Menzies Group Interim Report June 2003

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Turnover up 2.5% to £614.0m

Operating profit before pension charge* up 2.9% to £10.5m

Headline profit before tax* £8.3m (2002 - £10.6m)

Interim dividend maintained at 5.5p per share

(*before goodwill amortisation and exceptional items)

I am delighted to present my first set of results since taking over as Chief Executive in May. We have turned in an encouraging performance in challenging conditions.

Summary

Turnover for the six months to 28th June 2003 was up 2.5% (£15.0m) on the comparative period to £614.0m. Distribution turnover was 1.7% higher at £496.1m largely driven by magazine and newspaper cover price increases. Aviation turnover rose by 5.8% to £117.9m as a result of recent acquisitions.

Operating profits of £10.5m before pension charges were £0.3m (2.9%) ahead of last year reflecting cover price increases and efficiency improvements at Distribution. The Aviation loss of £0.6m was in line with last year, despite the impact of SARS and difficult trading conditions in Cargo and North America.

As indicated in our last annual report, we intend to recommence cash contributions to our pension scheme ahead of the triennial valuation in April 2004. The cash cost is likely to be in the region of £4m-£5m in the current year. The SSAP 24 accounting charge for the full year is expected to be £1.2m compared to a credit of £3.6m in 2002.

Headline PBT of £8.3m for the six months was £2.3m below last year, after the pension charge of £0.6m in place of the £1.7m credit in the previous half year. This has reduced headline earnings per share (EPS) to 8.3p per share, down 3.2p on last year. However, with lower exceptional costs, the FRS3 EPS of 3.4p was up 0.3p.

The Board has declared an interim dividend unchanged at 5.5p per share.

We continue to be fully committed to innovation, and our high standards of customer service and communication with retailers were again recognised at recent industry awards.

Cash Flow

Net cash flow from operating activities was healthy, increasing from £5.5m to £22.3m. This was mainly due to improvements in working capital management, particularly in respect of debtors at Aviation, and lower exceptional costs.

Net capital expenditure of £9.4m was up £4.0m on last year to service contract wins in our UK cargo business and at Connect, the passenger and baggage transfer operation at Heathrow, which won the contract for transporting construction workers to Terminal 5.

The resulting free cash inflow of £11.2m represents a sound performance during a challenging trading period and compares favourably to the net free cash outflow of £2.2m in the half year to June 2002.

Underlying net debt has been reduced by £4.1m during the period, before taking into account the scheduled redemption of £20m of 8.58% preference shares. Including the refinancing of the preference shares and a currency translation gain of £0.3m, net debt increased by £15.6m from £58.2m at 28th December 2002 to £73.8m at 28th June 2003.

Menzies Distribution

	Interim 2003 £m	Interim 2002 £m
Turnover	496.1	487.6
Operating profit	14.5	14.1

Menzies Distribution has continued to perform strongly, in line with management expectations. This has been driven by cover price increases and a continued focus on cost control.

Newspaper turnover was 2.5% up on last year benefiting from the end of the tabloid cover price war. Magazine sales were up 3.6% reflecting strong partwork sales and the launch of new titles in the women's interest sector. Sticker sales were, however, down £2.1m compared with last year which benefited from strong World Cup sales. Phonecards, which are low margin, were down £2.5m reflecting the growth of electronic top-up.

Operating profit of £14.5m was up 2.8% reflecting the positive impact of both cover price increases and efficiencies resulting from the branch rationalisation programme in Central Scotland.

The final stage of our branch rationalisation programme is scheduled to be completed in early 2004 with the opening of our fourth "super branch", in East London. We continue to be fully committed to innovation, and our high standards of customer service and communication with retailers were again recognised at recent industry awards.

We have fully participated in the consultation process following the December 2002 report from the Office of Fair Trading (OFT) on the results of its review of the Industry Code of Practice for the supply of newspapers. The OFT's final report is expected later this year. We remain supportive of their proposals on the rights of retailers to sell-on titles to other retailers within exclusive territories. We will continue to work with all sides of the industry to ensure the UK network continues to provide the most efficient and economic route for the distribution of this most time-sensitive product.

