



LHR-03:37

As a group, **John Menzies** is now very focused, with two complementary businesses, **Distribution** and **Aviation**. Both do complex things efficiently; operate in a time critical logistics environment; rely on people as their core asset; use technology effectively and are leading players in their sectors.

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William Thomson

The Group has made great strides forward during the past 12 months, as demonstrated by these results which are significantly up on last year in all parts of the Group's operations.

We have carried out a rigorous evaluation of our business and its operations from Board level down, a process which has played its part in the achievement of these solid results and is laying the foundations for the Group's longer term success.

Results

It gives me great pleasure to report that Group headline profit before tax¹ has increased by 64% to £33.9m.

Menzies Distribution has seen some increase in cover prices in a number of product categories, and its well-controlled operations have enabled the division to benefit from this trend.

Menzies Aviation has continued to concentrate on getting its core business right, aided by greater market stability.

The Group's cash flow remains strong, with net cash flow² of £17.6m. This includes an inflow of £11.75m received from the profitable sale in August 2004 of our executive aviation business, Execair, which had been identified as non-core for Menzies Aviation, and an outflow of £10m as an additional contribution in support of our pension fund.

Dividend

The Board has maintained dividend levels over the past four years, through a difficult period for the Group, but reflecting your Board's confidence in our core businesses. These results bring our dividend cover back to suitable levels and your Board is therefore proposing a final dividend of 13.0p per share, an increase of 3.2%, bringing our full year dividend to 18.5p per share.

Strategy

Menzies Distribution is one of the country's largest and most efficient newspaper and magazine distribution businesses, delivering added value to our customers through investment in systems, process development and industry-leading solutions. Our strategy is to focus on quality customer service, improved operational infrastructure and innovative processes, and we intend to ensure that Menzies remains the market leader and the UK's service provider of choice for publisher and retailer alike.

Menzies Aviation has demonstrated its ability to deliver shareholder value. Our strategy for this business is to invest in growth and improved profitability based on tight capital discipline, new contract wins and the provision of added value market leading services for existing customers. The key, again, is to become the service provider of choice by standardising on the provision of best quality service at the right price.

We continue to seek suitable expansion opportunities.

1. Headline profit before tax is defined as profit on ordinary activities after interest and before tax, goodwill amortisation and exceptional items.

2. Net cash flow is the reduction in net debt prior to the impact of currency translation. See Note 24 c. to the Accounts.

Office of Fair Trading (OFT)

The OFT has announced its provisional conclusions on newspaper and magazine distribution. We intend to work with the industry and OFT in the further consultations which are planned to take place in the coming months.

Board

As I previewed in my Statement last year, Peter Smith left your Board in April and Charles Ramsay in December. They both played their full part in the development of the Group as it now stands and we are grateful to them for their contribution.

Iain Robertson joined your Board in November, and his background and experience on the board of The Royal Bank of Scotland Group plc will serve the Group well in the years to come. We intend that he will take over as Chairman of the Audit Committee after the Annual General Meeting.

Iain Callaghan will retire in September 2005, when he will have served the Group for 40 years. He has made a huge contribution to Menzies Distribution, which has been central to the Group's success for many years. He has built a strong team which has placed Menzies Distribution at the forefront of its sector, well positioned to meet the business needs of the future. We are already reviewing candidates, both internal and external, to take over as Managing Director of this division and are confident of securing a strong successor.

Corporate Governance

We have undertaken a wide-ranging review of management structures and performance within the Group, and your Board has also been a part of this process. We chose to involve external consultants for this review, in order to maximise the benefits from a performance evaluation of both the Board and its individual members, and have undergone an extensive process of interview and assessment, and of reviewing the outcomes.

The structure of your Board, with three independent non-executive directors, complies with the requirements of the Combined Code for smaller companies (below FTSE 350). However, we wish, over time, to move towards implementing the requirements of the Code for larger companies, and this review has provided a very useful input to the further changes which may be necessary if the Board is to continue to demonstrate its support for this aspect of the Code.

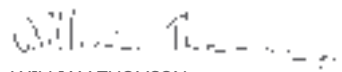
Staff

None of the improvements we are achieving would be possible without the full support of our staff. Once again they have demonstrated their commitment to delivering for our customers and I would again like to record my sincere thanks for their dedication and contribution.

Prospects

Menzies Distribution is a strong business, and we believe we are ready for the opportunities or challenges which may result from the OFT's provisional conclusions. Menzies Aviation has begun to realise its potential, and we are increasingly confident of our ability to create shareholder value from, and to grow, this business.

We believe that the Group's overall outlook is positive.



WILLIAM THOMSON
CHAIRMAN



Patrick Macdonald

Summary

We have delivered a positive set of results in 2004 with both divisions performing more strongly than in 2003. Both profit and cash flow were healthy. At Menzies Distribution, we benefited from process innovation and an improved product mix. At Menzies Aviation, our actions to address underperforming stations and raise return on capital in a more stable market led to significantly better results.

The Office of Fair Trading's (OFT's) announcement on 23 February 2005, outlining potential changes to magazine distribution arrangements, suggests both challenges and opportunities for Menzies Distribution.

Group Highlights

£m	2004	2003	Variance
Turnover	1,369.2	1,297.7	6%
Headline profit before tax ¹	33.9	20.7	64%
Profit on ordinary activities before taxation and exceptionals	30.3	17.1	77%
Free cash flow ²	26.3	20.7	27%
Headline earnings per share	44.5p	24.8p	79%

Performance

Turnover for the Group increased by 6%. At Distribution, sales grew by 5% due to the strong performance of collectables and partworks, weekend newspapers and stickers. In Aviation, turnover rose by 8%, reflecting volume growth across the portfolio and contract gains.

Headline profits rose by 64% with margins improving at both divisions. Better operating margins also reflect our continuing emphasis on cost control and strong capital disciplines.

1. Headline profit before tax is defined as profit on ordinary activities after interest and before tax, goodwill amortisation and exceptional items.

2. Free cash flow is defined as the cash generated by the business after capital investment, interest, tax and preference share dividends and before acquisitions, disposals and ordinary dividends.

In August 2004, we sold our executive aviation handling business, Execair, to BBA Group plc for £11.75m in cash and realised an exceptional gain on sale of £7.6m. Execair was not core to the business and the proceeds from the disposal will form part of the continuing investment programme in Aviation.

There were no exceptional costs during the year.

Cash flow

Cash flow from operating activities was strong, reflecting better trading and firm working capital management. Capital expenditure of £15.6m was down slightly from £16.2m in 2003 due to a combination of tight capital disciplines and the deferral of some expenditure into 2005. Free cash flow of £26.3m was up 27% on last year (2003: £20.7m).

The sale of Execair and other smaller disposals netted £12.6m in cash. As well as our regular pension payments, we made an additional contribution of £10.0m to the Menzies Pension Fund (see People section).

Net debt at the end of 2004 stood at £43.5m compared to £63.3m at the end of 2003.

David Cooke, Senior Buying Manager, Tesco Stores Ltd: "Tesco are fully supportive of the national Sales Based Replenishment service provided by Menzies Distribution. We were an active participant in the trial initiative and have been pleased with the benefits to stores in respect of additional sales linked with enhanced process efficiencies. Through this excellent initiative we are able to deliver improved availability to our customers, with in-store support focused on replenishment of fast selling lines."

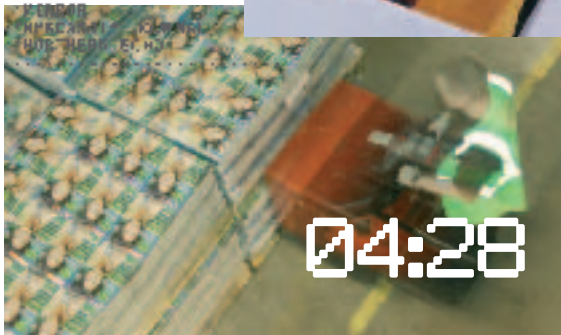


Our continuing commitment to customer service means investing in infrastructure, and last year saw new branches opening in Chelmsford and Bow, bringing our distribution network to 25 main depots and 10 satellites across the UK.

MENZIES DISTRIBUTION
DELIVERY NOTE NUMBER: 330024333C
CUSTOMER NO : 4333
TESCO EXTRA
DURHAM ROAD
STOCKTON-ON-THEES
CIEVELAND TS21 3LJ
IN
QTY FOLLOW TITLE



"The Menzies interactive Training CD covers all aspects of our news and magazine business, and is an invaluable tool for helping me address our training needs to ensure that we provide an effective and efficient service." Kenny Smith, Training Coordinator, Botterills Convenience Stores.



"Pack-By-Light" automates the flow and control of the complex nightly newspaper packing process. It relays information about product arrival at depot to allow optimal allocation to staff for order packing, and tracks packing progress and expected order completion times to minimise turnaround times for vehicle despatch.



Our CD-based driver training programme is highly regarded by Brian Szukala, Head of Training, Freight Transport Association, with whom we developed the materials: "This massive investment in developing staff can only be commended...The investment is about recruiting the right calibre of employees and then retaining them."



Iain McKenzie, Business Development Director, Marketforce: "A key focus for all our launches is effective communication to trade. We are delighted with the fantastic trade marketing plan we have agreed with Superleague and The Launch Factory for our new title *Pick Me Up* which does this superbly."



Our commitment to driver safety and effectiveness resulted in a FleetSure Award from Lothian & Borders Police last October.

Menzies Distribution

£m	2004	2003	Variance
Turnover	1,109.4	1,058.0	5%
Operating profit before goodwill	30.6	26.2	17%

Menzies Distribution had an excellent year. Turnover from newspaper sales grew by 5%, reflecting price increases on weekend papers and the introduction of compacts in the broadsheet market. Magazine sales also rose by 5%, reflecting both the healthy market for collectables and partworks, and launches in the weekly market, such as the new weekly men's lifestyle titles *Nuts* and *Zoo*. Sticker sales were up 66% helped by Euro 2004 and other football driven promotions.

Menzies Distribution remains committed to improving customer service by investing in infrastructure and new technology. We replaced two depots with new purpose built branches at Chelmsford and Bow in East London. 2005 will see further investment at Swansea and Dalgety Bay in Fife. The roll out of "pack-by-light" technology, a real time system for controlling the newspaper packing process which provides better documentation for retailers, is nearing completion. In 2005 at our Sheffield branch we will invest in the next generation of magazine packing systems aimed at further customer service improvements.

Menzies Distribution remains an industry leader in innovation and developing new services for our customers. Our trials of Sales Based Replenishment (SBR) in 2004 proved successful and we have been working with major retailers nationally since the beginning of 2005. SBR provides better product availability to the consumer with a lower stockholding for the retailer and extensive trials have shown encouraging sales increases while reducing waste levels.

Through "The Launch Factory" we are supporting publishers' major launch initiatives, collaborating in their trade marketing especially within the key independent channel. The initial activity was developed for *Nuts*, with the most recent example being *Pick Me Up*. The nationwide promotions network of 4,000 independent retailers, "Superleague", continues its outstanding performance, both in market share maintenance and usage by publishers, significantly outperforming comparable trade channels.

During 2004, we developed our customer focus through a number of initiatives working with major retailers including Sainsbury's, Tesco, Co-op, Marks & Spencer and Boots. The innovative "Shrink Doctor", an initiative aimed at helping retailers to reduce their product shrinkage levels, shows how we can deploy our expertise to deliver bottom line benefits to retail customers.

We have successfully concluded contract renewals with two key publishers, Trinity Mirror and Marketforce, and negotiations are progressing with a number of other publishers.

In February 2005, the OFT announced its provisional conclusions on newspaper and magazine distribution. The statement supported the existing territory distribution arrangements for newspapers whilst introducing the potential for some fragmentation in magazine distribution. We welcome the commitment to territorial distribution; however, it is important to shape any potential change in magazine distribution arrangements to ensure maximum consumer benefit. We intend to play a leading role in further consultation with the OFT and industry bodies.

Menzies Aviation

£m	2004	2003	Variance
Turnover	259.8	239.7	8%
Operating profit before goodwill	10.4	2.4	333%

The new management team led by Craig Smyth has produced a much improved result. The emphasis in 2004 was on raising return on capital and increasing net margins by improving underperforming stations, focusing on customer needs across the portfolio, tightening capital disciplines and winning new contracts. Aviation also benefited from more stable markets and we have seen organic growth at most stations.

We still have a number of underperforming stations. Significant progress was achieved in Australia, Hong Kong and UK Cargo with all three operations returning to profitability. USA remains slightly loss making but we are driving through a turnaround here too, and anticipate a further improvement in 2005.

We have focused on delivering market leading service levels to our customers. Our customers have noticed, and net contract gains are significantly up on the previous year. Key gains include FedEx, Emirates and Virgin Atlantic in Australia; Polar Air, Singapore Airlines and Japan Airlines at Schiphol; Jet2.com and Air Canada in the UK and British Airways in Houston and Brazil.

