by employee share trusts (Note 13) during the year.

10. Earnings per share

	Headline		FRS 3 Post exceptional items	
	2003 £m	2002 £m	2003 £m	2002 £m
Operating profit	24.0	25.5	24.0	25.5
add back: goodwill amortisation	3.6	3.5	–	–
Exceptional items	–	–	(17.2)	(4.7)
Interest	(3.7)	(3.1)	(3.7)	(3.1)
Profit before taxation	23.9	25.9	3.1	17.7
Taxation	(6.6)	(5.6)	(6.2)	(5.6)
Minority interests	(0.1)	(0.1)	(0.1)	(0.1)
Preference dividends	(0.9)	(1.8)	(0.9)	(1.8)
Earnings for the year	16.3	18.4	(4.1)	10.2
Headline				
Earnings per ordinary share (pence)	28.9	32.9		
Diluted earnings per ordinary share (pence)	28.9	32.9		
FRS 3				
Earnings per ordinary share (pence)			(7.3)	18.2
Diluted earnings per ordinary share (pence)			(7.3)	18.2
Number of ordinary shares in issue (millions)				
Weighted average	56.359	55.903		
Diluted weighted average	56.399	55.941		

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts (Note 13).
The diluted weighted average is calculated by adjusting for all outstanding share options which are potentially dilutive i.e. where the exercise price is less than the average market price of the shares during the year.

11. Intangible assets – goodwill

	Joint ventures £m	Associates £m	Subsidiaries £m	Total £m
Cost				
At 28th December 2002	10.0	28.6	38.0	76.6
Acquisitions (Note 25)	–	–	0.2	0.2
Disposals (Note 25)	–	(4.8)	–	(4.8)
Fair value adjustment	–	–	(0.9)	(0.9)
Currency translation	(0.8)	(2.5)	(0.1)	(3.4)
At 27th December 2003	9.2	21.3	37.2	67.7
Amortisation				
At 28th December 2002	1.1	3.1	3.4	7.6
Charge for the year	0.5	1.3	1.8	3.6
Exceptional impairment (Note 5)	7.8	–	4.7	12.5
Disposals (Note 25)	–	(0.5)	–	(0.5)
Currency translation	(0.2)	(0.3)	(0.1)	(0.6)
At 27th December 2003	9.2	3.6	9.8	22.6
Net book value				
At 27th December 2003	–	17.7	27.4	45.1
At 28th December 2002	8.9	25.5	34.6	69.0

The fair value adjustment relates to the finalisation of the formal completion accounts process in respect of Fr8 BV.

12. Tangible fixed assets

	Group					Company			
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and equipment £m	Total £m	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
Cost									
At 28th December 2002	37.2	0.5	33.0	90.2	160.9	5.6	0.1	0.3	6.0
Acquisitions (Note 25)	–	–	–	0.2	0.2	–	–	–	–
Additions	0.4	–	1.1	15.2	16.7	–	–	–	–
Transfers	(0.1)	–	0.1	–	–	–	–	–	–
Disposals	(0.2)	–	(0.7)	(3.0)	(3.9)	–	–	–	–
Currency translation	–	–	0.5	(0.8)	(0.3)	–	–	–	–
At 27th December 2003	37.3	0.5	34.0	101.8	173.6	5.6	0.1	0.3	6.0
Depreciation									
At 28th December 2002	3.6	0.1	6.8	34.3	44.8	1.0	–	0.2	1.2
Charge for the year	0.7	0.1	2.2	12.8	15.8	0.1	–	–	0.1
Disposals	–	–	(0.5)	(2.3)	(2.8)	–	–	–	–
Currency translation	–	–	–	(0.5)	(0.5)	–	–	–	–
At 27th December 2003	4.3	0.2	8.5	44.3	57.3	1.1	–	0.2	1.3
Net book value									
At 27th December 2003	33.0	0.3	25.5	57.5	116.3	4.5	0.1	0.1	4.7
At 28th December 2002	33.6	0.4	26.2	55.9	116.1	4.6	0.1	0.1	4.8

