

## John Menzies plc

*John Menzies is an international services group specialising in time critical logistics. The Group has two core divisions; Menzies Distribution is a leading player in the newspaper and magazine distribution industry; Menzies Aviation is one of the world's largest independent providers of services to the aviation industry.*

### **PRELIMINARY RESULTS For the year to 27<sup>th</sup> December 2003**

#### Highlights:

- Operating profit before pension costs up £3.3m (15.1%) to £25.2m
- Headline EPS down 4.0p to 28.9p (see note)
- Distribution operating profit up 8.7% to £31.2m
- Aviation operating profit up £0.4m to £4.1m
- Exceptional costs of £17.2m
- Free cash flow up £14.7m to £20.7m

Note: Pension charges for the Menzies Pension Fund increased by £4.8m over 2002.

Patrick Macdonald, Chief Executive, said:

"This is an encouraging set of results. Our increased focus on capital discipline and working capital management has resulted in strong free cash flow, up £14.7m to £20.7m. Exceptional costs of £17.2m arise mainly from a re-assessment of the goodwill values within Menzies Aviation; the cash cost of exceptionals totalled £3.0m.

Our Aviation division had a stronger second half and is responding to management action as we maximise returns from our portfolio. Distribution continued its sound performance, building upon its long-term investment in customer service, and remains at the forefront of its industry.

Both divisions have entered 2004 positively. I believe we are well positioned and look forward to making further progress this year".

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## **Summary**

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

## **Performance**

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

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

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

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

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

## **Dividend**

Your Board is recommending a final dividend of 12.6p per share. This maintains our full year dividend at 18.1p.

## **Cash flow**

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

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

## Strategy

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

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

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

## Menzies Distribution

(£m)	<u>2003</u>	<u>2002</u>	<u>Variance</u>
Turnover	1,001.0	959.6	+4.3%
Operating Profit	31.2	28.7	+8.7%

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

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

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

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

publications to our customers. We also process returns and inform newspaper publishers of the previous day's sales for each of their publications.

Menzies Distribution is an industry leader in providing range management and space planning advice to a wide number of retailers. Unique software has supported the introduction of "Space Ranger", a free service to independent retailers to help ensure that the right range of titles are in the right place at the right time. "Menzies Superleague", supported by our advanced systems, gives publishers the opportunity to drive promotional and sales building activity through a nationwide network of 4,500 independent retailers. This commitment to customers was recognised when Distribution won the ACE Press Award 2003 for Service and Communication to Retailers by a Wholesaler.

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

### **Menzies Aviation**

(£m)	<u>2003</u>	<u>2002</u>	<u>Variance</u>
Turnover	239.7	236.9	+1.2%
Operating Profit	4.1	3.7	+10.8%

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

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

#### UK and Europe

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

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

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

## Americas

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

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

## Asia Pacific

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

## **Corporate**

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

## **People**

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

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

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

## **Outlook**

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

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

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

Notes: 1. Headline profit before tax is defined as profit before tax, goodwill amortisation and exceptional items.

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

**GROUP PROFIT AND LOSS ACCOUNT**for the 52 weeks ended 27<sup>th</sup> December 2003 (52 weeks ended 28<sup>th</sup> December 2002)

