

# John Menzies plc

## INTERIM RESULTS For the period ended 26<sup>th</sup> June 2004

### Highlights:

- Turnover up £45.4m (7%) to £687.3m
- Operating profit up £9.0m (148%) to £15.1m
- Free cash flow up £2.4m (21%) to £13.6m
- Headline Earnings per share up 12.7p (198%) to 19.1p
- Interim dividend maintained at 5.5p per share

Patrick Macdonald, Chief Executive, said:

"I am very pleased with the Group's performance in the first half of 2004.

Menzies Distribution benefited from a strong performance from magazine collectables and periodicals, some cover price increases, and a largely event-driven increase in sticker sales. Menzies Distribution continues to be an industry leader in developing new services to support our customers, and I believe that it remains well placed to meet and lead any changes in the competitive environment.

Improvements in Menzies Aviation have been broadly based. The division has steadily raised its performance through contract gains, management action on productivity and costs, and more stable market conditions. Our emphasis remains on getting customer service levels right, managing the cost base and selectively expanding the core business.

Our result in the second half of the year will be measured against the strong performance achieved in the second half of last year. Our Board is confident that we will continue to make progress during the rest of the year."

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### Notes to Editors:

1. John Menzies plc is one of Scotland's largest companies. It has two operating divisions, Menzies Distribution and Menzies Aviation, both of whom specialise in providing efficient, high quality, time-critical services to their customers.

2. The company was established in 1833 and its head office is in Edinburgh. Today the company is an international business with offices, partners and operations located in Europe, North and South America, China and South East Asia, Australasia and Africa.
3. Menzies Distribution is a leading provider of added value distribution and marketing services to the newspaper and magazine supply chain in the UK. The division delivers over 1.8 million magazines and 4 million newspapers every day to more than 21,200 customers, and has over 4,300 employees.
4. Menzies Aviation is one of the world's largest independent suppliers of ground handling services to the aviation market. The division provides air cargo handling (1 million metric tonnes annually), ground handling (50 million passengers, 250,000 flights per year) and other services for many of the world's leading airlines and some of the busiest international airports. The division employs over 9,000 people across the globe, at 90 airports in 21 countries servicing more than 500 airline customers.
5. Further information on John Menzies plc can be found at: [www.johnmenziesplc.com](http://www.johnmenziesplc.com); [www.menziesdistribution.com](http://www.menziesdistribution.com); and [www.menziesaviation.com](http://www.menziesaviation.com).

## CHIEF EXECUTIVE'S REVIEW

### Introduction

I am very pleased with the Group's performance in the first half of 2004. Both divisions have traded strongly and the outlook for the second half is encouraging.

### Summary

<u>£m</u>	<u>H1 2004</u>	<u>H1 2003</u>	<u>Variance</u>
Turnover	687.3	641.9	7%
Operating profit	15.1	6.1	148%
Free cash flow	13.6	11.2	21%
Headline EPS	19.1p	6.4p	198%

In our Distribution division, our results have been assisted by the vibrant markets for magazines and stickers, together with cover price increases for weekend newspapers. Our Aviation business has enjoyed more stable markets and has won new contracts and achieved cost reductions.

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

### Cash Flow

Cash flow from operating activities was strong at £21.7m reflecting the positive trading performance in the first half. Net capital expenditure of £5.4m was £4.0m lower than in the first half of 2003. However, this was mainly due to timing as our 2004 investment programme is geared more towards the second half.

Free cash flow of £13.6m represents a solid performance and compares favourably with £11.2m in the half year to June 2003. Net debt at 26th June 2004 stood at £56.9m compared with £63.3m at the end of 2003 and £73.8m at 28th June 2003.

### Menzies Distribution

<u>£m</u>	<u>H1 2004</u>	<u>H1 2003</u>	<u>Variance</u>
Turnover	562.4	524.0	7%
Operating profit	15.0	12.0	25%

Menzies Distribution traded strongly during the period. Magazine sales in the first half were up 4.4% on last year mainly due to the strong performance of collectables and periodicals. In newspapers, cover price increases, particularly on weekend papers, have helped to drive up sales by 6.7%. Sticker sales, which are largely events-driven, were up 176% helped by Euro 2004.

The roll out of 'Pack-by-light' technology, a real time system for controlling the newspaper packing process, is progressing well and should be fully implemented by the end of the year. This technology provides improved service levels including documentation for retailers by producing parcel-specific contents notes. The division has also continued to make significant investment in its infrastructure and the recent

opening of new branches at Chelmsford in Essex and Bow in East London further enhance our offering to customers.