Menzies Aviation

	Interim 2003 £m	Interim 2003 £m
Turnover	117.9	111.4
Operating loss	0.6	0.6

Menzies Aviation experienced difficult trading conditions; in particular the SARS virus had a significant impact on our operations at Macau and Hong Kong. Turnover, however, was up £6.5m (5.8%) at £117.9m mainly reflecting the acquisition of Fr8, the cargo handling business at Schiphol, in the second half of 2002.

The loss for the six-month period of £0.6m was in line with last year. Upsides included better performances in UK cargo and Amsterdam passenger/ramp and the disposal of loss making businesses. Downsides included SARS, difficult trading conditions in North America and disappointing volumes in Australia.

During the period, Aviation exited its businesses in Italy (at book value) and in Canada (at a book loss of £0.9m but on a broadly cash neutral basis). £0.3m was spent on the acquisition of a passenger and ramp operation in Panama and £0.5m invested in a joint venture in respect of a border inspection post at Schiphol.

The management structure has been simplified along regional reporting lines and this will enable faster, more effective decision making. Actions have also been taken to reduce the overhead cost base by some £1.0m per annum, which will come into full effect in 2004. In addition, new cash flow management and capital approval processes have been put in place, supporting a tighter focus on Return on Capital.

Corporate

We have also sought efficiency improvements at our Corporate Centre. This is an on-going exercise, but we have already found savings of £0.5m per annum from the start of next year.

People

People remain our greatest asset. Never more so when the trading conditions we face are challenging and cost reductions have to be made. A proportion of the cost savings generated across the business will be reinvested in the development of our people.

Outlook

The Board expects the underlying performances of both Divisions to be satisfactory for the year prior to the increase in the pension charge.

Distribution's performance remains strong and the final steps in its branch rationalisation programme will soon be completed, offering up further cost efficiencies. This business has proven expertise and a first class record in delivering customer service and driving down costs.

In Aviation, the recovery from SARS is under way, and we have streamlined management and reduced costs. This business is now in a better position to concentrate on improving its operational and financial performance.

A closer focus on cost and Return on Capital will strengthen the underlying development of our two Divisions. The medium term fundamentals of our markets remain good, and I am confident that the outlook for the Group is positive.

Patrick Macdonald,
Chief Executive

The medium term fundamentals of our markets remain good, and I am confident that the outlook for the Group is positive.

	Notes	Half year to 28th Jun 2003 Before exceptional items £m	Exceptional items (Note 3) £m	Total £m	Half year to 29th Jun 2002 Before exceptional items £m	Exceptional items (Note 3) £m	Total £m	Year to 28th Dec 2002 Before exceptional items £m	Exceptional items (Note 3) £m	Total £m
Turnover	2									
(including share of joint ventures and associates)		614.0	–	614.0	599.0	–	599.0	1,196.5	–	1,196.5
Less: share of joint ventures and associates		(16.3)	–	(16.3)	(30.8)	–	(30.8)	(63.7)	–	(63.7)
Group turnover		597.7	–	597.7	568.2	–	568.2	1,132.8	–	1,132.8
Group operating profit/(loss)										
Continuing operations		7.0	–	7.0	8.6	–	8.6	20.8	(0.7)	20.1
Discontinued operation		–	–	–	–	–	–	–	(0.7)	(0.7)
Share of operating profit/(loss) in										
Joint ventures		–	–	–	(0.1)	–	(0.1)	–	–	–
Associates		1.0	–	1.0	1.6	(0.7)	0.9	4.7	(1.0)	3.7
Total operating profit/(loss)	2	8.0	–	8.0	10.1	(0.7)	9.4	25.5	(2.4)	23.1
Loss on disposal of businesses	3	–	(0.9)	(0.9)	–	(2.2)	(2.2)	–	(2.3)	(2.3)
Profit/(loss) on ordinary activities before interest		8.0	(0.9)	7.1	10.1	(2.9)	7.2	25.5	(4.7)	20.8
Net interest payable		(1.6)	–	(1.6)	(1.3)	–	(1.3)	(3.1)	–	(3.1)
Profit/(loss) on ordinary activities before taxation		6.4	(0.9)	5.5	8.8	(2.9)	5.9	22.4	(4.7)	17.7
Taxation	4	(2.5)	–	(2.5)	(3.3)	–	(3.3)	(5.6)	–	(5.6)
Profit/(loss) after taxation		3.9	(0.9)	3.0	5.5	(2.9)	2.6	16.8	(4.7)	12.1
Minority interests		(0.2)	–	(0.2)	–	–	–	(0.1)	–	(0.1)
Profit/(loss) for the financial period		3.7	(0.9)	2.8	5.5	(2.9)	2.6	16.7	(4.7)	12.0
Dividends (including non-equity)	7	(4.0)	–	(4.0)	(4.0)	–	(4.0)	(12.1)	–	(12.1)
Retained (loss)/profit for the financial period		(0.3)	(0.9)	(1.2)	1.5	(2.9)	(1.4)	4.6	(4.7)	(0.1)
Earnings per ordinary share	5									
Headline		8.3p			11.5p			32.9p		
FRS3				3.4p			3.1p			18.2p
Headline/FRS3 diluted		8.3p		3.4p	11.5p		3.1p	32.9p		18.2p