13. Investments

	Group							Company
	Shares in joint ventures £m	Loans to joint ventures £m	Shares in associates £m	Loans to associates £m	Own shares held £m	Other £m	Total £m	Subsidiaries £m
Cost excluding goodwill								
At 28th December 2002	0.6	0.6	5.9	0.6	3.6	–	11.3	98.6
New investments	0.2	0.4	1.1	–	0.1	0.2	2.0	–
Loan notes redeemed	–	–	–	(0.3)	–	–	(0.3)	–
Exceptional provision (Note 5)	0.1	(0.7)	–	–	–	–	(0.6)	–
Disposals (Note 25)	–	–	(1.5)	–	–	–	(1.5)	(0.7)
Share of profits after tax	–	–	3.3	–	–	–	3.3	–
Dividends received	(0.3)	–	(3.2)	–	–	–	(3.5)	–
Currency translation	0.1	–	(0.4)	–	–	–	(0.3)	–
At 27th December 2003	0.7	0.3	5.2	0.3	3.7	0.2	10.4	97.9
Goodwill								
At 28th December 2002	8.9	–	25.5	–	–	–	34.4	–
Amortisation	(0.5)	–	(1.3)	–	–	–	(1.8)	–
Exceptional impairment (Note 5)	(7.8)	–	–	–	–	–	(7.8)	–
Disposals (Note 25)	–	–	(4.3)	–	–	–	(4.3)	–
Currency translation	(0.6)	–	(2.2)	–	–	–	(2.8)	–
At 27th December 2003	–	–	17.7	–	–	–	17.7	–
At 27th December 2003	0.7	0.3	22.9	0.3	3.7	0.2	28.1	97.9
At 28th December 2002	9.5	0.6	31.4	0.6	3.6	–	45.7	98.6

Joint ventures
The Group holds:
- a 50% interest in the ordinary share capital of Ogden & Talma Aviation Services of Peru SA
- a 50% interest in the ordinary share capital of Dolphin Logistics Ltd
- a 33.3% interest in the ordinary share capital of Eurobip, a border inspection post facility at London Heathrow.

During the year the Group subscribed £0.2m to acquire a 50% interest in the ordinary share capital of Freshport BV, a border inspection post facility at Schiphol. In addition, the Group subscribed £0.3m of interest bearing loan notes at par in cash. The Group also subscribed £0.1m of interest bearing loan notes at par in cash in Dolphin Logistics Ltd.

Associates
The Group holds:
- a 29% interest in the ordinary share capital of MASC-Ogden Aviation Services (Macau) Ltd
- a 30% interest in the ordinary share capital of Worldwide Magazine Distribution Ltd
- a 26.7% interest in the ordinary share capital of TC Cox and Son (Tonbridge) Ltd
- a 29% interest in the ordinary share capital of Great Wall Menzies International Transportation Ltd.

During the year the Group subscribed £1.1m to acquire a 40% interest in the ordinary share capital of Menzies Chengdu Aviation Services Ltd.

Own shares held
The Company's ordinary shares are held in trust for an employee share scheme and are treated as assets of the Group. The trusts are funded by loans from a Group subsidiary. At 27th December 2003 the trusts held 859,815 (2002: 800,238) ordinary 25p shares with a market value of £2,729,913 (2002: £2,620,779).

Other
During the year the Group subscribed £0.2m to acquire a 14.2% interest in the preferred stock of Roundpoint Inc., a developer of technology for displaying news and media product on portable digital devices.

14. Debtors

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Due within one year				
Trade debtors	69.2	73.9	–	–
Other debtors	13.2	13.9	1.3	4.9
Prepayments and accrued income	8.0	8.9	0.9	0.6
Amounts owed by Group companies	–	–	77.0	124.5
	90.4	96.7	79.2	130.0
Due after more than one year				
Pension prepayment	51.9	48.6	–	–
Amounts owed by Group companies	–	–	42.5	42.5
	51.9	48.6	42.5	42.5

15. Creditors

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Due within one year				
Trade creditors	89.1	84.2	–	–
Accruals and deferred income	45.5	49.3	4.0	9.9
Corporation tax	10.1	8.2	–	–
Other taxes and social security costs	5.1	3.9	–	–
Dividends	7.2	7.3	7.2	7.3
Unsecured loan stock (Note 16)	0.1	0.1	–	–
Amounts owed to Group companies	–	–	80.2	68.8
	157.1	153.0	91.4	86.0
Due after more than one year				
Accruals and deferred income	1.5	2.8	–	–

16. Financial instruments

The objectives, policies and strategies pursued by the Group in relation to financial instruments are described within the Financial Review on page 19.