Menzies Distribution continues to be an industry leader in developing new services to support our customers. We are currently trialling a process for net sales distribution with customers who have Epos (Electronic point of sale) systems. This has proved very successful in increasing sales volumes whilst reducing waste. Our plan is to extend this process throughout our network. In our drive to boost sales, we successfully introduced a product called the Launch Factory to help publishers target new launches through Menzies Superleague, the network of 4,000 independent retailers supported by our leading edge systems. In addition, we are helping major retailers to make significant reductions in waste and losses through our Shrink Doctor project.

### **Menzies Aviation**

<u>£m</u>	<u>H1 2004</u>	<u>H1 2003</u>	<u>Variance</u>
Turnover	124.9	117.9	6%
Operating profit	4.0	(1.5)	fav

Improvements in Menzies Aviation have been broadly based. The division has steadily raised its performance through contract gains, management action on productivity and costs, and more stable market conditions.

Following the streamlining of the management structure in the second half of 2003, the emphasis has been on improving underperforming stations, delivering better service to customers and reducing costs. Our continued focus on customer service levels contributed to a number of new contracts being secured during the first half of 2004. Key gains included FedEx and Hawaiian Airlines in Australia, Polar Air, Japan Airlines and Singapore Airlines at Schiphol Airport, Continental and Eastern Airways at Edinburgh and a number of smaller contracts at Prague.

Management have taken rigorous action on costs. In particular, overhead costs have been significantly reduced in the USA and Latin America with labour productivity improvements achieved particularly in our cargo businesses in MWC UK, MWC Netherlands (formerly known as "Fr8") and Australia.

In January 2004, we entered a joint venture with easyJet to perform their ground handling at London Luton airport and we successfully launched our joint venture to provide cargo and ground handling at Chengdu Shuangliu International Airport in China. Trading in both businesses has been encouraging.

In the markets in which we operate, overall volumes were up in the first half. In cargo, our volumes were up significantly in MWC Netherlands, Australia, New Zealand and Macau. In ground handling, volume growth was particularly strong at Schiphol, Prague and Macau (where volumes have recovered from SARS).

In March 2004, we were delighted to appoint Craig Smyth as the new Managing Director for Menzies Aviation. Previously he had been the Director for the Americas and, before that, the Finance Director of Menzies Aviation for 6 years.

## **Accounting changes**

As previously announced, the Board has adopted FRS 17 from 2004 for pensions accounting to provide investors with greater clarity on earnings going forward. Our profit and loss pension charge for 2004 is expected to be approximately £5.0m (2003 restated £4.4m).

We have also made a number of changes to our segmental reporting. The major changes are to allocate pension costs to our trading divisions, where previously these had been shown separately, and to charge Menzies Distribution an internal market rent in respect of freehold properties. These changes have no effect on our Group profits but more accurately reflect divisional profits and are more consistent with reporting conventions in their respective sectors. Greater details are provided in note 3 to the accounts.

The 2003 results have been restated accordingly.

## **Post balance sheet event**

In August 2004, the Group sold its stand-alone executive aviation handling business, Execair, to BBA Group plc for £11.75m and realised a pre tax exceptional gain on sale of approximately £7.4m. The disposal delivers good value for our shareholders. Execair was not core to the business and the proceeds from the disposal will contribute towards the continuing investment programme in Aviation.

## **Outlook**

We will continue with our three step strategy. Firstly, getting the basics right by delivering great service to our customers at the right price, whilst keeping costs lean. Secondly, building strong businesses which can be scaled up by providing our customers with a unique service offering. Thirdly, growing from strength by extending our offering in areas where we have expertise and developing new opportunities which create sustainable shareholder value.

To underpin the strategy, we remain committed to investing in high quality people and resources to drive the business forward. In this regard, we were delighted to announce recently the appointment of Iain Robertson to the Board as a Non-Executive Director and the strengthening of our executive management team with Robin Peters, who takes up the role of Director of Business Development.

At Menzies Distribution, contract renewals with publishers are progressing. The DTI announced in March 2004 that the current template for the industry of vertical agreements will be repealed in May 2005 and signalled in August 2004 the removal of restrictions on retailers "selling on" newspapers and magazines to other retailers within the same wholesaler distribution territory. We are working actively with cross industry bodies and the OFT to develop a new framework for the industry. We believe that the current structure represents the lowest cost route to market and delivers strong consumer benefits. We consider that Menzies Distribution remains well placed to meet and lead any changes in the competitive environment.