	Notes	As at 28th Jun 2003 £m	As at 29th Jun 2002 £m	As at 28th Dec 2002 £m
Fixed assets				
Intangible assets		33.7	27.1	34.6
Tangible assets		118.0	110.8	116.1
Investments		38.5	50.5	45.7
		190.2	188.4	196.4
Current assets				
Stocks		11.5	9.7	10.8
Debtors		138.6	132.3	145.3
Cash at bank and in hand		35.7	35.0	55.7
Creditors: amounts falling due within one year		(168.7)	(165.9)	(175.3)
Net current assets		17.1	11.1	36.5
Total assets less current liabilities		207.3	199.5	232.9
Creditors: amounts falling due after more than one year		(89.5)	(65.2)	(94.3)
Provision for liabilities and charges		(22.7)	(20.1)	(23.1)
		95.1	114.2	115.5
Capital and reserves				
Equity share capital		14.3	14.1	14.3
Non-equity share capital		1.4	21.4	21.4
Called up share capital		15.7	35.5	35.7
Capital redemption reserve		21.6	1.6	1.6
Other reserves		57.7	77.1	78.1
Shareholders' funds	6	95.0	114.2	115.4
Minority interests		0.1	–	0.1
		95.1	114.2	115.5

	Notes	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m
Net cash inflow from operating activities		22.3	5.5	22.9
Dividends from joint ventures and associates		1.4	2.6	4.6
Net cash outflow from returns on investments and servicing of finance		(1.8)	(2.1)	(5.3)
Tax paid		(1.3)	(2.8)	(3.7)
Net cash outflow from capital expenditure and financial investment		(9.4)	(5.4)	(12.5)
Free cash flow		11.2	(2.2)	6.0
Net cash (outflow)/inflow from acquisitions and disposals				
Investment in joint ventures and associates		(0.6)	–	(0.2)
Acquisitions		(1.6)	(8.9)	(21.9)
Disposals		2.2	5.4	5.8
Equity dividends paid		(7.1)	(6.8)	(9.9)
Management of liquid resources		14.1	7.7	(16.9)
Net cash inflow/(outflow) from financing				
Proceeds from shares issued		–	0.1	1.8
Redemption of preference shares		(20.0)	–	–
Loans		1.7	7.0	35.8
(Decrease)/increase in cash in the period	8	(0.1)	2.3	0.5