Our ground handling model for low cost airlines continues to prove its worth. This service began in late 2002 with bmibaby at East Midlands airport. In January 2004, easyjet outsourced the management of ground handling at their London Luton hub and its performance has exceeded our mutual expectations. We have recently secured contracts to handle easyJet and flyglobespan at Edinburgh airport, Jet2.com at Manchester airport and Pacific Blue in New Zealand.

Markets were more stable generally, with volumes (i.e. excluding new and closed stations) up 16% for cargo handling and 7% for ground handling. Cargo volumes were up significantly in The Netherlands, Australia, New Zealand and Macau. Ground handling volumes were up in The Netherlands, Czech Republic, Peru, St Maarten, Australia and Macau (where volumes have recovered from SARS). We continue to watch for any effects on our customers of higher fuel costs.

In 2004 we launched our joint venture to provide cargo and ground handling at Chengdu in China. This business has been profitable in its first year and has performed ahead of our expectations.

People

Once again, the commitment, professionalism and enthusiasm of our staff underpin our financial success. Two recent examples stand out. In Distribution, following severe flooding in the Carlisle area, which resulted in power failures, multiple road closures and the loss of our IT systems, we were still able to get "the papers through" to the vast majority of customers through a determined team effort. Associated Newspapers, a major publisher customer, referred to our "Herculean efforts" in dealing with the atrocious conditions.

In Aviation in Auckland we came to the help of Team New Zealand, who were taking part in the America's Cup yachting competition. With only 6 hours' notice, we were able to load a backup yacht on to a specialised plane. With only 60mm of headroom to spare, the operation required great delicacy and took 4 hours to complete. Within a few hours of arriving in Valencia, the boat was sailing. Team New Zealand thanked Menzies for doing "a great job."

An investment programme to rationalise our cargo operations at London's Heathrow Airport was completed during the year. The newly refurbished site will enable us to enhance efficiencies, improve customer service still further and will soon house our global IT centre.

Our dedication to customer service helped to secure a contract with Virgin Atlantic to provide passenger and ramp services at Sydney Airport for its daily Heathrow/Hong Kong/Sydney flight. Mackenzie Grant, Head of Asia Pacific for Virgin Atlantic, said: "Menzies Aviation is a worldwide name in quality ground handling services and they are no strangers to Virgin Atlantic Airways. We chose Menzies for a variety of reasons, including their innovative approach to training, the company's experience and clear commitment to customer service."



AMS



09:26



Our enhanced levels of customer service secured a major deal to handle Polar Air's cargo needs at its new 10,000 sq m European hub in Amsterdam's Schiphol Airport. This follows a "Best Independent Handler" award last year from the Airport, for whom a spokesperson said: "Menzies has proven to be an extremely flexible organisation and achieved excellent performance in being able to meet the specific demands of the low cost and charter markets."



Our innovative ground handling model for the low cost carrier market continues to deliver great customer service as was evident by an award in October last year from bmi baby in recognition for 100% on-time performance at East Midlands Airport. Tony Davis, then Managing Director of bmi baby, commented: "As an airline we rely heavily on suppliers to make sure we can make a commitment to customers to ensure our flights depart on time... We're very pleased to be able to reward Menzies with an extended contract."

Jet2.com



We received an award last year under The Airfreight Industry Minimum Security Standards Scheme which was launched by a consortium that included the Metropolitan Police Service, BAA Heathrow and BA to establish common security standards across the air cargo industry.



Connect2Work – Heathrow **Menzies** AVIATION

Performance indicators for Friday 18 February 2005

Number of routes in operation	6 (100%)
Number of buses running	24
Number of expected departures	907
Number of actual on time departures	877 (96.7%)
Number of passengers using service	12,245

Connect2Work involves the 24 hour operation of a fleet of buses that transport staff to and from Heathrow Airport from off-airport parking sites. With GPS tracking we can assure our service delivery in real time and the airport authority is better able to adjust schedules to minimise queuing times during peak hours.



Lufthansa Cargo
The business to business class.

Hermes, which enables users to manage and monitor real time movement of cargo within the supply chain, has strengthened customer ties. Phil Cimpoiu, Regional Director Logistics, UK and Ireland, Lufthansa Cargo, said: "Our decision to extend our partnership reflects Menzies' significant investment in IT, the new facilities at Heathrow and staff development...Hermes has proved to be successful in an industry that is pressured for time and, where speed of the supply chain is essential, all tools that assist the process are paramount."

We made an additional contribution of £10m to the Menzies Pension Fund over and above our regular annual contribution. Together these payments ensure that the scheme is adequately funded and demonstrate our commitment to our employees past and present.

Health and Safety

The Group remains committed to developing and implementing best practice for Health and Safety for its staff, customers and other relevant parties. At Menzies Distribution we have installed new transport management systems at all branches and our approach to workplace transport has been accepted as an industry "Best Practice Guide." This has contributed to the reportable accident rate falling significantly during 2004.

Menzies Aviation has refined its business-wide emergency response procedures and has developed an internet-based incident reporting system. The "safety first" message has been reinforced with the publication of safety alerts and regular features in our in-house magazine. The level of aircraft accidents has fallen significantly in recent years.

Strategy

We remain committed to our 3 step strategic approach. In 2004, we have concentrated on step 1 "get the basics right." Both operating divisions have focused on delivering great service at the right price to customers while keeping costs lean. We are a service business, specialising in time-critical logistics, and this approach is fundamental to our success.

We are now moving on to step 2 "build strong businesses" with both divisions developing standard operational and financial processes which can be replicated across their respective portfolios. We can then progress to step 3 "grow from strength" by extending our offering in areas where we have expertise and developing new opportunities which create sustainable shareholder value.

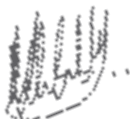
Outlook

The outlook for the Group remains encouraging. We expect the strong performance in 2004 to provide a platform for further progress in 2005. In the first 11 weeks of 2005, trading at Group level has been in line with expectations. Distribution has traded slightly behind last year while Aviation is ahead. We expect capital expenditure to increase somewhat as we selectively invest in our core businesses.

At Menzies Distribution, contract renewals with publishers are progressing. Although the potential effect of the OFT's provisional conclusions may lead to a range of outcomes, we believe we are ready for any changes that may arise. With its increased customer focus and service innovations, the division is well placed to meet and lead development in the industry.

At Menzies Aviation we have seen volume growth and greater market stability in 2004. The business has responded well to our changed strategic focus. We are turning around underperforming stations and are growing selectively our stronger performers, with a focus on customer service and tight capital discipline. We continue to invest in this business with the intention of creating further shareholder value.

I look forward to continuing our development in 2005.



PATRICK MACDONALD
CHIEF EXECUTIVE



Paul Dollman

Overview

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

	2004 £m	2003 (restated) £m	Change %
Turnover			
Distribution Services	1,109.4	1,058.0	4.9
Aviation Services	259.8	239.7	8.4
Total	1,369.2	1,297.7	5.5
Operating profit			
Distribution Services	30.6	26.2	16.8
Aviation Services	10.4	2.4	++
Total	41.0	28.6	43.4
Corporate costs	(4.2)	(4.8)	12.5
Interest	(2.9)	(3.1)	6.5
Headline profit before tax*	33.9	20.7	63.8
Headline earnings per share**	44.5p	24.8p	79.4

*Headline profit before tax is defined as profit on ordinary activities after interest and 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.

The comparative results for 2003 have been restated following the previously announced early adoption of FRS 17 'Retirements benefits' in full for 2004. Pension costs, previously shown separately, have been allocated to each segment based on pensionable payroll. In addition Distribution Services have been charged a market rent for the use of Group freehold properties to present a more realistic result, and carriage service charges and other recoveries have been reclassified as turnover rather than offset in operating costs. Note 4 to the Accounts provides a reconciliation to the previously reported Group results for 2003 in respect of FRS 17. The other restatements have no impact on overall Group profit.

Menzies Distribution has performed extremely well during 2004 showing an increase in operating profit before goodwill amortisation of 16.8% to £30.6m. This is achieved partly by sales growth of 4.9%, driven by new product launches in the weekly market, combined with a continuing investment programme in infrastructure and new technology resulting in improved customer service and rigorous cost control.

Menzies Aviation has benefited from a more stable aviation market achieving significant growth in cargo volumes. In addition, organic growth at a number of stations was combined with significant improvements in net margins at underperforming stations. The division achieved an increase in operating profit before goodwill amortisation of £8m.

Reduced corporate costs of £4.2m reflect the full year impact of the business rationalisation programme undertaken in the second half of 2003. Headline earnings per share increased to 44.5p from 24.8p due to the increased operating profit, lower interest and a lower effective tax rate of 24.5% compared with 27.6% in 2003.

Shareholders' funds were £39.0m at December 2004 compared with a restated £15.4m at December 2003. Principal movements were the post-exceptional profit for the year of £37.9m offset by taxation of £8.3m, dividends of £10.7m and minority interests of £0.3m combined with an increase in share capital of £1.8m, a net actuarial gain of £2.2m, realisation of own shares held amounting to £0.4m and currency translation movements of £0.6m. The restated £15.4m includes the prior year adjustment processed on the adoption of FRS 17 in the amount of £62.6m.

In compliance with UITF 38 'Accounting for ESOP trusts' the investment in own shares has been reclassified from fixed asset investments and is now shown as a deduction from shareholders' funds.

The Group generated an operating cash flow of £46.9m, before the additional £10m pension payment noted below, compared to £40.6m in 2003. Disposal of businesses and share issues raised a further £14.8m. Some £19m was re-invested in the business whilst dividend and tax payments accounted for £15.3m. Net debt decreased from £63.3m to £43.5m.

Pensions

As previously announced, the Board adopted 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 of FRS 17 for 2003 and 2004:

	2004 £m	2003 £m
Profit and Loss Account		
Current service cost	(5.5)	(5.0)
Expected return on scheme assets	10.5	9.7
Interest on pension liabilities	(9.9)	(9.1)
Net financial return	0.6	0.6
Net P&L charge	(4.9)	(4.4)
Balance Sheet		
Total market value of assets	179.3	153.5
Present value of scheme liabilities	(202.6)	(191.1)
Deficit in scheme	(23.3)	(37.6)
Related deferred tax asset	7.0	11.3
Net pension liabilities	(16.3)	(26.3)

The Board continues to be proactive on pensions and has taken a number of decisions to reduce fund liabilities and address the potential fund deficit. As indicated last year, contributions to the pension fund were recommenced in the second half of 2003 in the amount of £4.5m and the defined benefit salary scheme has now been closed to new members. During 2004 the Company contributed further cash of £16m, including a one-off additional payment of £10m.

For 2005 the current service cost will reduce and the net financial return will increase as a result of the additional payment. The cash contribution to the pension fund is expected to be c.£5m.

Interest

The net interest charge is analysed as follows:

	2004 £m	2003 £m
Bonds	1.9	2.6
Fixed rate sterling term loan	0.9	–
US dollar term loan	0.5	0.9
Overdrafts / cash	0.2	0.2
Other finance income	(0.6)	(0.6)
Net interest charge	2.9	3.1

The bonds, which were at a fixed rate of 7.362% and repayable between 2007 and 2009, were redeemed early. These were replaced by a sterling term loan at a fixed rate of 6.23% repayable between 2005 and 2020. The overall net benefit of the early redemption will be realised during 2005 to 2008.

Taxation

The effective Headline tax rate for the year was 24.5% compared with 27.6% in 2003 and is analysed as:

	%
Tax due at UK rate	30.0
Non tax-deductible items	0.3
Unrelieved overseas losses	3.8
Overseas rate impact	0.6
Utilisation of tax losses	(5.8)
Deferred tax asset on overseas losses	(3.8)
Adjustments in respect of prior years	(0.6)
Headline tax rate	24.5

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 creation of a deferred tax asset in respect of available brought forward losses in the Netherlands.

Exceptional gains of £7.6m were not taxable. Goodwill amortisation of £3.6m does not attract any tax relief. Tax paid during the year was £4.9m. Payments are expected to increase for the 12 months to December 2005.

Acquisitions and disposals

In January the Group acquired a 74% interest in The Big Orange Handling Company Ltd, which performs all of easyJet's passenger and aircraft handling at London Luton airport, for £0.5m.

In August the Group sold its executive aviation handling business, Execair, to BBA Group plc, for £11.7m realising an exceptional gain of £7.6m.

Goodwill

Capitalised goodwill amounts to £37.2m compared to £45.1m in 2003. Goodwill of £2.9m was realised on the disposal of the Execair business.

Fixed Assets

Purchases of fixed assets totalled:

	Property £m	Plant & Equip- ment £m	Total £m
Distribution Services	2.5	3.7	6.2
Aviation Services	1.6	8.3	9.9
Corporate	–	0.1	0.1
	4.1	12.1	16.2

During the year Distribution Services continued the fit-out of the major new unit in East London, developed a new freehold property in Swansea and invested some £2.5m in new technology.