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Maturity profile				
Borrowings due within one year:				
Bank loans and overdrafts	27.1	22.3	6.6	15.7
Unsecured loan stock (Note 15)	0.1	0.1	–	–
Total borrowings due within one year	27.2	22.4	6.6	15.7
Borrowings due after one year:				
Loans repayable between one and two years	7.6	5.8	6.3	5.8
Loans repayable between two and five years	48.4	62.5	44.8	62.5
Loans repayable after five years	12.2	23.2	11.7	23.2
Total borrowings due after one year	68.2	91.5	62.8	91.5
Total borrowings	95.4	113.9	69.4	107.2
Less: Cash at bank and in hand	32.1	55.7	5.7	2.6
Net debt	63.3	58.2	63.7	104.6

Other than trade debtors and creditors there are no financial assets or liabilities excluded from the above analysis.

No financial assets or liabilities were held or issued for trading purposes.

Borrowing facilities

At 27th December 2003, the Group had undrawn committed facilities of £68.2m (2002: £54.1m) with the following expiry profile:

	2003 £m	2002 £m
Less than one year	35.4	37.6
Between one and two years	8.9	–
Between two and five years	23.9	16.5
	68.2	54.1

In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £2.7m (2002: £2.7m).

16. Financial instruments (continued)

Fair values and hedges

Set out below is an analysis of the fair and book value of the Group's financial instruments as at 27th December 2003.

	2003 Book value £m	2003 Fair value £m	2002 Book value £m	2002 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings	27.2	27.2	22.4	22.4
Medium term borrowings	56.0	56.0	68.3	68.3
Long term borrowings	12.2	12.2	23.2	23.2
	95.4	95.4	113.9	113.9
Cash and deposits	32.1	32.1	55.7	55.7
Derivative financial instruments held to manage currency translation and transaction exposure:				
Cross currency basis swaps	1.3	1.3	–	–
Foreign currency forward contracts	–	(0.2)	–	–
	1.3	1.1	–	–

The fair values of the cross currency basis swaps and the foreign currency forward contracts were determined by reference to quoted market prices.

The fair value of provisions, preference shares and other financial liabilities are not considered to be materially different from their book value.

Losses on hedges

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	£m
Unrecognised gains on hedges as at 28th December 2002	–
Losses arising in the year to 27th December 2003 that were not recognised in the year	(0.2)
Unrecognised losses on hedges as at 27th December 2003	(0.2)

16. Financial instruments (continued)

Interest rate and currency risk profile of financial assets and liabilities

Financial assets and liabilities

The interest rate and currency profile of the Group's financial assets and liabilities (excluding trade debtors and trade creditors) at 27th December 2003 is shown below.

Currency	Floating rate financial assets £m	Fixed rate financial assets £m	2003 Total financial assets £m	Floating rate financial assets £m	Fixed rate financial assets £m	2002 Total financial assets £m
Sterling	17.6	1.0	18.6	44.5	1.6	46.1
Euro	4.8	–	4.8	3.7	–	3.7
US dollar	6.0	–	6.0	4.0	–	4.0
Hong Kong dollar	0.4	–	0.4	0.2	–	0.2
Other	2.3	–	2.3	1.7	–	1.7
	31.1	1.0	32.1	54.1	1.6	55.7

The floating rate financial assets of £31.1m (2002: £54.1m) are at interest rates linked to Base rates and LIBID. The fixed rate financial assets of £1.0m (2002: £1.6m) are on 1 month fixed deposit at 3.85% (2002: on 2 month fixed deposit at 3.8125%).

Currency	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2003 Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2002 Total financial liabilities £m
Sterling	25.7	34.9	60.6	4.7	34.9	39.6
Euro	2.6	–	2.6	11.4	–	11.4
US dollar	31.8	–	31.8	56.1	–	56.1
Hong Kong dollar	0.4	–	0.4	0.5	–	0.5
Czech koruna	–	–	–	4.5	–	4.5
Other	–	–	–	1.8	–	1.8
	60.5	34.9	95.4	79.0	34.9	113.9

Floating rate financial liabilities of £60.5m (2002: £79.0m) comprise bank loans, overdrafts and unsecured loan stock. Interest on these liabilities is determined by reference to short term rates linked to Base rates and LIBOR.