At Menzies Aviation, markets remain more stable than in recent years but there is likely to be pressure on yields as airlines feel the consequences of higher fuel costs. We have already made significant progress and we are maintaining our focus on improving underperforming stations and raising the overall level of returns. The emphasis remains on getting customer service levels right, managing the cost base and selectively expanding the core business.

Our result in the second half will be measured against the strong performance achieved in the second half of last year. The Board is confident that we will continue to make progress for the rest of the year.

## GROUP PROFIT AND LOSS ACCOUNT

	Notes	Half year to	Half year to	Full year to 27 <sup>th</sup> December 2003		
		26 <sup>th</sup> June 2004 £m	28 <sup>th</sup> June 2003 (restated) £m	Before excep- tional items £m	Except- ional items (Note 4) £m	Total (restated) £m
<b>Turnover</b>	3					
(including share of joint ventures and associates)		<b>687.3</b>	641.9			1,297.7
Less: share of joint ventures and associates		<b>(19.0)</b>	(16.3)			(37.4)
<b>Group turnover</b>		<b>668.3</b>	625.6			1,260.3
<b>Group operating profit/(loss)</b>		<b>13.4</b>	5.1	18.0	(15.5)	2.5
<b>Share of operating profit/(loss) in</b>						
Joint ventures		<b>0.3</b>	-	(0.4)	(0.6)	(1.0)
Associates		<b>1.4</b>	1.0	2.6	-	2.6
<b>Total operating profit/(loss)</b>	3	<b>15.1</b>	6.1	20.2	(16.1)	4.1
Loss on disposal of businesses	4	-	(0.9)	-	(1.1)	(1.1)
<b>Profit/(loss) on ordinary activities before interest</b>		<b>15.1</b>	5.2	20.2	(17.2)	3.0
Net interest payable		<b>(1.9)</b>	(1.6)	(3.7)	-	(3.7)
Other finance income	11	<b>0.2</b>	0.3	0.6	-	0.6
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>13.4</b>	3.9	17.1	(17.2)	(0.1)
Taxation	5	<b>(4.2)</b>	(2.0)	(5.7)	0.4	(5.3)
<b>Profit/(loss) after taxation</b>		<b>9.2</b>	1.9	11.4	(16.8)	(5.4)
Minority interests		<b>(0.2)</b>	(0.2)			(0.1)
<b>Profit/(loss) for the financial period</b>		<b>9.0</b>	1.7			(5.5)
Dividends (including non-equity)	8	<b>(3.2)</b>	(4.0)			(11.2)
<b>Retained profit/(loss) for the financial period</b>		<b>5.8</b>	(2.3)			(16.7)
<b>Earnings per ordinary share</b>	6					
Headline		<b>19.1p</b>	6.4p	24.8p		
FRS 3		<b>15.7p</b>	1.4p			(11.4)p
FRS 3 diluted		<b>15.7p</b>	1.4p			(11.3)p

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit/(loss) for the financial period	<b>9.0</b>	1.7	(5.5)
Actuarial gain on defined benefit pensions	<b>11.2</b>	2.7	7.1
Deferred tax associated with defined benefit pensions	<b>(3.4)</b>	(0.8)	(2.0)
Currency translation	<b>(0.2)</b>	0.8	0.3
	<b>16.6</b>	4.4	(0.1)
Prior year adjustment for FRS 17	<b>(62.6)</b>	-	-
<b>Total recognised gains and losses for the period</b>	<b>(46.0)</b>	4.4	(0.1)