Aviation Services capital expenditure mainly comprised equipment to service new contracts.

Working Capital

Working Capital movement is analysed as follows:

	2004 £m	2003 £m
Stocks	1.7	(2.1)
Debtors	(8.9)	4.4
Creditors	6.9	6.0
	(0.3)	8.3

Significant attention continues to be focused on managing the Group's working capital position, with particular emphasis on tight control of debtors. Debtor days outstanding at Aviation Services were 39 at December 2004 compared with 45 at December 2003.

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 27 December.

Cash flow

	2004		2003 (restated)	
	£m	£m	£m	£m
Operating Profit		33.2		20.2
Depreciation		16.3		15.8
Goodwill amortisation		1.8		1.8
Net pension movement		(0.5)		0.5
Working capital		(0.3)		8.3
Cash spend on exceptionals		(0.1)		(3.9)
Non cash items		(3.5)		(2.1)
Operating cash flow		46.9		40.6
Purchase of fixed assets	(16.2)		(17.0)	
Sale of fixed assets	0.6		0.8	
Net capital expenditure		(15.6)		(16.2)
Dividends from associates and joint ventures		4.0		3.5
Net interest paid		(4.0)		(3.7)
Preference and minority dividends paid		(0.1)		(1.1)
Tax paid		(4.9)		(2.4)
Free cash flow		26.3		20.7
Preference shares redeemed		–		(20.0)
Loan notes redeemed		0.2		0.3
Equity dividends paid		(10.3)		(10.3)
Additional pension payment		(10.0)		–
Acquisitions		(3.4)		(3.5)
Disposals		12.6		4.6
Shares		2.2		0.4
Total movement		17.6		(7.8)
Opening net debt		(63.3)		(58.2)
Currency movement		2.2		2.7
Closing net debt		(43.5)		(63.3)

The statutory FRS 1 cash flow is shown on page 40.

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 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 of £47.4m the Group has £36.2m of unutilised committed facilities, which mature by November 2005.

Treasury operations (continued)

Interest rate fluctuations: the Group's policy is to arrange core debt with fixed rate borrowings. The term bank loan of £33m is fixed at 6.23% and is repayable between 2005 and 2020. Foreign currency bank borrowings totalling £21.9m are floating at rates ranging from 2.67% to 5.6%, 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 47% 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 were:

	Average for year to Dec 2004	Year end 25 Dec 2004	Average for year to Dec 2003	Year end 27 Dec 2003
US\$	1.826	1.926	1.636	1.776
Euro	1.475	1.423	1.451	1.426

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.

International Financial Reporting Standards

The Group, along with all listed companies in the European Union, will be required to prepare its financial statements under International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) for accounting periods commencing in 2005. Accordingly, the Annual Report and Accounts for the 52 week period to 25 December 2004 will be the last to contain financial statements prepared in accordance with UK GAAP.

The Group has been following a transition plan to migrate its financial reporting from UK GAAP to international accounting. Based on the work performed to date and current international standards, the significant differences that are likely to arise from the adoption of international accounting are as follows:

Share based payments: IFRS 2 requires all share based payments, including share options and employee share schemes, arising since November 2002, to be shown as an expense in the profit and loss account. This expense is measured at the fair value of the award and is charged over the vesting period.

Leases: IAS 17 establishes a new methodology to determine whether leases are to be treated as operating leases or finance leases. This particularly affects leases over land and buildings, which must be split into their constituent parts and assessed separately. A review of the Group's portfolio of operating leases is being undertaken to determine whether the current operating lease treatment remains appropriate under IAS 17.

Goodwill: IFRS 3 requires that on acquisition of new businesses after March 2004 a value is attributed specifically to all separately identifiable intangible assets. Such amounts are then to be amortised over the estimated useful life of the asset. The remaining difference between consideration paid and the fair value of net assets acquired is attributed to goodwill.

Goodwill is required to be held at cost and is not to be amortised. Instead, it is to be subject to annual impairment tests. Any existing goodwill will be carried at the amortised amount and will no longer be amortised.

Pensions: for defined benefit pension schemes, the requirements of IAS 19 'Employee benefits' are similar to those of FRS 17 under UK GAAP. The Group has fully adopted FRS 17 for 2004.

Dividends: IFRS requires dividends payable to be recorded in the period in which they are declared whereas under UK GAAP dividends are recorded in the period to which they relate.

Deferred taxes: IAS 12 requires accounting for deferred tax on temporary differences, which is wider in scope than existing UK GAAP accounting principles in relation to deferred taxation. As a consequence deferred tax generally has to be provided on the difference between an assets net book value and its capital gains base cost even where there is no intention to sell the asset but only to the extent to which such difference is not covered by capital losses carried forward.

Financial instruments: the primary impact of the implementation of IAS 32 and IAS 39 is anticipated to be the reclassification of the Group's 9% cumulative preference shares from non-equity share capital to debt and the related dividend being reclassified as an interest cost.



PAUL DOLLMAN
GROUP FINANCE DIRECTOR



William Thomson

(Notes 1,4) was appointed Chairman in 2002. He has been a non-executive director since 1987, and chairs the Nominations Committee. He is Chairman of E G Thomson (Holdings) Ltd, a shipping and logistics group with interests in Asia, and of British Assets Trust plc and Fidelity Japanese Values plc, and is a non-executive director of Dobbies Garden Centres plc. Age 64.

Iain Robertson

(Notes 1,2) was appointed a non-executive director on 1 November 2004. He was appointed a director of The Royal Bank of Scotland Group plc in 1993, becoming non-executive in 2003, and retires from their Board in April 2005. He is also Chairman of British Empire Securities and General Trust plc, Cairn Capital Ltd, and BT Scotland. He is a chartered accountant. Age 59.



Dermot Jenkinson

(Notes 1,2,3,4) was appointed to the Board in 1986 where he held various executive responsibilities before assuming a non-executive role in 1999. He is co-founder and Chairman of beCogent Ltd, a contact centre and related consultancy business, and is a director of a number of other private companies. Age 50.

Iain Callaghan

was appointed to the Board in 1997 as Managing Director of Menzies Distribution, having joined this business in 1965. 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 57.

Notes

1. Non-executive
2. Member of Audit Committee
3. Member of Remuneration Committee
4. Member of Nominations Committee
5. Biographies relate to the directors shown from left to right



Patrick Macdonald was appointed to the Board as Chief Executive in 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. Age 42.

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 48.



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 Ltd, an institutional investment management company specialising in currency exposure management for pension funds worldwide. Age 48.

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 62.

Michael Walker (Notes 1,2,3,4) joined the Board in 1995, was appointed senior independent non-executive director in 2003, and is Chairman of the Audit Committee. He is Chairman of solicitors Maclay Murray & Spens, a director of Securities Trust of Scotland plc, and is also the Chairman-Elect of the Board of Lex Mundi, a leading global association of independent law firms. Age 52.

MENZIES DISTRIBUTION
 DELIVERY NOTE NUMBER : 7907411280

CUSTOMER NO : 1138

SAINSBURY
 CRYSTAL PEAKS
 BEIGHTON
 SHEFFIELD

S20 65V

QTY	FOLLOW	TITLE
9		*ANGLING TIMES
1		*AUTOSPORT
9		*BBC TOP GEAR SPECIAL
124		*CHAT
9		*COMPUTER SHOPPER CD
14		*COMPUTERACTIVE
26		*COUNTRY LIFE
1		*COUNTRY LIVING
4		*DALTONS WEEKLY
1		*FLORAGING
17		*FANTASY
22		*HOMES
3		*KRIS
6		



The nightly miracle that takes place: 4million newspapers (5million on weekends) and 3,000 magazine titles being delivered in over 1,000 vehicles covering more than 92,000 miles across the UK.



HKG

Leading edge technology is used in the systematic packing of magazines and newspapers, vehicle delivery scheduling and also in weighing vehicles prior to departure to ensure both safety and accurate prediction of customer delivery times, enabling continuous improvement in our performance.

Our professionalism, enthusiasm and expertise in providing ramp handling, cabin cleaning and aircraft towing and push-back services continue to win admirers. Important contract gains last year included BA and China Airlines, both at George Bush Intercontinental Airport in Houston, USA, and BA in Brazil. Mal Murphy, British Airways' Station Operations Procurement Manager, said: "We were pleased to recently award Menzies Aviation a long-term agreement for three of our Latin American stations. [It] follows good experience with Menzies elsewhere in our network."

Financial Report

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Principal Activities and Results

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 results and of the development of the business is contained in the Chief Executive's Review on pages 4 to 11.

Directors and their Interests

The directors who served during the year are shown below. The directors as at the end of the financial year, and their biographies, are shown on pages 18 and 19. Their interests in the ordinary shares of the Company were as follows:

		25 Dec 2004	27 Dec 2003
W R E Thomson	Beneficial	4,000	4,000
P J Macdonald	Beneficial	8,750	6,150
P B Dollman	Beneficial	3,150	3,150
I M Callaghan	Beneficial	10,194	10,194
D J Jenkinson	Beneficial	2,258,360	2,258,360
	See Note	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
	See Note	2,514,885	2,514,885
	Non-beneficial	32,175	82,350
M J Walker	Beneficial	1,000	1,000
D A Coltman	Beneficial	15,000	7,000
I S Robertson (appointed 1/11/04)	Beneficial	20,000	n/a
C A Ramsay (retired 17/12/04)	Beneficial	n/a	1,712,600
	Non-beneficial	n/a	759,286
P S Smith (left 30/4/04)	Beneficial	n/a	20,501

Note: These holdings are joint beneficial interests.

In addition to the above holdings, William Thomson and Michael Walker, as directors of a subsidiary which is a trustee of employee benefit trusts in which they have no beneficial interest, have non-beneficial interests in 415,257 shares.

There have been no subsequent changes to these interests as at 14 March 2005.

No director had any material interest in any contract, other than a service contract as set out on page 32 or as set out in Note 27 to the Accounts on page 65, with the Company or any of its subsidiaries at any time during the year.

Annual General Meeting

A separate document has been sent to all members containing the Notice of Meeting and explaining the Special Business to be transacted at the Annual General Meeting ("AGM") to be held on 28 April 2005 at the Caledonian Hilton Hotel, Edinburgh.

The directors who retire by rotation at the AGM are Paul Dollman and Ian Harrison who, being eligible, offer themselves for re-election. Iain Robertson, who was appointed as a director on 1 November 2004, will also retire in accordance with the Articles of Association and seek election.

Paul Dollman was appointed as Group Finance Director in 2002. Ian Harrison brings particular skills relating to pension investment and currency management, as well as representing the interests of our major shareholder. Iain Robertson's financial background and experience will benefit the Board, and if elected he will take over Chairmanship of the Audit Committee following the AGM.

In addition to the above, Dermot Jenkinson and Michael Walker, who have served on the Board for more than 9 years, will also retire as required by the Combined Code on Corporate Governance issued in 2003 ("the Code") and offer themselves for re-election at the AGM.

Each of Ian Harrison, Dermot Jenkinson and Michael Walker as non-executive directors has undergone a formal performance evaluation and the performance of each continues to be effective and to demonstrate commitment to their role, including commitment of time for board and committee meetings and their other duties.

The Board recommends to shareholders the election of Iain Robertson and the re-election of Paul Dollman, Ian Harrison, Dermot Jenkinson and Michael Walker.

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 as at 14 March 2005:

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co. Ltd	4,990,000	8.6
Mr J M Menzies	4,189,650	7.3
Mr D F Ramsay	2,589,878	4.5
Mrs S J Speke	2,039,920	3.5
Mrs K P Slater	1,981,552	3.4

Dividends

The directors recommend the payment of a final dividend of 13.0 pence per ordinary share, payable on 24 June to members on the Register as at the close of business on 27 May 2005. The shares will be quoted as ex-dividend on 25 May 2005.

This final dividend, together with the interim dividend of 5.5 pence per ordinary share paid on 30 November 2004, makes a total dividend of 18.5 pence per ordinary share for the year ended 25 December 2004.

Directors' and Officers' Liability Insurance

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

DIRECTORS' REPORT

(continued)

Corporate Governance

The Board remains committed to high standards of corporate governance and fully supports the spirit behind Section 1 of the Code.

However, due to the history of the Company and particularly the continuing involvement of its founding 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. These directors are Ian Harrison and Dermot Jenkinson, who are members of the business' founding families which in total hold some 40% of the ordinary share capital of the Company. Their inclusion in the membership of the Board's committees is not in compliance with the Code.

The Board

The Board consists of nine directors, six of whom, including the Chairman, are non-executive and three executive. The roles of the Chairman, who is non-executive, and Chief Executive are separate and clearly defined. Non-executive directors are appointed for an initial term of three years, and all directors are required under the Articles to retire and offer themselves for re-election at least every three years.