	Notes	Before excep- tional items £m	Except- ional items (Note 2) £m	2003 Total £m	Before excep- tional items £m	Except- ional items (Note 2) £m	2002 Total £m
<b>Turnover</b>	1						
Group and share of joint ventures and associates		<b>1,240.7</b>	-	<b>1,240.7</b>	1,196.5	-	1,196.5
Less share of:							
Joint ventures		<b>(16.5)</b>	-	<b>(16.5)</b>	(13.7)	-	(13.7)
Associates		<b>(20.9)</b>	-	<b>(20.9)</b>	(50.0)	-	(50.0)
<b>Group turnover</b>		<b>1,203.3</b>	-	<b>1,203.3</b>	1,132.8	-	1,132.8
Net operating costs		<b>(1,181.5)</b>	<b>(15.5)</b>	<b>(1,197.0)</b>	(1,112.0)	(1.4)	(1,113.4)
Continuing operations		<b>21.8</b>	<b>(15.5)</b>	<b>6.3</b>	20.8	(0.7)	20.1
Discontinued operation		-	-	-	-	(0.7)	(0.7)
<b>Group operating profit/(loss)</b>		<b>21.8</b>	<b>(15.5)</b>	<b>6.3</b>	20.8	(1.4)	19.4
Share of operating (loss)/profit in							
Joint ventures		<b>(0.4)</b>	<b>(0.6)</b>	<b>(1.0)</b>	-	-	-
Associates		<b>2.6</b>	-	<b>2.6</b>	4.7	(1.0)	3.7
<b>Total operating profit/(loss)</b>	1	<b>24.0</b>	<b>(16.1)</b>	<b>7.9</b>	25.5	(2.4)	23.1
Loss on disposal of businesses	2	-	<b>(1.1)</b>	<b>(1.1)</b>	-	(2.3)	(2.3)
<b>Profit/(loss) on ordinary activities before interest</b>		<b>24.0</b>	<b>(17.2)</b>	<b>6.8</b>	25.5	(4.7)	20.8
Net interest payable		<b>(3.7)</b>	-	<b>(3.7)</b>	(3.1)	-	(3.1)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>20.3</b>	<b>(17.2)</b>	<b>3.1</b>	22.4	(4.7)	17.7
Taxation	3	<b>(6.6)</b>	<b>0.4</b>	<b>(6.2)</b>	(5.6)	-	(5.6)
<b>Profit/(loss) after taxation</b>		<b>13.7</b>	<b>(16.8)</b>	<b>(3.1)</b>	16.8	(4.7)	12.1
Minority interests				<b>(0.1)</b>			(0.1)
<b>(Loss)/profit for the financial year</b>				<b>(3.2)</b>			12.0
Dividends (including non-equity)	4			<b>(11.2)</b>			(12.1)
<b>Retained loss for the financial year</b>				<b>(14.4)</b>			(0.1)
<b>Earnings per ordinary share</b>	5						
Headline		<b>28.9p</b>			32.9p		
FRS 3				<b>(7.3)p</b>			18.2p
Headline / FRS 3 diluted		<b>28.9p</b>		<b>(7.3)p</b>	32.9p		18.2p

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**for the 52 weeks ended 27<sup>th</sup> December 2003 (52 weeks ended 28<sup>th</sup> December 2002)

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

**GROUP BALANCE SHEET**as at 27<sup>th</sup> December 2003 (28<sup>th</sup> December 2002)

	Notes	£m	2003 £m	£m	2002 £m
<b>Fixed assets</b>					
Intangible assets			<b>27.4</b>		34.6
Tangible assets			<b>116.3</b>		116.1
<b>Investments</b>					
- joint ventures					
Goodwill		-		8.9	
Share of gross assets		<b>1.4</b>		4.1	
Share of gross liabilities		<b>(0.7)</b>		(3.5)	
Shareholder loans		<b>0.3</b>		0.6	
			<b>1.0</b>		10.1
- associates			<b>23.2</b>		32.0
- other			<b>3.9</b>		3.6
- subsidiaries			-		-
Total investments			<b>28.1</b>		45.7
			<b>171.8</b>		196.4
<b>Current assets</b>					
Stocks			<b>12.9</b>		10.8
Debtors					
- amounts due after more than one year			<b>51.9</b>		48.6
- amounts due within one year			<b>90.4</b>		96.7
Cash at bank and in hand			<b>32.1</b>		55.7
			<b>187.3</b>		211.8
<b>Creditors: amounts falling due within one year</b>					
Bank loans and overdrafts			<b>(27.1)</b>		(22.3)
Other			<b>(157.1)</b>		(153.0)
			<b>(184.2)</b>		(175.3)
<b>Net current assets</b>					
			<b>3.1</b>		36.5
<b>Total assets less current liabilities</b>					
			<b>174.9</b>		232.9
<b>Creditors: amounts falling due after more than one year</b>					
Loans and other borrowings			<b>(68.2)</b>		(91.5)
Other			<b>(1.5)</b>		(2.8)
<b>Provision for liabilities and charges</b>					
Deferred taxation			<b>(14.4)</b>		(12.9)
Other			<b>(9.0)</b>		(10.2)
			<b>81.8</b>		115.5
<b>Capital and reserves</b>					
Called up share capital			<b>14.3</b>		14.3
Share premium account	6		<b>6.0</b>		5.6
Profit and loss account	6		<b>38.4</b>		72.5
Capital redemption reserve	6		<b>21.6</b>		1.6
<b>Equity shareholders' funds</b>					
			<b>80.3</b>		94.0
Non-equity share capital			<b>1.4</b>		21.4
<b>Shareholders' funds</b>					
			<b>81.7</b>		115.4
Minority interests			<b>0.1</b>		0.1
			<b>81.8</b>		115.5