	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m
Reconciliation of operating profit to net cash inflow from operating activities			
Total operating profit	8.0	10.1	25.5
Depreciation	8.1	6.8	14.0
Goodwill amortisation	1.2	0.9	1.5
Share of operating loss in joint ventures	–	0.1	–
Share of operating profit in associates	(1.0)	(1.6)	(4.7)
Cash spend on exceptional items	(1.2)	(4.0)	(4.9)
Movement on pension prepayment	0.6	(1.7)	(3.6)
Other items not involving the movement of cash	0.2	0.3	0.4
(Increase)/decrease in stocks	(0.7)	1.5	0.4
Decrease in debtors	4.3	1.0	0.4
Increase/(decrease) in creditors	2.8	(7.9)	(6.1)
	22.3	5.5	22.9

1. Preparation of the interim results

This interim statement in respect of the half year to 28th June 2003 has been prepared on the basis of accounting policies consistent with those set out in the Group Accounts for the year ended 28th December 2002.

The interim results were approved by the Board on 5th September 2003 and are unaudited. The results for the year to 28th December 2002 are an abridged version of the Group Accounts, which carried an unqualified Auditors' Report and which have been filed with the Registrar of Companies.

2. Segmental analysis

	Turnover			Pre-exceptional operating profit/(loss)		
	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m
Distribution Services	496.1	487.6	959.6	14.5	14.1	28.7
Aviation Services	117.9	111.4	236.9	(0.6)	(0.6)	3.7
	614.0	599.0	1,196.5	13.9	13.5	32.4
Central services	–	–	–	(3.4)	(3.3)	(7.0)
Pension (debit)/credit	–	–	–	(0.6)	1.7	3.6
Continuing operations	614.0	599.0	1,196.5	9.9	11.9	29.0
Goodwill amortisation	–	–	–	(1.9)	(1.8)	(3.5)
	614.0	599.0	1,196.5	8.0	10.1	25.5
Joint Ventures and Associates included above						
Distribution Services						
Joint ventures	4.3	3.4	8.6	–	(0.3)	(0.2)
Associates	6.3	7.7	14.1	0.1	0.1	0.1
Aviation Services						
Joint ventures	2.2	2.4	5.1	0.1	0.3	0.6
Associates	3.5	17.3	35.9	1.5	2.3	6.2
	16.3	30.8	63.7	1.7	2.4	6.7
Goodwill amortisation	–	–	–	(0.7)	(0.9)	(2.0)
	16.3	30.8	63.7	1.0	1.5	4.7

Goodwill amortisation is attributable £0.2m (2002: £0.2m) to Distribution Services and £1.7m (2002: £1.6m) to Aviation Services.

3. Exceptional items

	Notes	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002* £m
Exceptional operating expenses:				
Aviation Services		–	–	(0.7)
Distribution Services		–	–	(0.7)
		–	–	(1.4)
Aviation Services - associate	a	–	(0.7)	(1.0)
Total exceptional operating expenses		–	(0.7)	(2.4)
Non-operating exceptional items:				
Net loss on disposal of businesses	b	**(0.9)**	(2.2)	(2.3)
Total exceptional items		**(0.9)**	(2.9)	(4.7)

a June 2002: The Group's share of the cost of reducing excess capacity in Aeroporti di Roma Handling SpA.

b **June 2003:** On 10th March 2003 the Group sold its 49% interest in Aeroporti di Roma Handling SpA for a consideration equal to net book value. On 20th June 2003 the Group sold its Aviation Services operation in Canada at a loss of £0.9m.

June 2002: On 28th February 2002 the Group sold Mecanix, a vehicle repair and maintenance facility at Heathrow, at a loss of £0.2m. On 31st March 2002 the Group closed its Aviation Services operation in South Korea at a cost of £1.0m. On 1st April 2002 the Group sold its Aviation Services operation in Germany at a loss of £1.0m.

*An analysis of the exceptional items in the year to 28th December 2002 was included in note 5 of the Group Accounts for that year.

4. Taxation

Taxation has been estimated at a Headline tax rate of 30% (2002: 31%). The pre-exceptional effective rate of 39% (2002: 38%) is impacted by unrelieved overseas losses and goodwill.