Michael Walker is the Senior Independent Director, and is available to address any concerns a shareholder may have which have not been resolved through the normal communication channels. Although he entered his tenth year of service on the Board in November 2004, the Board has determined that he is independent for the purposes of the Code and that his partnership in Maclay Murray & Spens, who are lawyers to the Company, and of whom he is Chairman, does not constitute a material business relationship. He brings to the Board a breadth and depth of commercial skills, knowledge, experience and contacts and the objectivity in both counsel and judgement that is required of a senior independent non-executive director. The Board has also determined that David Coltman and Iain Robertson are independent for the purposes of the Code.

The Board met nine times during the year, with a formal schedule of matters specifically reserved to it for decision. These include strategic plans, the approval of financial statements, acquisitions and disposals, major non-recurring projects and major capital expenditures. 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 Michael Walker and Charles Ramsay 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 as appropriate at the expense of the Company.

At least one meeting of the Board each year is held at an operating division's offices, and directors are encouraged to visit both divisional operations at other times, and to undertake such activities and training as is appropriate or may be required or desirable in order to carry out their duties.

The non-executive directors held two meetings during 2004, one of which was held without the Chairman at which his performance was reviewed.

The Board considers that it has complied with the relevant provisions of the Code throughout 2004 except for the disclosures made above.

Board Performance Evaluation

The Board supports the principles and provisions of the Code which cover Board effectiveness and evaluation. A rigorous process of performance evaluation of the whole Board and of individual members was undertaken during the year with the assistance of The Change Partnership (part of the Whitehead Mann Group), who attended a meeting of the Board and of the Audit Committee. As part of the process, each director and the Company Secretary was interviewed, as were representatives from the internal and external auditors. The interview findings were compiled in a detailed report produced for the Chairman, and a summary of those findings was presented at a special meeting of the Board in January 2005. The recommendations of the report were debated and generally adopted by the Board. The Chairman has since held separate meetings with each member of the Board for ongoing evaluation purposes.

Communication with Shareholders

The Board 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, as well as through presentations to institutional shareholders and the dissemination of information via the Group's website at www.johnmenziesplc.com, the Board seeks to present its strategy and performance in an objective and balanced manner.

Shareholders attending the AGM 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 the meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the meeting.

The Board receives reports at each of its meetings on any meetings held with shareholders or analysts, and the Chairman and Senior Independent Director are also available for contact by shareholders at any time. As part of its review of remuneration policy and practice during the year, the Chairman of the Remuneration Committee contacted all major shareholders before finalising the conclusions of this review.

Board Committees

The Board has established four committees with defined terms of reference. Following the AGM, the membership of the Audit and Remuneration Committees will be reduced to three directors (who are all non-executives) as part of the Board's policy regularly to refresh committee membership. The memberships of the various Board Committees are shown below and on pages 18 and 19.

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.

The members of the Committee are Patrick Macdonald, Paul Dollman and Iain Callaghan, together with Craig Smyth (Managing Director, Menzies Aviation), Robin Peters (Director of Business Development), Susan O'Donnell (Director of Human Resources), Alastair Couper (Group Financial Controller) and Adair Anderson (Company Secretary).

Nominations Committee

The Nominations Committee has terms of reference modelled closely on those set out in the Code, and its responsibilities include recommending new Board appointments and succession planning. It met five times during the year, with the Chairman being unable to attend one meeting. The Chief Executive normally attends each meeting.

The Board as a whole is responsible for making new appointments to the Board on the recommendation of the Nominations Committee and for nominating recommended candidates for election by shareholders on first appointment and thereafter for re-election at relevant intervals.

The members of the Committee are William Thomson (Chairman), Michael Walker and Dermot Jenkinson.

Remuneration Committee

The Report on Directors' Remuneration on pages 30 to 35 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 Ian Harrison and met eight times during the year, including additional meetings arising from a change to its advisors and the adoption of new remuneration packages, with Michael Walker unable to attend one meeting and Charles Ramsay three meetings.

Following the AGM, the members of this committee will be Ian Harrison (Chairman), Michael Walker and David Coltman.

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 those set out in the Code. It met four times during the year, with Ian Harrison and Charles Ramsay unable to attend one meeting each, and Dermot Jenkinson two meetings.

The Committee 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 monitors the effectiveness of the Group's Controls Assurance function, and reviews the Group's financial statements and proposed announcements, together with 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.

Following the AGM, the members of this committee will be Iain Robertson (Chairman), Ian Harrison, and Dermot Jenkinson.

DIRECTORS' REPORT

(continued)

Directors' Responsibilities

The directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss and cash flows of the Group for the financial year then ended.

In preparing the financial statements the directors are required to:

- maintain adequate accounting records;
- apply suitable accounting policies in a consistent manner and make reasonable and prudent judgements and estimates where necessary;
- comply with the provisions of the Companies Act 1985 and all applicable accounting standards;
- prepare the financial statements on a going concern basis.

The directors are satisfied, after making appropriate enquiries, 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 financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

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 by the Board as well as at operating divisional board level on an ongoing basis, with a formal annual review of risks and controls taking place, supported by the Group's Controls Assurance provider. The Group Executive Committee also reviews each division's 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 material 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.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company and authorising the Board to set their remuneration will be proposed at the AGM.

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. During 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 Group recognises the need to pay continuing attention to CSR, as set out below:

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 Group’s key CSR factors are its employee management and its impact on the environment. The nature of its impact on the environment, principally fuel and waste, is such that the continuing priority given to appropriate cost management ensures that the business and environmental drivers work in the same direction.

Comprehensive employment policies are backed by health and safety management and training. On the environmental front, the Group’s UK CO₂ 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.

The Company is quoted on the FTSE4Good Index, classified as low impact.

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 necessary retraining would be provided.

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. It has adopted and disseminated appropriate policies and procedures, including those on whistleblowing.

Employees are encouraged to have a direct interest in the financial performance of the Group through its savings-related share option scheme, which is currently open to all UK employees, of whom some 1,400 are members. 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.

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” have been issued on a regular basis and the interim and final results are presented to employees at visits to certain branches undertaken by the management or otherwise 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 interactive CD-based training. The Group recognises the importance of management development in securing the future of the business, and is developing new initiatives to provide advice, support and training to divisional management.

DIRECTORS' REPORT

(continued)

Health and Safety

The Group has suitable policies and systems in place for the management of health and safety risks, which is supported by an ongoing programme to monitor implementation and compliance together with periodic reviews and feedback. All employees have received appropriate training, most also through interactive CD-based training packages developed by the business, which new employees now use when they join the Group where relevant.

Both operating divisions recognise that implementation of best practice through the alignment of current working practices 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 to its operations in all other airports in its network during 2005. Menzies Aviation recently established 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.

Menzies Distribution has significantly improved the internal layouts of its branches to optimise workflow patterns and to reduce the risk of accidents. This 2-year programme has been recognised by the Freight Transport Association (FTA), who have used our sites as role models of good practice. A bespoke driver training package focused on occupational road risk and legislative awareness developed and implemented by the division has also been endorsed by the FTA, who have used it to develop a suite of derived products for the transport industry generally. The division's work in this area was recognised by an award for "Excellence in People Development" given by The Chartered Institute of Logistics and Transport.

Each division has a Health and Safety Committee which meets monthly, supported by trained managers, which reviews statistics and how their performance, already above their industry standards, can be improved. The 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, with Menzies Distribution being the main user in the Group, and waste from returned unsold copies of newspapers and magazines specific to Menzies Distribution.

CO₂ emissions

Estimates of CO₂ emissions by the Responsible Corporation Ltd indicated that the Group's operations 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 CO₂ emissions targets.

Fuel

The need to reduce fuel costs, with consequential benefits to CO₂ 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, whose initiatives in this area were evidenced by the award received in 2002 from The European Institute of Transport Management. In addition, training for our drivers of larger vehicles, using a specially adapted training vehicle, has shown that fuel savings of 11% can be achieved. A recent report on the Biffaward Programme on Sustainable Resource Use administered by the Royal Society for Nature Conservation and Biffa Waste Management Ltd also examined the potential use of alternative fuels such as LPG, but concluded that it offered, on a net basis, "little potential advantage".

Waste Management

Controls over waste for unsold newspaper and magazine product are closely linked to the need to reduce operating costs by matching so far as possible supply of product with demand. By providing quality information quickly to the publishers, and by developing sophisticated demand tracking and industry-leading sales based replenishment 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 21,200 retail outlets which it serves. Following detailed trials and software development over the past two years, the division's system has shown that a 51% reduction in unsold copies can be achieved for relevant titles, and its system has now been adopted as the standard industry model.

Waste Collection

Menzies Distribution manages the collection and consolidation of all unsold newspapers from these 21,200 retail units for recycling. All unsold magazines, with their high grade paper, are likewise collected, cleansed, consolidated and delivered to recycling plants. Some 54,000 tonnes of magazines and periodicals and 79,000 tonnes of newspapers were recycled from Menzies Distribution customers in 2004.

Conclusion

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. The Group also seeks to work closely with independent external parties in initiatives to reduce these, so as to widen the benefits available from these developments, achieved through the enthusiasm of its managers. To quote from the FTA in relation to Menzies Distribution's training initiatives, "This massive investment in developing staff can only be commended in an industry which regularly comes under scrutiny and where costs regularly inhibit action. The investment isn't purely compliance driven but is about recruiting the right calibre of employee and retaining them. It's about motivating existing employees and developing them."

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.

At the year end, the amount owed to trade creditors by the Group was equivalent to 31.5 days (2003: 33.0 days) of purchases from suppliers.

Donations

Donations to various charitable, community and arts organisations totalling £94,000 (2003: £100,000) were made during the year. Individual employees are also 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 (2003: nil).

By order of the Board



C A ANDERSON
SECRETARY

14 March 2005

Remuneration Committee

The Remuneration Committee ("the Committee") determines the remuneration of the Chairman and the executive directors on behalf of the Board. It has formal Terms of Reference set by the Board modelled on the Combined Code. Its members are all non-executive directors as identified on page 25 and meet under the chairmanship of Ian Harrison. The Company Secretary is the secretary of the Committee.

The Chairman of the Committee is available to answer questions from shareholders at the Annual General Meeting on the decisions of the Committee.

Patrick Macdonald, Chief Executive, attends meetings as appropriate as do Susan O'Donnell, Director of Human Resources, and Kepler Associates, who were appointed by the Committee during the year as advisors and have since also been retained by the Company to provide advice relating to the remuneration of executive management. Maclay Murray & Spens provide legal services to the Committee. The Committee and the Company also used Monks Partnership during the year to provide remuneration benchmarking services.

Members of the 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 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 Group aims 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. The Committee applies these principles with regard to the executive directors, and also reviews the policies underlying the remuneration of senior executives.

The Committee has undertaken a full review of its remuneration policy and practices for executive directors, and proposes significant changes which, subject as appropriate to shareholder approval at the AGM on 28 April 2005, will be applied in 2005. Whilst the key features of this review are summarised below, the remaining descriptions of remuneration within this report refer to the practices in force as at December 2004.

Remuneration review - key features

The Committee proposes that, in future, executive director salaries be de-linked from incentive opportunities to reduce the focus on salary and to help rebalance the pay mix from fixed to performance related reward. Bonuses would be based on a targeted value, and equity awards on a number of shares based on fair value calculations. This is intended to increase the incentive element within the remuneration package for upper quartile performance from 44% of remuneration at present to 61%, and for target performance from 29% to 32%.

Annual Bonus targets would be set at c.20% of salary, with any award calibrated to pay target for median performance and maximum for between upper quartile and upper decile performance based on a range of parameters, including peer performance. Maximum awards would be three times target.

A Bonus Co-investment Plan would offer up to 2:1 matching shares based on 3-year EPS growth for investment of up to 50% of any bonus award. Matching shares would vest pro rata for real EPS growth of 3%-8%, with no retesting.

A Performance Share Plan would replace the current share option scheme, and involve annual grants of conditional shares vesting on 3-year Total Shareholder Return (TSR) out performance of the FTSE 250 Index. Shares would vest pro rata between TSR performances equal to and 30% above this index.

A Long Term Incentive Scheme would replace the current share option scheme for senior executives, and involve annual grants of conditional shares vesting on 3-year EPS growth. Shares would vest pro rata for real EPS growth of 3%-8%, with no retesting.

Dividends would accrue on all shares vesting under the above plans, payable in cash on vesting.

A share ownership guideline would expect executive directors to retain 50% of any vested share incentive awards, and to co-invest 25% of any annual bonus, until a shareholding target is reached.

Current practices

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 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 or personal 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 2004 was 50% of basic salary. Bonus payments are subject to the approval of the Committee and are non-pensionable.

Share Options

Share options have been 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. Paul Dollman and Patrick 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 under this share option scheme of one times salary.

Prior to September 2000, share options were not subject to any performance conditions. 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. Options granted in November 2000 did not meet their performance target and lapsed in 2003. The Committee considers that any performance hurdles should be kept simple, and should be closely aligned to shareholder interest, and that the use of an earnings per share ratio to determine performance meets these combined requirements.