Fixed rate financial liabilities comprise loans repayable between 2007 and 2009 of £34.9m (2002: £34.9m) on which interest is at a fixed rate of 7.362%. These loans have a weighted average maturity of 4.1 years (2002: 5.1 years).

17. Operating lease commitments

	Group			
	Property		Other	
	2003 £m	2002 £m	2003 £m	2002 £m
Annual commitments in respect of leases which expire:				
within one year	2.9	1.3	1.0	1.7
within two to five years	7.6	7.5	4.9	3.3
after five years	9.3	9.5	–	–
	19.8	18.3	5.9	5.0

The Company has no operating lease commitments (2002: nil).

18. Capital commitments

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Contracted but not provided	0.9	3.4	–	–

19. Provisions for liabilities and charges

	Group 2003 £m	Group 2002 £m
Deferred taxation		
Provided:		
Accelerated capital allowances and other timing differences	(1.2)	(1.7)
Pension prepayment	15.6	14.6
	14.4	12.9
Movement in year:		
Profit and loss charge (Note 8)	1.5	1.9

Other – property related	2003 £m	2002 £m
At beginning of year	10.2	10.5
Provided during year	1.2	1.8
Utilised during year	(2.4)	(2.1)
At end of year	9.0	10.2

The property related provision is in respect of obligations for vacated leasehold properties where applicable sublet income may be insufficient to meet obligations under head leases.

Contingent liabilities
There are contingent liabilities, including those in respect of disposed and acquired businesses, which are not expected to give rise to any significant loss to the Group. In particular, the Group had a range of contractual protections, including an indemnity for alleged unpaid taxes in Mexico, in connection with the acquisition of Ogden Ground Services from Covanta Energy Corporation in 2000. Following Covanta Energy Corporation filing a voluntary petition for Chapter 11 reorganisation in the US, the Group waived these rights in return for a $1.7m reduction in deferred consideration payable.

In addition, in the normal course of business, the Company has guaranteed certain trading obligations of its subsidiaries.

20. Share capital

	2003 £m	2002 £m
Authorised		
73,056,248 Ordinary shares of 25p each	18.3	18.3
20,000,000 8.58% Cumulative redeemable preference shares of £1 each, redeemed at par on 20th June 2003	–	20.0
1,735,938 9% Cumulative preference shares of £1 each	1.7	1.7
	20.0	40.0
Allotted, called up and fully paid		
57,247,804 Ordinary shares of 25p each, fully paid (2002: 57,108,336 shares)	14.3	14.3
20,000,000 8.58% Cumulative redeemable preference shares of £1 each, fully paid, redeemed at par on their redemption date of 20th June 2003	–	20.0
1,394,587 9% Cumulative preference shares of £1 each, fully paid (2002: 1,394,587 shares)	1.4	1.4
	15.7	35.7

As a result of options being exercised, 139,468 Ordinary shares having a nominal value of £0.03m were issued during the year at a share premium of £0.4m.

At 27th December 2003 options granted and outstanding under the Company's executive share option schemes amounted to 2,607,074 ordinary shares (2002: 2,663,298). These options are exercisable at varying dates up to 12th May 2013 and at prices varying from 312p to 653p per share.

21. Reserves

	Group			Company		
	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m
At 28th December 2002	5.6	72.5	1.6	5.6	42.7	1.6
Preference share redemption	–	(20.0)	20.0	–	(20.0)	20.0
Movement during the year	0.4	–	–	0.4	–	–
(Loss) / profit for the year	–	(3.2)	–	–	14.4	–
Dividends	–	(11.2)	–	–	(11.2)	–
Currency translation	–	0.3	–	–	–	–
At 27th December 2003	6.0	38.4	21.6	6.0	25.9	21.6

The cumulative amount of goodwill resulting from acquisitions undertaken before April 1998, which has been written off to reserves, is £28.9m (2002: £28.9m).