5. Earnings per share

	Headline			Post exceptional items		
	Half year to 28th Jun 2003 £m	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m	**Half year to 28th Jun 2003 £m**	Half year to 29th Jun 2002 £m	Year to 28th Dec 2002 £m
Operating profit	**8.0**	10.1	25.5	**8.0**	10.1	25.5
add back: goodwill amortisation	**1.9**	1.8	3.5	–	–	–
Exceptional items	–	–	–	**(0.9)**	(2.9)	(4.7)
Interest	**(1.6)**	(1.3)	(3.1)	**(1.6)**	(1.3)	(3.1)
Profit before taxation	**8.3**	10.6	25.9	**5.5**	5.9	17.7
Taxation	**(2.5)**	(3.3)	(5.6)	**(2.5)**	(3.3)	(5.6)
Minority interests	**(0.2)**	–	(0.1)	**(0.2)**	–	(0.1)
Preference dividends	**(0.9)**	(0.9)	(1.8)	**(0.9)**	(0.9)	(1.8)
Earnings for the period	**4.7**	6.4	18.4	**1.9**	1.7	10.2
Headline						
Earnings per ordinary share (pence)	**8.3**	11.5	32.9			
Diluted earnings per ordinary share (pence)	**8.3**	11.5	32.9			
FRS3						
Earnings per ordinary share (pence)				**3.4**	3.1	18.2
Diluted earnings per ordinary share (pence)				**3.4**	3.1	18.2
Number of ordinary shares in issue (millions)						
Weighted average	**56.310**	55.777	55.903			
Diluted weighted average	**56.322**	55.782	55.941			

The weighted average number of fully paid ordinary shares in issue during the period excludes those held by the employee share trusts. The diluted weighted average is calculated by adjusting for those 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 period.

6. Reconciliation of movements in shareholders' funds

	As at 28th Jun 2003 £m	As at 29th Jun 2002 £m	As at 28th Dec 2002 £m
Profit for the financial period	**2.8**	2.6	12.0
Dividends: ordinary shares	**(3.1)**	(3.1)	(10.3)
preference shares	**(0.9)**	(0.9)	(1.8)
New share capital issued	–	0.1	1.8
Preference shares redeemed*	**(20.0)**	–	–
Currency translation	**0.8**	(0.9)	(2.7)
Net decrease in shareholders' funds	**(20.4)**	(2.2)	(1.0)
Shareholders' funds at beginning of period	**115.4**	116.4	116.4
Shareholders' funds at end of period	**95.0**	114.2	115.4

* On 20th June 2003 the 20,000,000 8.58% Cumulative redeemable preference shares of £1 each were redeemed at par.

7. Interim dividend

Payment of the interim dividend of 5.5p per Ordinary share (2002: 5.5p) will be made on 1st December 2003 to shareholders on the register at the close of business on 14th November 2003.

8. Analysis of changes in net debt

	As at 28th Dec 2002 £m	Half year cash flows £m	Currency translation £m	As at 28th Jun 2003 £m
Cash at bank and in hand	12.4	(6.0)	–	**6.4**
Bank overdrafts	(7.0)	5.9	–	**(1.1)**
	5.4	(0.1)	–	**5.3**
Short term deposits	43.3	(14.1)	0.1	**29.3**
Bank loans due within one year	(15.3)	(4.9)	(0.1)	**(20.3)**
Loan stock due within one year	(0.1)	–	–	**(0.1)**
Debt due after one year	(91.5)	3.2	0.3	**(88.0)**
	(58.2)	(15.9)	0.3	**(73.8)**

9. Contingent liabilities

There are contingent liabilities, including those in respect of disposed and acquired businesses (including the Ogden Ground Services acquisition from Covanta Energy Corporation), which are not expected to give rise to any significant loss to the Group. In April 2002 Covanta Energy Corporation filed for voluntary petition for Chapter 11 reorganisation in the US. In addition, in the normal course of business John Menzies plc has guaranteed certain trading obligations of its subsidiaries.

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Financial Calendar

December 2003	Interim Dividend paid
December 2003	Financial Year End
March 2004	Final Results Announcement
May 2004	Annual General Meeting
June 2004	Final Dividend paid
September 2004	Interim Results Announcement