Options granted in April 2002 have a performance condition which requires the Group to exceed the 3-year growth target approved by the Board in February 2002. Options granted subsequently are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 3%-8% per annum over three years, adjusted to normalise pension and tax charges, as set out in the Notes to the Share Options table below.

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 practice 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. All executive directors who served during the year have or had service contracts on this basis.

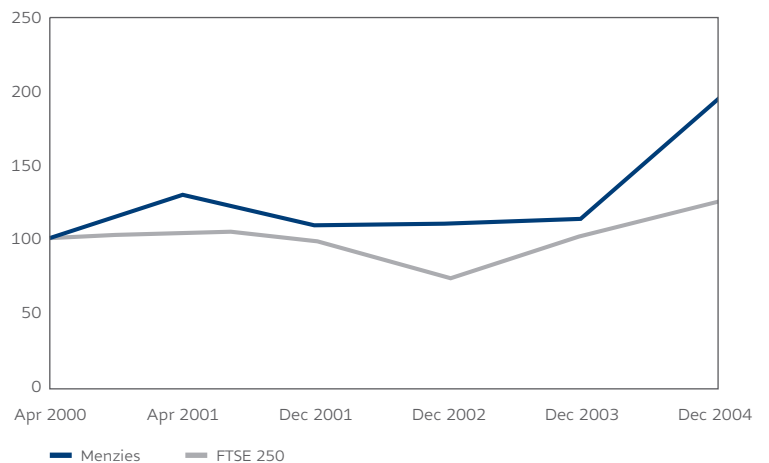
The Remuneration Committee considers that the notice periods stated above are reasonable and in the interests of shareholders having due regard to prevailing market conditions and practice among companies of comparable size.

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 non-executive directors and the Chairman do not have service contracts, being appointed for an initial period of three years, subject to review thereafter, and do not participate in any of the Group's bonus, share or pension schemes.

Performance Graph

The following graph compares the Company's total shareholder return for the five financial years to December 2004 with the equivalent performance of the FTSE 250 Index. The directors consider that, given the nature of the businesses within the Group and the recent recovery in the Company's share price, which brings it close to re-admission to the FTSE 250 Index, the most appropriate comparison is with this index.



The following sections of this Report have been audited.

Directors' Emoluments

Directors' emoluments for the year to 25 December 2004 (27 December 2003) 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 2004 £'000	Total December 2003 £'000
W R E Thomson (9.5.03)	107	–	–	–	–	–	107	103
P J Macdonald (25.8.02)	348	53 (b)	199	15	1	56 (c)	672	463
P B Dollman (8.8.02)	241	–	117	13	4	–	375	244
I M Callaghan (17.12.03)	284	–	135	13	1	–	433	335
D J Jenkinson (30.4.04)	26	–	–	–	–	–	26	24
I C L Harrison (2.5.02)	31	–	–	–	–	–	31	29
C A Ramsay (7.9.01) (d)	26	–	–	–	–	–	26	24
M J Walker (30.4.04) (e)	31	–	–	–	–	–	31	29
D A Coltman (30.4.04)	45	–	–	–	–	–	45	44
I S Robertson (1.11.04) (f)	5	–	–	–	–	–	5	–
P S Smith (1.12.99)	71	–	43 (g)	4	3	228 (g)	349	232
D J Mackay (retired 20.5.03)	–	–	–	–	–	–	–	501
Total							2,100	2,028

Notes:

- (a) For executive directors, this is the date of their service contract, and for non-executive directors, the date of appointment or 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'). Patrick Macdonald elected to receive a salary supplement in lieu of the balance of his pension entitlement.
- (c) Relocation expenses have been paid for Patrick Macdonald totalling £125,550 covering costs incurred in his relocation to Edinburgh. Of this total, £69,710 was paid in 2003, and the comparative figures have been restated to reflect this.
- (d) Charles Ramsay retired on 17 December 2004.
- (e) Michael Walker's fees are paid to Maclay Murray & Spens until 31 May 2004.
- (f) Iain Robertson was appointed to the Board on 1 November 2004.
- (g) Peter Smith left the Company on 30 April 2004 and received compensation for loss of office of one year's salary together with an appropriate proportion of the annual bonus on the 2004 performance of Menzies Aviation.

REPORT ON DIRECTORS' REMUNERATION
(continued)

Share Options

Name	At 27 December 2003	Granted during year	Exercised during year (a)	Market value at date of exercise (pence)	Lapsed during year	At 25 December 2004 or date of leaving	Exercise price (pence)	Date exercisable from	Expiry date
P J Macdonald	360,577	–	–	–	–	360,577 (c)	312	13.5.06	12.5.13
	–	97,856	–	–	–	97,856 (d)	418	7.5.07	6.5.14
	2,709*	–	–	–	–	2,709*	286	1.12.06	1.6.07
	–	410*	–	–	–	410*	388	1.12.07	1.6.08
P B Dollman	205,166	–	–	–	–	205,166 (c)	329	8.11.05	7.11.12
	–	58,714	–	–	–	58,714 (d)	418	7.5.07	6.5.14
	2,680*	–	–	–	–	2,680*	275	1.11.05	1.5.06
	593*	–	–	–	–	593*	286	1.12.06	1.6.07
	–	78*	–	–	–	78*	388	1.12.07	1.6.08
I M Callaghan	15,000	–	–	–	15,000	–	653	25.2.97	24.2.04
	10,000	–	10,000	520	–	–	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	491	–	–	391	28.1.03	27.1.10
	67,458	–	–	–	–	67,458 (e)	331	10.4.05	9.4.12
	78,723	–	–	–	–	78,723 (c)	312	13.5.06	12.5.13
	–	69,178	–	–	–	69,178 (d)	418	7.5.07	6.5.14
	2,680*	–	–	–	–	2,680*	275	1.11.05	1.5.06
P S Smith (f)	10,000	–	–	–	–	10,000	596	16.10.98	30.4.05
	5,000	–	–	–	–	5,000	520	1.3.99	30.4.05
	5,000	–	–	–	–	5,000	461	21.2.00	30.4.05
	5,000	–	–	–	–	5,000	404	10.10.00	30.4.05
	15,000	–	–	–	–	15,000	492	7.4.01	30.4.05
	10,000	–	–	–	–	10,000	348	18.2.02	30.4.05
	25,000	–	–	–	–	25,000	391	28.1.03	30.4.05
	55,891	–	–	–	18,444	37,447	331	30.4.04	30.4.05
	2,680*	–	–	–	1,020	1,660*	275	30.4.04	30.10.04
	64,103	–	–	–	44,516	19,587	312	30.4.04	30.4.05
593*	–	–	–	413	180*	286	30.4.04	30.10.04	

Notes:

- (*) All the above options were granted under the executive share option scheme at nil cost with the exception of those items marked * which have been granted under the Group's savings-related share option scheme.
- (a) The aggregate amount of gains, measured as the difference between option exercise prices and the closing market values or sale prices as appropriate of the shares involved on the day of exercise, on options exercised by directors during the year was £130,595.
- (b) The market price for shares in John Menzies plc ranged from 312.5p to 520.5p during the year and was 520.5p at 25 December 2004.
- (c) These options are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 3%-8% per annum in the three years to December 2005, adjusted to normalise pension and tax charges.
- (d) These options are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 3%-8% per annum in the three years to December 2006, adjusted to normalise pension and tax charges.
- (e) These options require the Group to exceed the 3-year growth target approved by the Board in February 2002, failing which the options will lapse.
- (f) Peter Smith left the Company on 30 April 2004, following which his options were reduced in number pro rata and the exercise dates amended in accordance with the rules of the schemes involved. He subsequently exercised options over 57,034 shares with a market value of 500p and savings-related options over 1,840 shares with a market value of 471p.

Pensions

Scheme Benefits

The executive directors are members of the Menzies Pension Fund, a contributory defined benefit 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 Patrick Macdonald, Peter Smith and Paul Dollman are restricted as a consequence of the 'earnings cap'. Of these directors, Patrick Macdonald has elected to receive a salary supplement in lieu of his unapproved pension entitlement, and Paul Dollman (and Peter Smith to his date of leaving) has 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 his date of appointment as a director.

Pension details are as follows:

Director	Age	Increase in accrued pension during year £'000	Total accrued pension entitlement at 25 Dec 2004 (a) £'000	Transfer Value (b) (c)		
				25 Dec 2004 £'000	27 Dec 2003 £'000	Increase excl members' contributions £'000
P J Macdonald	42	4	7	52	21	26
P B Dollman	48	10	18	175	65	101
I M Callaghan	57	17	169	2,948	2,269	665
P S Smith (d)	59	6	45	930	733	195

Notes:

- (a) The pension benefits disclosed above include unfunded benefits. Unfunded transfer values at 25 December 2004 totalled £446,000 which includes £304,000 held on behalf of a former director (Peter Smith) to fund pension payments of £15,712 per annum.
- (b) Transfer values represent the value of assets which the pension scheme (together with the Company where appropriate) would need to transfer to another pension provider on transferring its 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 and the Index-linked Over 5 Years (5% inflation) Index.
- (d) Peter Smith left on 30 April 2004. All information included for him is for the period to, or as at, this date.

Annual General Meeting

This Report will be tabled for consideration by shareholders at the AGM on 28 April 2005 together with resolutions recommending approval of each new share plan proposed, the key elements of which are noted above.

By order of the Board



C A ANDERSON
SECRETARY

14 March 2005

INDEPENDENT AUDITORS' REPORT

to the members of John Menzies plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' report on remuneration, the chairman's statement, the chief executive's review and the financial review.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 25 December 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
14 March 2005

GROUP PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 25 December 2004 (52 weeks ended 27 December 2003)

	Notes	Before exceptional items £m	Exceptional items (Note 5) £m	2004 Total £m	Before exceptional items (restated) £m	Exceptional items (Note 5) £m	2003 Total (restated) £m
Turnover: Group and share of joint ventures and associates	2	1,369.2	–	1,369.2	1,297.7	–	1,297.7
Less share of:							
Joint ventures		(15.6)	–	(15.6)	(16.5)	–	(16.5)
Associates		(23.0)	–	(23.0)	(20.9)	–	(20.9)
Group turnover		1,330.6	–	1,330.6	1,260.3	–	1,260.3
Net operating costs	3	(1,300.8)	–	(1,300.8)	(1,242.3)	(15.5)	(1,257.8)
Group operating profit / (loss)		29.8	–	29.8	18.0	(15.5)	2.5
Share of operating profit / (loss) in							
Joint ventures		0.6	–	0.6	(0.4)	(0.6)	(1.0)
Associates		2.8	–	2.8	2.6	–	2.6
Total operating profit / (loss)	2	33.2	–	33.2	20.2	(16.1)	4.1
Gain / (loss) on disposal of businesses	5	–	7.6	7.6	–	(1.1)	(1.1)
Profit / (loss) on ordinary activities before interest		33.2	7.6	40.8	20.2	(17.2)	3.0
Net interest payable	7	(3.5)	–	(3.5)	(3.7)	–	(3.7)
Other finance income	4	0.6	–	0.6	0.6	–	0.6
Profit / (loss) on ordinary activities before taxation		30.3	7.6	37.9	17.1	(17.2)	(0.1)
Taxation	8	(8.3)	–	(8.3)	(5.7)	0.4	(5.3)
Profit / (loss) after taxation		22.0	7.6	29.6	11.4	(16.8)	(5.4)
Minority interests	22			(0.3)			(0.1)
Profit / (loss) for the financial year				29.3			(5.5)
Dividends (including non-equity)	9			(10.7)			(11.2)
Retained profit / (loss) for the financial year				18.6			(16.7)
Earnings per ordinary share	10						
Headline		44.5p			24.8p		
FRS 3				51.6p			(11.4)p
Headline diluted		44.2p			24.8p		
FRS 3 diluted				51.2p			(11.3)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 weeks ended 25 December 2004 (52 weeks ended 27 December 2003)

		2004 £m	2003 (restated) £m
Profit / (loss) for the financial year		29.3	(5.5)
Actuarial gain on defined benefit pensions	4	3.2	7.1
Deferred tax associated with defined benefit pensions		(1.0)	(2.0)
Currency translation		0.6	0.3
		32.1	(0.1)
Prior year adjustment for FRS 17	4	(62.6)	–
Total recognised losses for the financial year		(30.5)	(0.1)

GROUP AND COMPANY BALANCE SHEETS

as at 25 December 2004 (27 December 2003)