22. Minority interests

	2003 £m	2002 £m
At beginning of year	0.1	–
Dividend	(0.1)	–
Share of profit after tax	0.1	0.1
At end of year	0.1	0.1

23. Reconciliation of movements in shareholders' funds

	2003 £m	2002 £m
(Loss) / profit for the financial year	(3.2)	12.0
Dividends	(11.2)	(12.1)
New share capital issued (Note 20)	0.4	1.8
Preference shares redeemed (Note 20)	(20.0)	–
Currency translation	0.3	(2.7)
Net decrease in shareholders' funds	(33.7)	(1.0)
Shareholders' funds at beginning of year	115.4	116.4
Shareholders' funds at end of year	81.7	115.4

The reduction in dividends results from the redemption of preference shares in June.

24. Cash flow

	2003 £m	2002 £m
a. Reconciliation of operating profit to net cash inflow from operating activities		
Total operating profit (pre-exceptional items)	24.0	25.5
Depreciation	15.8	14.0
Goodwill amortisation	1.8	1.5
Share of operating loss in joint ventures	0.4	–
Share of operating profit in associates	(2.6)	(4.7)
Cash spend on exceptional items	(3.9)	(4.9)
Movement on pension prepayment	(3.3)	(3.6)
Other items not involving the movement of cash	0.1	0.4
(Increase) / decrease in stocks	(2.1)	0.4
Decrease in debtors	4.4	0.4
Increase / (decrease) in creditors	6.0	(6.1)
Net cash inflow from operating activities	40.6	22.9

Operating cash flows relating to acquisitions and disposals during the year were not material.

	2003 £m	2002 £m
b. Reconciliation of net cash flow to movement in net debt		
(Decrease) / increase in cash in the year	(7.0)	0.5
(Decrease) / increase in short term deposits	(30.2)	17.0
Decrease / (increase) in debt	32.1	(28.9)
Movement in net debt in the year	(5.1)	(11.4)
Net debt at beginning of year	(58.2)	(46.8)
Net debt at end of year	(63.3)	(58.2)

	2002 £m	Cash flows £m	Currency translation £m	2003 £m
c. Analysis of changes in net debt				
Cash at bank and in hand	12.4	6.6	–	19.0
Bank overdrafts	(7.0)	(13.6)	–	(20.6)
	5.4	(7.0)	–	(1.6)
Short term deposits	43.3	(30.0)	(0.2)	13.1
Bank loans due within one year	(15.3)	8.8	–	(6.5)
Loan stock due within one year	(0.1)	–	–	(0.1)
Debt due after one year	(91.5)	20.4	2.9	(68.2)
	(58.2)	(7.8)	2.7	(63.3)

25. Acquisitions and disposals

Acquisitions

	Atlantis Air Cargo Management Inc. £m
Net assets acquired:	
Tangible fixed assets (Note 12)	0.2
Debtors	0.1
Creditors	(0.1)
	0.2
Satisfied by:	
Cash	0.3
Acquisition costs	0.1
	0.4
Goodwill (Note 11)	0.2

On 14th February 2003 the Group acquired an 80% interest in Atlantis Air Cargo Management Inc., Panama.

The directors consider that the fair value of the assets and liabilities acquired is not materially different to their book value.

Disposals

	Aeroporti di Roma Handling SpA £m	Menzies Aviation Group (Canada) Ltd £m	Total £m
Net assets disposed:			
Goodwill (Note 11)	4.3	–	4.3
Investments (Note 13)	1.5	–	1.5
Tangible fixed assets	–	0.4	0.4
Debtors	–	0.7	0.7
Cash	–	0.1	0.1
Creditors	–	(0.1)	(0.1)
	5.8	1.1	6.9
Disposal costs	0.1	0.2	0.3
Deferred consideration	(1.1)	–	(1.1)
Consideration received in cash	(4.8)	(0.2)	(5.0)
Loss on disposal	–	1.1	1.1

On 10th March 2003 the Group sold its 49% interest in Aeroporti di Roma Handling SpA for a consideration equal to net book value.

On 20th June 2003 the Group sold its Aviation Services operation in Canada at a loss of £1.1m.

26. Related party transactions

During the year the Group transacted with related parties in the normal course of business and on an arm's length basis. Details of these transactions are shown below:

Related party	Group share holding %	Sales to related party £m	Purchases from related party £m	Amounts owed to related party at 27th December 2003 £m
Ogden & Talma Aviation Services of Peru SA	50	0.7	–	–
Eurobip	33.3	–	0.2	0.1
Freshport BV	50	0.3	–	–

Mr W R E Thomson, a director of the Company, is a director of Dolphin Logistics Limited and has an interest in E G Thomson (Holdings) Limited which owns 50% of Dolphin (Note 13).