The accounts were approved by the Board of Directors on 15<sup>th</sup> March 2004 and signed on its behalf by:**Patrick Macdonald, Chief Executive****Paul Dollman, Group Finance Director**

**GROUP CASH FLOW STATEMENT**for the 52 weeks ended 27<sup>th</sup> December 2003 (52 weeks ended 28<sup>th</sup> December 2002)

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

## NOTES ON ACCOUNTS

### 1. SEGMENTAL ANALYSIS

	Turnover		Pre-exceptional operating profit/(loss)	
	2003 £m	2002 £m	2003 £m	2002 £m
<b>By class of business</b>				
Distribution Services	1,001.0	959.6	31.2	28.7
Aviation Services	239.7	236.9	4.1	3.7
	<b>1,240.7</b>	1,196.5	<b>35.3</b>	32.4
Central Services	-	-	(6.5)	(7.0)
Pension (debit)/credit	-	-	(1.2)	3.6
	<b>1,240.7</b>	1,196.5	<b>27.6</b>	29.0
Goodwill amortisation	-	-	(3.6)	(3.5)
	<b>1,240.7</b>	1,196.5	<b>24.0</b>	25.5
<b>By geographical origin</b>				
United Kingdom	1,104.2	1,053.2	21.6	21.1
Continental Europe	57.8	62.9	3.3	2.3
Americas	53.9	57.5	(1.5)	(0.6)
Rest of the World	24.8	22.9	0.6	2.7
	<b>1,240.7</b>	1,196.5	<b>24.0</b>	25.5
<b>Joint Ventures and Associates included above</b>				
Distribution Services				
Joint ventures	11.6	8.6	-	(0.2)
Associates	12.9	14.1	0.2	0.1
Aviation Services				
Joint ventures	4.9	5.1	0.1	0.6
Associates	8.0	35.9	3.7	6.2
	<b>37.4</b>	63.7	<b>4.0</b>	6.7
Goodwill amortisation - joint ventures	-	-	(0.5)	(0.4)
- associates	-	-	(1.3)	(1.6)
	<b>37.4</b>	63.7	<b>2.2</b>	4.7
<b>Joint Ventures and Associates by geographical origin</b>				
United Kingdom	24.5	22.9	0.2	(0.2)
Continental Europe	0.2	25.9	(0.2)	0.9
Americas	4.7	4.9	(0.2)	0.3
Rest of the World	8.0	10.0	2.4	3.7
	<b>37.4</b>	63.7	<b>2.2</b>	4.7

Turnover by geographical origin and destination do not materially differ.

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

The results of acquisitions during the year were not material.

## 2. EXCEPTIONAL ITEMS

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

### a) 2003

Goodwill impairment required following the Board's review of the carrying value of goodwill in the Group's joint venture in Peru, as a result of uncertainty in this market - £7.8m, and following an adverse change in the business and market predominately at Menzies World Cargo - £4.7m.