	Notes	Group			Company	
		2004	2003	2003	2004	2003
		£m	£m	(restated) £m	£m	£m
Fixed assets						
Intangible assets	11	22.3		27.4	–	–
Tangible assets	12	116.1		116.3	33.4	4.7
Investments	13					
– joint ventures						
Share of gross assets		1.7		1.4	–	–
Share of gross liabilities		(0.9)		(0.7)	–	–
Shareholder loans		0.3		0.3	–	–
			1.1	1.0	–	–
– associates			20.2	23.2	–	–
– other			–	0.2	–	–
– subsidiaries			–	–	98.8	97.9
Total investments			21.3	24.4	98.8	97.9
			159.7	168.1	132.2	102.6
Current assets						
Stocks			11.1	12.9	–	–
Deferred tax asset	19		4.7	1.2	–	–
Debtors	14		95.2	90.4	63.0	121.7
Cash at bank and in hand	16		27.0	32.1	16.7	5.7
			138.0	136.6	79.7	127.4
Creditors: amounts falling due within one year						
Bank loans and overdrafts	16		(28.4)	(27.1)	(12.5)	(6.6)
Other	15		(162.9)	(157.1)	(104.4)	(91.4)
			(191.3)	(184.2)	(116.9)	(98.0)
Net current (liabilities) / assets			(53.3)	(47.6)	(37.2)	29.4
Total assets less current liabilities			106.4	120.5	95.0	132.0
Creditors: amounts falling due after more than one year						
Loans and other borrowings	16		(42.0)	(68.2)	(41.8)	(62.8)
Other	15		(0.1)	(1.5)	–	–
Provision for liabilities and charges						
Other	19		(8.5)	(9.0)	–	–
Net assets excluding net pension liabilities			55.8	41.8	53.2	69.2
Net pension liabilities	4		(16.3)	(26.3)	–	–
Net assets including net pension liabilities			39.5	15.5	53.2	69.2
Capital and reserves						
Called up share capital	20		14.4	14.3	14.4	14.3
Share premium account	21		7.7	6.0	7.7	6.0
Investment in own shares	21		(3.3)	(3.7)	–	–
Profit and loss account	21		(2.8)	(24.2)	8.1	25.9
Capital redemption reserve	21		21.6	21.6	21.6	21.6
Equity shareholders' funds			37.6	14.0	51.8	67.8
Non-equity share capital	20		1.4	1.4	1.4	1.4
Shareholders' funds	23		39.0	15.4	53.2	69.2
Equity minority interests	22		0.5	0.1	–	–
			39.5	15.5	53.2	69.2

The accounts were approved by the Board of Directors on 14 March 2005 and signed on its behalf by:

Patrick Macdonald, Chief Executive

Paul Dollman, Group Finance Director

GROUP CASH FLOW STATEMENT

for the 52 weeks ended 25 December 2004 (52 weeks ended 27 December 2003)

	Notes	2004 £m	2003 (restated) £m
Net cash inflow from operating activities	24a	36.9	40.6
Dividends from joint ventures and associates		4.0	3.5
Returns on investments and servicing of finance			
Interest received		2.4	1.9
Interest paid		(6.4)	(5.6)
Preference dividends paid		(0.1)	(1.0)
Minority interest dividends		–	(0.1)
Net cash outflow from returns on investments and servicing of finance		(4.1)	(4.8)
Tax paid		(4.9)	(2.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(16.2)	(17.0)
Sale of tangible fixed assets		0.6	0.8
Net cash outflow from capital expenditure and financial investment		(15.6)	(16.2)
Acquisitions and disposals			
Investment in joint ventures and associates		(0.1)	(1.9)
Other investments		(0.1)	–
Purchase of subsidiaries		(3.2)	(1.6)
Disposal of associates		1.1	4.7
Disposal of subsidiaries	25	11.5	–
Net cash disposed of with subsidiaries		–	(0.1)
Net cash inflow from acquisitions and disposals		9.2	1.1
Equity dividends paid		(10.3)	(10.3)
Net cash inflow before use of liquid resources and financing		15.2	11.5
Management of liquid resources			
Decrease in short term deposits		8.8	30.0
Net cash inflow from management of liquid resources		8.8	30.0
Net cash inflow before financing		24.0	41.5
Financing			
Proceeds from shares issued		1.8	0.4
Redemption of preference shares		–	(20.0)
Loan notes redeemed		0.2	0.3
Sale of own shares		0.4	–
Decrease in loans		(17.8)	(29.2)
Net cash outflow from financing		(15.4)	(48.5)
Increase / (decrease) in cash in the year	24b,c	8.6	(7.0)

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 policies, including two accounting policy changes, which have otherwise been consistently applied, is given below.

Changes in accounting policies

The Group has adopted two new accounting standards as detailed below. These adoptions represent a change in accounting policy and the comparative figures have been restated accordingly.

The Group has adopted FRS 17 “Retirement benefits” in full for 2004. In prior years, the Group has complied with the transitional disclosure requirements of this standard. Details of the effects of fully adopting FRS 17 are given in Note 4.

The Group has complied with UITF 38 “Accounting for ESOP trusts”. This has resulted in the reclassification of own shares held from investments to shareholders’ funds.

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, excluding value added tax.

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

In accordance with FRS 17 “Retirement benefits”, the operating and financing costs of pensions are charged to the profit and loss account in the period in which they arise and are recognised separately. The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the statement of total recognised gains and losses. Pension costs are assessed in accordance with the advice of qualified actuaries.

With regard to defined contribution schemes the profit and loss charge represents contributions made.

1. Accounting policies (continued)

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 acquisition 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		Net assets	
	2004 £m	2003 (restated) £m	2004 £m	2003 (restated) £m	2004 £m	2003 (restated) £m
By class of business						
Distribution Services	1,109.4	1,058.0	30.6	26.2	29.4	26.9
Aviation Services	259.8	239.7	10.4	2.4	100.3	109.3
	1,369.2	1,297.7	41.0	28.6	129.7	136.2
Corporate	–	–	(4.2)	(4.8)	–	–
	1,369.2	1,297.7	36.8	23.8	129.7	136.2
Goodwill amortisation	–	–	(3.6)	(3.6)	–	–
	1,369.2	1,297.7	33.2	20.2	129.7	136.2
Reconciliation of net assets:						
Net debt					(43.5)	(63.3)
Unallocated net liabilities					(46.7)	(57.4)
Net assets					39.5	15.5
By geographical origin						
United Kingdom	1,223.1	1,161.2	25.2	17.8	69.1	72.5
Continental Europe	65.5	57.8	5.0	3.3	19.0	17.0
Americas	45.9	53.9	–	(1.5)	13.1	13.5
Rest of the World	34.7	24.8	3.0	0.6	28.5	33.2
	1,369.2	1,297.7	33.2	20.2	129.7	136.2
Joint Ventures and Associates included above						
Distribution Services						
Joint ventures	10.2	11.6	–	–	–	–
Associates	12.6	12.9	0.2	0.2	0.7	0.7
Aviation Services						
Joint ventures	5.4	4.9	0.6	0.1	1.1	1.0
Associates	10.4	8.0	4.4	3.7	19.5	22.5
	38.6	37.4	5.2	4.0	21.3	24.2
Goodwill amortisation	–	–	(1.8)	(1.8)	–	–
	38.6	37.4	3.4	2.2	21.3	24.2
Joint Ventures and Associates by geographical origin						
United Kingdom	22.8	24.5	0.2	0.2	0.7	0.7
Continental Europe	0.4	0.2	–	(0.2)	0.3	0.3
Americas	5.0	4.7	0.6	(0.2)	0.8	0.7
Rest of the World	10.4	8.0	2.6	2.4	19.5	22.5
	38.6	37.4	3.4	2.2	21.3	24.2

On the adoption of FRS 17, pension costs, previously shown separately, have been allocated to each segment based on pensionable payroll. In addition, Distribution Services have been charged a market rent for the use of Group freehold properties to present a more realistic result, and carriage service charges and other recoveries have been reclassified as turnover rather than offset in operating costs. The 2003 comparatives have been restated on a consistent basis.

The 2003 restatements have no impact on the overall group profit other than the effect of FRS 17.

Turnover by geographical origin and destination do not materially differ.

Goodwill amortisation is attributable to Distribution Services – £0.3m (2003: £0.4m) and Aviation Services – £3.3m (2003: £3.2m).

The results of acquisitions and disposals during the year were not material.

NOTES TO THE ACCOUNTS
(continued)

3. Net operating costs

	2004 £m	2003 (restated) £m
Goods for resale and consumables	1,026.6	984.5
Other operating charges	57.0	53.4
Employment costs (Note 4)	199.1	186.8
Goodwill amortisation (Note 11)	1.8	1.8
Depreciation (Note 12)	16.3	15.8
Exceptional operating expenses (Note 5)	–	15.5
	1,300.8	1,257.8

Other operating charges include:

Operating leases and hire charges – plant and machinery	7.9	7.2
Rent of properties	21.3	21.4
(Gain) / loss on disposal of fixed assets	(0.1)	0.1

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

Statutory UK audit	0.3	0.3
Overseas audit	0.2	0.2
Overseas due diligence work	–	0.1

The auditors' remuneration for the parent company was £15,000 (2003: £15,000).

4. Employees

	2004 £m	2003 (restated) £m
Wages and salaries	174.8	163.2
Social security costs	16.9	16.2
	191.7	179.4
Pension charge	7.4	7.4
	199.1	186.8

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

	2004 number	2003 number
Distribution Services	3,738	3,817
Aviation Services	7,130	6,664
Corporate	40	54
	10,908	10,535

The numbers above include 5,052 full time equivalent persons employed outside the UK (2003: 4,924).

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.

The pension charge to the profit and loss account is analysed as follows:

	2004 £m	2003 (restated) £m
Menzies Pension Fund	5.5	5.0
Other schemes	1.9	2.4
	7.4	7.4

FRS 17, "Retirement benefits" has been fully adopted for 2004. The adoption of FRS 17 has required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Prior period results have been restated as follows:

Group profit and loss account	Group operating profit £m	Net interest payable £m	Taxation £m	Profit / (loss) for the year £m
Year to 27 December 2003 as previously stated	6.3	(3.7)	(6.2)	(3.2)
Reversal of SSAP 24	1.2	–	(0.4)	0.8
Adoption of FRS 17	(5.0)	0.6	1.3	(3.1)
Year to 27 December 2003 restated	2.5	(3.1)	(5.3)	(5.5)

Group balance sheet	Debtors £m	Deferred tax asset £m	Provisions for liabilities and charges £m	Net pension liabilities £m	Profit and loss account £m
As at 27 December 2003 as previously stated	142.3	–	(23.4)	–	38.4
Reversal of SSAP 24	(51.9)	–	15.6	–	(36.3)
Adoption of FRS 17	–	–	–	(26.3)	(26.3)
Deferred tax reclassification	–	1.2	(1.2)	–	–
As at 27 December 2003 restated	90.4	1.2	(9.0)	(26.3)	(24.2)

NOTES TO THE ACCOUNTS
(continued)

4. Employees (continued)

FRS 17 movements

The Actuary undertook a valuation of the Menzies Pension Fund as at 31 December 2004 (2003: 31 December) under FRS 17.

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

	2004 %	2003 %	2002 %
Rate of increase in salaries	3.35	3.25	2.75
Rate of increase in pensions	3.25	3.25	3.25
Rate of increase in price inflation	2.85	2.75	2.25
Discount rate	5.30	5.40	5.50

Net pension liabilities

The assets / (liabilities) in the scheme and the expected rates of return as at 31 December 2004 were as follows:

	Long term rate of return %	Value at December 2004 £m	Long term rate of return %	Value at December 2003 £m	Long term rate of return %	Value at December 2002 £m
Equities	7.5	104.9	8.0	117.9	9.5	99.6
Bonds	5.0	31.6	5.4	30.9	5.8	19.7
Property	6.0	31.2	–	–	–	–
Other	6.3	11.6	3.0	4.7	3.0	0.6
Total market value of assets		179.3		153.5		119.9
Present value of scheme liabilities		(202.6)		(191.1)		(164.7)
Deficit in scheme		(23.3)		(37.6)		(44.8)
Related deferred tax asset		7.0		11.3		13.4
Net pension liabilities		(16.3)		(26.3)		(31.4)

4. Employees (continued)

FRS 17 movements

	2004 £m	2003 £m
Amounts charged to profit and loss account		
Current service cost	5.5	5.0
Past service costs	–	–
Total amount charged to profit and loss account	5.5	5.0
Amounts included as other finance income		
Expected return on pension scheme assets	10.5	9.7
Interest on pension liabilities	(9.9)	(9.1)
Net financial return	0.6	0.6
Amounts recognised in the statement of total recognised gains and losses		
Actual return less expected return on assets	3.4	14.0
Experience gains on liabilities	4.3	2.1
Impact of changes in assumptions relating to the present value of scheme liabilities	(4.5)	(9.0)
Actuarial gain	3.2	7.1
Movement in the deficit during the year		
Deficit in the Fund brought forward	(37.6)	(44.8)
Current service cost	(5.5)	(5.0)
Employer contributions	16.0	4.5
Past service costs	–	–
Net financial return	0.6	0.6
Actuarial gain	3.2	7.1
Deficit in the Fund carried forward	(23.3)	(37.6)

FRS 17 five year history

The following disclosures will be built up over time as a five year history:

	% of scheme assets/ liabilities	2004 £m	% of scheme assets/ liabilities	2003 £m	% of scheme assets/ liabilities	2002 £m
Difference between actual and expected return on scheme assets	2%	3.4	9%	14.0	38%	(46.0)
Experience gains / (losses) on scheme liabilities	2%	4.3	1%	2.1	3%	(4.7)
Amount recognised in statement of total recognised gains and losses	2%	3.2	4%	7.1	33%	(54.1)

NOTES TO THE ACCOUNTS
(continued)

5. Exceptional items

	Notes	2004 £m	2003 £m
Exceptional operating expenses:			
Aviation Services	a	–	(14.6)
Corporate	b	–	(0.9)
		–	(15.5)
Distribution Services	c	–	(0.6)
Total exceptional operating expenses		–	(16.1)
Non-operating exceptional items:			
Gain / (loss) on disposal of businesses	d	7.6	(1.1)
Total non-operating exceptional items		7.6	(1.1)
Total exceptional items		7.6	(17.2)

a 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.