During the year the Group incurred fees for legal services amounting to £nil (2002: £0.1m) to Maclay Murray & Spens, of which Mr M J Walker, a director of the Company, is a partner.

During the year the Group purchased services to the value of £0.2m from beCogent Limited, of which Mr D J Jenkinson, a director of the Company, is the co-founder and Chairman.

27. Subsidiary companies

The principal subsidiaries, Menzies Distribution Limited, Menzies Group Holdings Limited, Menzies Aviation Group plc and Menzies Aviation Holdings Limited are ultimately wholly owned by the Company and operate mainly in the United Kingdom. The issued share capital of these subsidiaries is mainly in the form of equity shares.

	12 months to December 2003 £m	12 months to December 2002 £m	8 months to December 2001 £m	12 months to April 2001 £m	2000* £m
Turnover (excluding joint ventures and associates)					
Distribution Services	976.5	936.9	578.8	844.2	847.5
Aviation Services	226.8	195.9	128.8	137.1	67.6
Continuing operations	1,203.3	1,132.8	707.6	981.3	915.1
Discontinued operations	–	–	55.9	306.8	383.0
	1,203.3	1,132.8	763.5	1,288.1	1,298.1
Operating profit					
Distribution Services	31.2	28.7	16.5	26.3	30.0
Aviation Services	4.1	3.7	(3.8)	4.3	2.2
	35.3	32.4	12.7	30.6	32.2
Central Services	(6.5)	(7.0)	(4.7)	(6.9)	(7.1)
Pension (charge) / credit	(1.2)	3.6	3.3	5.0	5.0
Continuing operations	27.6	29.0	11.3	28.7	30.1
Goodwill amortisation	(3.6)	(3.5)	(2.2)	(1.7)	(0.4)
Discontinued operations	–	–	(5.7)	22.9	4.2
Total operating profit	24.0	25.5	3.4	49.9	33.9
Exceptional items	(17.2)	(4.7)	(22.5)	(34.8)	2.0
Profit / (loss) before interest	6.8	20.8	(19.1)	15.1	35.9
Interest payable	(3.7)	(3.1)	(2.0)	–	(2.6)
Profit / (loss) before taxation	3.1	17.7	(21.1)	15.1	33.3
Per ordinary share					
Dividends	18.1 p	18.1 p	12.1 p	18.1 p	17.1 p
Headline earnings	28.9 p	32.9 p	0.4 p	62.8 p	37.9 p
FRS 3 earnings	(7.3) p	18.2 p	(38.7) p	2.7 p	48.0 p

* 53 week year

Internet

The Group operates a website which can be found at www.johnmenziesplc.com
This site is regularly updated to provide you with information about the Group and each of its operating divisions. In particular all of the Group's press releases and announcements can be found on the site together with copies of the Group's accounts.

Registrars

Any enquiries concerning your shareholding should be addressed to the Company's Registrars:

Capita IRG plc
Attn Simon Stafford
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Tel: 0870 162 3100
Fax: 0208 639 2487
E-mail: ssd@capitaIRG.com

The Registrar should be notified promptly of any change in a shareholder's address.

Share Price

The current share price of John Menzies plc ordinary shares can be obtained from the Group's website and on FT Cityline by dialling 0906 8433339 (calls cost 50p per minute).

Low Cost Dealing Service

The Group has arranged a low cost dealing service for those wishing to buy or sell shares in John Menzies plc. To use this service please call 0845 601 0995 and quote ref: LOW C0014.

Alternatively write to:
John Menzies plc –
Share Dealing Service
Stocktrade
PO Box 1076
10 George Street
Edinburgh
EH2 2PZ

Payment of Dividends

It is in the interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's Registrar to obtain a dividend mandate form.

Dividends are paid as follows:

Ordinary shares

Interim	Final
30th November	30th June

9% Preference shares

Interim	Final
1st April	1st October

The final dividend on the ordinary shares will be payable to shareholders on the register at 4th June 2004.

Investor Relations

For further copies of the Annual Accounts or other investor relations enquiries, please contact:

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