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

### 2002

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

- b) Costs incurred as a result of the business rationalisation programme undertaken during the year - £0.9m.
- c) On 30<sup>th</sup> October 2002 the Group was fined €8.64m (£5.6m) by the European Commission for restriction of cross-border trading in Nintendo products. In December 2002 Nintendo agreed to settle a legal action raised against them by the Group in the amount of €7.5m (£4.9m). These amounts were paid in February 2003.
- d) Provision against investment in joint venture.
- e) The Group's share of the cost of reducing excess capacity in Aeroporti di Roma Handling SpA.

### f) 2003

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

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

### 2002

On 28<sup>th</sup> February the Group sold Mecanix, a vehicle repair and maintenance facility at Heathrow, at a loss of £0.2m.

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

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

### 3. TAXATION

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

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

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

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

The effective Headline tax rate for the year is 27.6% compared with 21.6% in 2002.

### 4. DIVIDENDS

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

The final dividend, if approved, will be paid on 30<sup>th</sup> June 2004 to ordinary shareholders on the register at close of business on 4<sup>th</sup> June 2004, with an ex-dividend date of 2<sup>nd</sup> June 2004.

## 5. EARNINGS PER SHARE

	Headline		FRS 3 Post exceptional items	
	2003 £m	2002 £m	2003 £m	2002 £m
Operating profit	24.0	25.5	24.0	25.5
add back: goodwill amortisation	3.6	3.5	-	-
Exceptional items	-	-	(17.2)	(4.7)
Interest	(3.7)	(3.1)	(3.7)	(3.1)
Profit before taxation	23.9	25.9	3.1	17.7
Taxation	(6.6)	(5.6)	(6.2)	(5.6)
Minority interests	(0.1)	(0.1)	(0.1)	(0.1)
Preference dividends	(0.9)	(1.8)	(0.9)	(1.8)
Earnings for the year	16.3	18.4	(4.1)	10.2

### Headline

Earnings per ordinary share (pence)	28.9	32.9
Diluted earnings per ordinary share (pence)	28.9	32.9

### FRS 3

Earnings per ordinary share (pence)	(7.3)	18.2
Diluted earnings per ordinary share (pence)	(7.3)	18.2

### Number of ordinary shares in issue (millions)

Weighted average	56.359	55.903
Diluted weighted average	56.399	55.941

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

## 6. RESERVES

	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m
At 28 <sup>th</sup> December 2002	5.6	72.5	1.6
Preference share redemption	-	(20.0)	20.0
Movement during the year	0.4	-	-
Loss for the year	-	(3.2)	-
Dividends	-	(11.2)	-
Currency translation	-	0.3	-
<b>At 27<sup>th</sup> December 2003</b>	<b>6.0</b>	<b>38.4</b>	<b>21.6</b>

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

## 7. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

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

## 8. CASHFLOW

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

## 9. CONTINGENT LIABILITIES

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

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

## 10. ACCOUNTING POLICIES

This statement has been prepared in accordance with accounting standards and policies consistent with those set out in the Group Accounts for the year ended 27<sup>th</sup> December 2003.

## 11. ACCOUNTS

The figures used in this statement, which was approved by the directors on 15<sup>th</sup> March 2004, are not the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985 for the year, but are taken from those accounts. The auditors' report on the statutory accounts was unqualified and did not contain a statement under Section 237 (2) to (4) of the Companies Act 1985.

## 12. ANNUAL REPORT

The Annual Report and Accounts will be posted on 31<sup>st</sup> March 2004 and the Annual General Meeting will be held at the Roxburghe Hotel in Edinburgh on 30<sup>th</sup> April 2004 at 12.15 pm. Statutory accounts for the period ended 28<sup>th</sup> December 2002 have been delivered to the Registrar of Companies, and those for the year to 27<sup>th</sup> December 2003 will be delivered following the Company's Annual General Meeting.