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

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

c Provision against investment in joint venture.

d 2004: On 12 August the Group sold its executive aviation handling business, Execair, to BBA Group plc for a gain of £7.6m (Note 25).

2003: On 10 March the Group sold its 49% interest in Aeroporti di Roma Handling SpA for a consideration equal to net book value. On 20 June the Group sold its Aviation Services operation in Canada at a loss of £1.1m.

6. Directors

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 30 to 35.

7. Interest

	2004 £m	2003 £m
Receivable:		
Bank deposits	(2.4)	(2.1)
Payable:		
Bank loans and overdrafts	5.9	5.8
Net interest payable	3.5	3.7

8. Taxation

	2004	2003 (restated)
	£m	£m
(a) Analysis of charge in year		
Current tax		
UK corporation tax on profits for the year	6.2	5.4
Overseas tax	1.1	0.9
Adjustments to prior years' liabilities	–	(2.3)
Share of joint ventures	0.2	0.1
Share of associates	0.7	0.6
Net pension adjustment on adoption of FRS 17 (Note 4)	–	(0.9)
Total current tax	8.2	3.8
Deferred tax		
Origination and reversal of timing differences	3.6	1.4
Adjustments to prior years' liabilities	(0.2)	0.1
	3.4	1.5
Pension	(3.3)	–
Total deferred tax	0.1	1.5
Tax on profit on ordinary activities	8.3	5.3

The tax charge includes a credit of nil (2003: £0.4m) in respect of exceptional items.

The tax charge for the year is lower (2003: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003 (restated)
	£m	£m
(b) Factors affecting tax charge for the year		
Profit / (loss) on ordinary activities before tax	37.9	(0.1)
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	11.4	–
Effects of:		
Permanent differences (principally goodwill amortisation and exceptional items)	(1.1)	6.2
Capital allowances in excess of depreciation and other timing differences	(0.7)	(0.4)
Pension payments	(0.9)	(1.0)
Utilisation of tax losses	(2.0)	(1.4)
Adjustments to prior years' liabilities	–	(2.3)
Unrelieved overseas losses	1.3	2.5
Higher tax rates on overseas earnings	0.2	0.2
Current tax charge for year	8.2	3.8

NOTES TO THE ACCOUNTS
(continued)

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 replacement assets 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 £2.4m (2003: £1.9m). 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 £18.8m (2003: £22.2m) 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 £7.9m (2003: £9.7m).

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

	2004 £m	2003 £m
Dividends on equity shares:		
Ordinary – Interim paid, 5.5p (2003: 5.5p) per share	3.1	3.1
– Final proposed, 13.0p (2003: 12.6p) per share	7.5	7.2
Dividends on non-equity shares:		
Preference shares	0.1	0.9
	10.7	11.2

Dividends of £0.1m (2003: £0.1m) were waived by employee share trusts (Note 21) during the year.

10. Earnings per share

	Headline		FRS 3 Post exceptional items	
	2004 £m	2003 (restated) £m	2004 £m	2003 (restated) £m
Operating profit	33.2	20.2	33.2	20.2
add back: goodwill amortisation	3.6	3.6	–	–
Exceptional items	–	–	7.6	(17.2)
Interest	(2.9)	(3.1)	(2.9)	(3.1)
Profit before taxation	33.9	20.7	37.9	(0.1)
Taxation	(8.3)	(5.7)	(8.3)	(5.3)
Minority interests	(0.3)	(0.1)	(0.3)	(0.1)
Preference dividends	(0.1)	(0.9)	(0.1)	(0.9)
Earnings for the year	25.2	14.0	29.2	(6.4)
Headline				
Earnings per ordinary share (pence)	44.5	24.8		
Diluted earnings per ordinary share (pence)	44.2	24.8		
FRS 3				
Earnings per ordinary share (pence)			51.6	(11.4)
Diluted earnings per ordinary share (pence)			51.2	(11.3)
Number of ordinary shares in issue (millions)				
Weighted average	56.619	56.359		
Diluted weighted average	57.032	56.399		

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts (Note 21).

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.

NOTES TO THE ACCOUNTS
(continued)

11. Intangible assets – goodwill

	Joint ventures £m	Associates £m	Subsidiaries £m	Total £m
Cost				
At 27 December 2003	9.2	21.3	37.2	67.7
Acquisitions (Note 26)	–	–	0.1	0.1
Disposals (Note 25)	–	–	(3.8)	(3.8)
Currency translation	(0.8)	(1.5)	(0.6)	(2.9)
At 25 December 2004	8.4	19.8	32.9	61.1
Amortisation				
At 27 December 2003	9.2	3.6	9.8	22.6
Charge for the year	–	1.8	1.8	3.6
Disposals (Note 25)	–	–	(0.9)	(0.9)
Currency translation	(0.8)	(0.5)	(0.1)	(1.4)
At 25 December 2004	8.4	4.9	10.6	23.9
Net book value				
At 25 December 2004	–	14.9	22.3	37.2
At 27 December 2003	–	17.7	27.4	45.1

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 27 December 2003	37.3	0.5	34.0	101.8	173.6	5.6	0.1	0.3	6.0
Acquisitions (Note 26)	–	–	–	0.6	0.6	–	–	–	–
Additions	2.4	–	1.7	12.3	16.4	29.4	–	–	29.4
Transfers	(0.1)	–	–	0.1	–	–	–	–	–
Disposals	(0.2)	(0.4)	–	(4.0)	(4.6)	–	–	–	–
Currency translation	(0.1)	–	0.4	(0.5)	(0.2)	–	–	–	–
At 25 December 2004	39.3	0.1	36.1	110.3	185.8	35.0	0.1	0.3	35.4
Depreciation									
At 27 December 2003	4.3	0.2	8.5	44.3	57.3	1.1	–	0.2	1.3
Charge for the year	0.8	–	2.2	13.3	16.3	0.6	0.1	–	0.7
Disposals	(0.2)	(0.2)	–	(3.3)	(3.7)	–	–	–	–
Transfers	(0.1)	–	–	0.1	–	–	–	–	–
Currency translation	–	–	–	(0.2)	(0.2)	–	–	–	–
At 25 December 2004	4.8	–	10.7	54.2	69.7	1.7	0.1	0.2	2.0
Net book value									
At 25 December 2004	34.5	0.1	25.4	56.1	116.1	33.3	–	0.1	33.4
At 27 December 2003	33.0	0.3	25.5	57.5	116.3	4.5	0.1	0.1	4.7

NOTES TO THE ACCOUNTS
(continued)

13. Investments

	Group					Company	
	Shares in joint ventures £m	Loans to joint ventures £m	Shares in associates £m	Loans to associates £m	Other £m	Total (restated) £m	Subsi- diaries £m
Cost excluding goodwill							
At 27 December 2003	0.7	0.3	5.2	0.3	0.2	6.7	97.9
New investments	–	–	0.1	–	0.1	0.2	0.9
Loan notes redeemed	–	–	–	(0.2)	–	(0.2)	–
Impairment provision	–	–	–	–	(0.3)	(0.3)	–
Share of profits after tax	0.4	–	3.9	–	–	4.3	–
Dividends received	(0.3)	–	(3.7)	–	–	(4.0)	–
Currency translation	–	–	(0.3)	–	–	(0.3)	–
At 25 December 2004	0.8	0.3	5.2	0.1	–	6.4	98.8
Goodwill							
At 27 December 2003	–	–	17.7	–	–	17.7	–
Amortisation	–	–	(1.8)	–	–	(1.8)	–
Currency translation	–	–	(1.0)	–	–	(1.0)	–
At 25 December 2004	–	–	14.9	–	–	14.9	–
At 25 December 2004	0.8	0.3	20.1	0.1	–	21.3	98.8
At 27 December 2003	0.7	0.3	22.9	0.3	0.2	24.4	97.9

The Group has complied with UITF 38 "Accounting for ESOP trusts". As a result own shares held are now included within shareholders' funds (Note 21).

The Group holds the following interests in the ordinary share capital of:

Joint ventures

- 50% in Ogden & Talma Aviation Services of Peru SA
- 50% in Freshport BV, a border inspection post facility at Schiphol
- 33.3% in Eurobip, a border inspection post facility at London Heathrow.

Associates

- 29% in MASC-Ogden Aviation Services (Macau) Ltd
- 30% in Worldwide Magazine Distribution Ltd
- 20% in TC Cox and Son (Tonbridge) Ltd
- 32% in Great Wall Menzies International Transportation Ltd
- 40% in Menzies Chengdu Aviation Services Ltd.

During the year the Group subscribed £0.1m to acquire a further 3% interest in the ordinary share capital of Great Wall Menzies International Transportation Ltd.

Loan notes in the amount of £0.2m were repaid by Worldwide Magazine Distribution Ltd.

Other

In April 2004 the Group invested a further £0.1m in the preferred stock of Roundpoint Inc., a developer of technology for displaying news and media product on portable digital devices, upon the achievement of specific performance targets. Subsequent performance targets were not achieved by Roundpoint Inc. and upon a review of the business it was considered prudent to provide against the investment.

14. Debtors

	Group		Company	
	2004 £m	2003 (restated) £m	2004 £m	2003 £m
Trade debtors	73.5	69.2	–	–
Other debtors	11.3	13.2	1.0	1.3
Prepayments and accrued income	10.4	8.0	1.2	0.9
Amounts owed by Group companies	–	–	60.8	119.5
	95.2	90.4	63.0	121.7

The Group has adopted FRS 17 "Retirement benefits". As a result pension assets and liabilities are now included within the new balance sheet classification "net pension liabilities". This has been accounted for as a prior year adjustment.

15. Creditors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Due within one year				
Trade creditors	88.6	89.1	–	–
Accruals and deferred income	49.3	45.5	4.6	4.0
Corporation tax	12.4	10.1	–	–
Other taxes and social security costs	5.0	5.1	–	–
Dividends	7.5	7.2	7.5	7.2
Unsecured loan stock (Note 16)	0.1	0.1	–	–
Amounts owed to Group companies	–	–	92.3	80.2
	162.9	157.1	104.4	91.4
Due after more than one year				
Accruals and deferred income	0.1	1.5	–	–

NOTES TO THE ACCOUNTS
(continued)

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 12.

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Maturity profile				
Borrowings due within one year:				
Bank loans and overdrafts	28.4	27.1	12.5	6.6
Unsecured loan stock (Note 15)	0.1	0.1	–	–
Total borrowings due within one year	28.5	27.2	12.5	6.6
Borrowings due after one year:				
Loans repayable between one and two years	5.9	7.6	5.8	6.3
Loans repayable between two and five years	8.9	48.4	8.8	44.8
Loans repayable after five years	27.2	12.2	27.2	11.7
Total borrowings due after one year	42.0	68.2	41.8	62.8
Total borrowings	70.5	95.4	54.3	69.4
Less: Cash at bank and in hand and short term deposits	27.0	32.1	16.7	5.7
Net debt	43.5	63.3	37.6	63.7

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 25 December 2004, the Group had undrawn committed facilities of £36.2m (2003: £68.2m) with the following expiry profile:

	2004 £m	2003 £m
Less than one year	36.2	35.4
Between one and two years	–	8.9
Between two and five years	–	23.9
	36.2	68.2

In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £15.4m (2003: £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 25 December 2004.

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings	28.5	28.5	27.2	27.2
Medium term borrowings	14.8	15.1	56.0	56.0
Long term borrowings	27.2	28.7	12.2	12.2
	70.5	72.3	95.4	95.4
Cash and deposits	27.0	27.0	32.1	32.1
Derivative financial instruments held to manage currency translation and transaction exposure:				
Cross currency basis swaps	0.3	0.3	1.3	1.3
Foreign currency forward contracts	–	0.3	–	(0.2)
	0.3	0.6	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.

Gains on hedges

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

	£m
Unrecognised losses on hedges as at 27 December 2003	(0.2)
Losses arising in previous years that were recognised in the year	0.2
Gains arising in the year that were not recognised in the year	0.3
Unrecognised gains on hedges as at 25 December 2004 (expected to be recognised within one year)	0.3

NOTES TO THE ACCOUNTS
(continued)

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 25 December 2004 is shown below.

Currency	Floating rate financial assets £m	Fixed rate financial assets £m	2004 Total financial assets £m	Floating rate financial assets £m	Fixed rate financial assets £m	2003 Total financial assets £m
Sterling	14.4	2.9	17.3	17.6	1.0	18.6
Euro	4.8	–	4.8	4.8	–	4.8
US dollar	2.4	–	2.4	6.0	–	6.0
Hong Kong dollar	0.4	–	0.4	0.4	–	0.4
Other	2.1	–	2.1	2.3	–	2.3
	24.1	2.9	27.0	31.1	1.0	32.1

The floating rate financial assets of £24.1m (2003: £31.1m) are at interest rates linked to Base rates and LIBID. The fixed rate financial assets of £2.9m (2003: £1.0m) are a 1 month fixed deposit of £0.3m at 4.82% and a 2 month fixed deposit of £2.6m at 4.59375% (2003: 1 month fixed deposit of £1.0m at 3.85%).

Currency	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2004 Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2003 Total financial liabilities £m
Sterling	15.6	33.0	48.6	25.7	34.9	60.6
Euro	0.3	–	0.3	2.6	–	2.6
US dollar	21.6	–	21.6	31.8	–	31.8
Hong Kong dollar	–	–	–	0.4	–	0.4
	37.5	33.0	70.5	60.5	34.9	95.4

Floating rate financial liabilities of £37.5m (2003: £60.5m) 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 a loan repayable between 2005 and 2020 of £33.0m (2003: £34.9m) on which interest is at a fixed rate of 6.23% (2003: 7.362%). This loan has a weighted average maturity of 9.5 years (2003: 4.1 years).

17. Operating lease commitments

	Group			
	Property		Other	
	2004 £m	2003 £m	2004 £m	2003 £m
Annual commitments in respect of leases which expire:				
within one year	3.5	2.9	2.1	1.0
within two to five years	3.5	7.6	4.0	4.9
after five years	12.1	9.3	–	–
	19.1	19.8	6.1	5.9

The Company has no operating lease commitments (2003: nil).

18. Capital commitments

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Contracted but not provided	2.6	0.9	–	–

NOTES TO THE ACCOUNTS
(continued)

19. Provisions for liabilities and charges

	2004 £m	2003 (restated) £m
Deferred taxation		
Provided:		
Accelerated capital allowances and other timing differences	(4.7)	(1.2)
Movement in year:		
Profit and loss charge (Note 8)	3.4	1.5
Disposals (Note 25)	0.1	–
	3.5	1.5

The Group has adopted FRS 17 "Retirement benefits". As a result the pension related deferred tax asset is now included within the new balance sheet classification "net pension liabilities". This has been accounted for as a prior year adjustment.

Other – property related	2004 £m	2003 £m
At beginning of year	9.0	10.2
Provided during year	1.0	1.2
Utilised during year	(1.5)	(2.4)
At end of year	8.5	9.0

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 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

	2004 £m	2003 £m
Authorised		
73,056,248 Ordinary shares of 25p each	18.3	18.3
1,735,938 9% Cumulative preference shares of £1 each	1.7	1.7
	20.0	20.0
Allotted, called up and fully paid		
57,763,434 Ordinary shares of 25p each, fully paid (2003: 57,247,804 shares)	14.4	14.3
1,394,587 9% Cumulative preference shares of £1 each, fully paid (2003: 1,394,587 shares)	1.4	1.4
	15.8	15.7

As a result of options being exercised, 515,630 Ordinary shares having a nominal value of £0.1m were issued during the year at a share premium of £1.7m.

At 25 December 2004 options granted and outstanding under the Company's executive share option schemes amounted to 1,843,031 ordinary shares (2003: 2,607,074). These options are exercisable at varying dates up to 6 May 2014 and at prices varying from 312p to 596p per share.

21. Reserves

	Group				Company		
	Share premium account £m	Investment in own shares £m	Profit and loss account £m	Capital redemption reserve £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m
At 27 December 2003	6.0	(3.7)	38.4	21.6	6.0	25.9	21.6
Prior year adjustment (Note 4)	–	–	(62.6)	–	–	–	–
Actuarial gain (net of deferred tax)	–	–	2.2	–	–	–	–
Movement during the year	1.7	0.4	–	–	1.7	–	–
Profit / (loss) for the year	–	–	29.3	–	–	(7.1)	–
Dividends	–	–	(10.7)	–	–	(10.7)	–
Currency translation	–	–	0.6	–	–	–	–
At 25 December 2004	7.7	(3.3)	(2.8)	21.6	7.7	8.1	21.6

The cumulative amount of goodwill resulting from acquisitions undertaken before April 1998, which has been written off to reserves, is £28.9m (2003: £28.9m).

Investment in own shares

The Company's ordinary shares are held in trust for an employee share scheme. The trusts are held within and funded by loans from a Group subsidiary and therefore the distributable profits of the Company are unaffected by the adoption of UITF 38. At 25 December 2004 the trusts held 729,545 (2003: 859,815) ordinary 25p shares with a market value of £3,797,282 (2003: £2,729,913).

NOTES TO THE ACCOUNTS
(continued)

22. Minority interests

	2004 £m	2003 £m
At beginning of year	0.1	0.1
Acquired in the year (Note 26)	0.1	–
Dividend	–	(0.1)
Share of profit after tax	0.3	0.1
At end of year	0.5	0.1

23. Reconciliation of movements in shareholders' funds

	2004 £m	2003 £m
Profit / (loss) for the financial year	29.3	(5.5)
Dividends	(10.7)	(11.2)
New share capital issued (Note 20)	1.8	0.4
Investment in own shares (Note 21)	0.4	(0.1)
Preference shares redeemed	–	(20.0)
Actuarial gain (net of deferred tax)	2.2	5.1
Currency translation	0.6	0.3
Net increase / (decrease) in shareholders' funds	23.6	(31.0)
Shareholders' funds at beginning of year (2003: as previously stated)	15.4	115.4
Prior year adjustment - UITF 38	–	(3.6)
- FRS 17	–	(65.4)
Shareholders' funds at end of year	39.0	15.4

The reduction in dividends results from the redemption of preference shares in June 2003.

24. Cash flow

	2004 £m	2003 (restated) £m
a. Reconciliation of operating profit to net cash inflow from operating activities		
Total operating profit (pre-exceptional items)	33.2	20.2
Depreciation	16.3	15.8
Goodwill amortisation	1.8	1.8
Share of operating (profit) / loss in joint ventures	(0.6)	0.4
Share of operating profit in associates	(2.8)	(2.6)
Cash spend on exceptional items	(0.1)	(3.9)
FRS 17 pension charge	5.5	5.0
Pension contributions in cash	(16.0)	(4.5)
Other items not involving the movement of cash	(0.1)	0.1
Decrease / (increase) in stocks	1.7	(2.1)
(Increase) / decrease in debtors	(8.9)	4.4
Increase in creditors	6.9	6.0
Net cash inflow from operating activities	36.9	40.6

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

	2004 £m	2003 £m
b. Reconciliation of net cash flow to movement in net debt		
Increase / (decrease) in cash in the year	8.6	(7.0)
Decrease in short term deposits	(8.9)	(30.2)
Decrease in debt	20.1	32.1
Movement in net debt in the year	19.8	(5.1)
Net debt at beginning of year	(63.3)	(58.2)
Net debt at end of year	(43.5)	(63.3)

	2003 £m	Cash flows £m	Currency translation £m	2004 £m
c. Analysis of changes in net debt				
Cash at bank and in hand	19.0	3.8	–	22.8
Bank overdrafts	(20.6)	4.8	–	(15.8)
	(1.6)	8.6	–	7.0
Short term deposits	13.1	(8.8)	(0.1)	4.2
Bank loans due within one year	(6.5)	(7.3)	1.2	(12.6)
Loan stock due within one year	(0.1)	–	–	(0.1)
Debt due after one year	(68.2)	25.1	1.1	(42.0)
	(63.3)	17.6	2.2	(43.5)

NOTES TO THE ACCOUNTS
(continued)

25. Disposals

	Execair £m
Net assets disposed:	
Goodwill (Note 11)	2.9
Tangible fixed assets	0.7
Stocks	0.1
Debtors	1.3
Creditors	(0.9)
Corporation tax	(0.1)
Deferred taxation (Note 19)	(0.1)
	3.9
Disposal costs	0.2
Consideration received in cash	(11.7)
Gain on disposal	(7.6)

On 12 August 2004 the Group sold its executive aviation handling business, Execair, to BBA Group plc for £11.7m and realised a pre-tax exceptional gain of £7.6m.

26. Acquisitions

	The Big Orange Handling Company Ltd £m
Net assets acquired:	
Tangible fixed assets (Note 12)	0.6
Debtors	0.2
Creditors	(0.2)
Minority interest (Note 22)	(0.1)
	0.5
Satisfied by:	
Cash	0.5
Acquisition costs	0.1
	0.6
Goodwill (Note 11)	0.1

On 12 January 2004 Menzies Aviation plc acquired a 74% interest in The Big Orange Handling Company Limited for £0.5m in cash. The company performs all of easyJet's passenger and aircraft handling at London Luton Airport.

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

27. 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 25 December 2004 £m
Ogden & Talma Aviation Services of Peru SA	50	0.7	–	–
Eurobip	33.3	–	0.4	–
Freshport BV	50	0.3	–	–
Menzies Chengdu Aviation Services Ltd	40	0.1	–	–

During the year the Group incurred fees for legal services amounting to £0.2m (2003: nil) 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 £0.4m (2003: £0.2m) from beCogent Limited, of which Mr D J Jenkinson, a director of the Company, is the co-founder and Chairman.

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. On 17 January 2005 the Group sold the 50% interest which it held in Dolphin Logistics Limited for a consideration equal to net book value. The amount was not material.

28. Subsidiary companies

The principal subsidiaries, Menzies Distribution Limited, Menzies Group Holdings Limited, Menzies Aviation 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.

FIVE YEAR SUMMARY

	FRS 17 basis		SSAP 24 basis		
	12 months to December		12 months to December	8 months to December	12 months to April
	2004	2003 (restated)	2002	2001	2001
	£m	£m	£m	£m	£m
Turnover (excluding joint ventures and associates)					
Distribution Services	1,086.6	1,033.5	936.9	578.8	844.2
Aviation Services	244.0	226.8	195.9	128.8	137.1
Continuing operations	1,330.6	1,260.3	1,132.8	707.6	981.3
Discontinued operations	–	–	–	55.9	306.8
	1,330.6	1,260.3	1,132.8	763.5	1,288.1
Operating profit					
Distribution Services	30.6	26.2	28.7	16.5	26.3
Aviation Services	10.4	2.4	3.7	(3.8)	4.3
	41.0	28.6	32.4	12.7	30.6
Corporate Pension credit	(4.2)	(4.8)	(7.0)	(4.7)	(6.9)
	–	–	3.6	3.3	5.0
Continuing operations	36.8	23.8	29.0	11.3	28.7
Goodwill amortisation	(3.6)	(3.6)	(3.5)	(2.2)	(1.7)
Discontinued operations	–	–	–	(5.7)	22.9
Total operating profit	33.2	20.2	25.5	3.4	49.9
Exceptional items	7.6	(17.2)	(4.7)	(22.5)	(34.8)
Profit / (loss) before interest	40.8	3.0	20.8	(19.1)	15.1
Net interest payable	(3.5)	(3.7)	(3.1)	(2.0)	–
Other finance income	0.6	0.6	–	–	–
Profit / (loss) before taxation	37.9	(0.1)	17.7	(21.1)	15.1
Per ordinary share					
Dividends	18.5 p	18.1 p	18.1 p	12.1 p	18.1 p
Headline earnings	44.5 p	24.8 p	32.9 p	0.4 p	62.8 p
FRS 3 earnings	51.6 p	(11.4) p	18.2 p	(38.7) p	2.7 p

SHAREHOLDER INFORMATION

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
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Tel: 0870 162 3100
Fax: 0208 639 2487

Alternatively, you can email Iain Phillips at iphillips@capitaregistrars.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.

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 Registrars to obtain a dividend mandate form.

Dividends are paid as follows:

Ordinary shares

Interim	Final
30 November 2005	24 June 2005

9% Preference shares

Interim	Final
1 April 2005	30 September 2005

The final dividend on the ordinary shares will be payable to shareholders on the register as at 27 May 2005.

Investor Relations

For further copies of the Group's accounts or other investor relations enquiries, please contact:

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