**GROUP BALANCE SHEET**

	Notes	<b>As at 26<sup>th</sup> June 2004 £m</b>	As at 28 <sup>th</sup> June 2003 (restated) £m	As at 27th December 2003 (restated) £m
<b>Fixed assets</b>				
Intangible assets		<b>26.6</b>	33.7	27.4
Tangible assets		<b>112.9</b>	118.0	116.3
Investments		<b>23.1</b>	34.9	24.4
		<b>162.6</b>	186.6	168.1
<b>Current assets</b>				
Stocks		<b>10.1</b>	11.5	12.9
Debtors		<b>89.2</b>	90.6	90.4
Cash at bank and in hand		<b>19.4</b>	35.7	32.1
Creditors: amounts falling due within one year		<b>(186.9)</b>	(168.7)	(184.2)
		<b>(68.2)</b>	(30.9)	(48.8)
<b>Net current liabilities</b>				
		<b>(68.2)</b>	(30.9)	(48.8)
<b>Total assets less current liabilities</b>				
		<b>94.4</b>	155.7	119.3
Creditors: amounts falling due after more than one year		<b>(39.6)</b>	(89.5)	(69.7)
Provision for liabilities and charges		<b>(7.1)</b>	(8.3)	(7.8)
<b>Net assets excluding net pension liabilities</b>				
		<b>47.7</b>	57.9	41.8
Net pension liabilities	11	<b>(18.1)</b>	(31.0)	(26.3)
		<b>29.6</b>	26.9	15.5
<b>Capital and reserves</b>				
Equity share capital		<b>14.3</b>	14.3	14.3
Share premium account		<b>6.1</b>	5.6	6.0
Capital redemption reserve		<b>21.6</b>	21.6	21.6
Profit and loss account		<b>(10.8)</b>	(12.5)	(24.2)
Investment in own shares		<b>(3.3)</b>	(3.6)	(3.7)
<b>Equity shareholders' funds</b>				
		<b>27.9</b>	25.4	14.0
<b>Non-equity share capital</b>				
		<b>1.4</b>	1.4	1.4
<b>Shareholders' funds</b>				
	7	<b>29.3</b>	26.8	15.4
Minority interests		<b>0.3</b>	0.1	0.1
		<b>29.6</b>	26.9	15.5

## GROUP CASH FLOW STATEMENT

Notes	<b>Half year to 26<sup>th</sup> June 2004</b>	Half year to 28 <sup>th</sup> June 2003 (restated)	Full year to 27th December 2003 (restated)
	<b>£m</b>	£m	£m
<b>Net cash inflow from operating activities</b>	<b>21.7</b>	22.3	40.6
Dividends from joint ventures and associates	2.0	1.4	3.5
Net cash outflow from returns on investments and servicing of finance	<b>(3.4)</b>	(1.8)	(4.8)
Tax paid	<b>(1.3)</b>	(1.3)	(2.4)
Net cash outflow from capital expenditure and financial investment	<b>(5.4)</b>	(9.4)	(16.2)
<b>Free cash flow</b>	<b>13.6</b>	11.2	20.7
Net cash (outflow)/inflow from acquisitions and disposals			
Investment in joint ventures and associates	<b>(0.1)</b>	(0.6)	(1.9)
Acquisitions	<b>(2.5)</b>	(1.6)	(1.6)
Disposals	<b>1.1</b>	2.2	4.6
Equity dividends paid	<b>(7.2)</b>	(7.1)	(10.3)
Management of liquid resources	<b>8.2</b>	14.1	30.0
Net cash inflow/(outflow) from financing			
Proceeds from shares issued	<b>0.5</b>	-	0.4
Redemption of preference shares	-	(20.0)	(20.0)
Loans	<b>(20.8)</b>	1.7	(28.9)
<b>Decrease in cash in the period</b>	<b>(7.2)</b>	(0.1)	(7.0)
	9		
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Total operating profit	<b>15.1</b>	6.1	20.2
Depreciation	<b>7.9</b>	8.1	15.8
Goodwill amortisation	<b>1.2</b>	1.2	1.8
Share of operating (profit)/loss in joint ventures	<b>(0.3)</b>	-	0.4
Share of operating profit in associates	<b>(1.4)</b>	(1.0)	(2.6)
Cash spend on exceptional items	<b>(0.1)</b>	(1.2)	(3.9)
Movement on pension liabilities	<b>0.2</b>	2.5	0.5
Other items not involving the movement of cash	<b>0.2</b>	0.2	0.1
Decrease/(increase) in stock	<b>2.8</b>	(0.7)	(2.1)
(Increase)/decrease in debtors	<b>(0.4)</b>	4.3	4.4
(Decrease)/increase in creditors	<b>(3.5)</b>	2.8	6.0
	<b>21.7</b>	22.3	40.6

The operating cash flows relating to acquisitions during the period were not material.

## NOTES TO THE ACCOUNTS

### 1 Preparation of the interim results

This interim statement in respect of the half year to 26<sup>th</sup> June 2004 has been prepared on the basis of accounting policies consistent with those set out in the Group Accounts for the year ended 27<sup>th</sup> December 2003, except for the accounting policy changes set out in Note 2 below.

The interim results were approved by the Board on 6<sup>th</sup> September 2004 and are unaudited. The results for the year to 27<sup>th</sup> December 2003 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 Changes in accounting policies

- (a) The Group has adopted FRS 17 "Retirement benefits" in full from 1<sup>st</sup> January 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 11.
- (b) 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.

### 3 Segmental Analysis

	Turnover			Pre-exceptional operating profit/(loss)		
	Half year to 26 <sup>th</sup> Jun 2004	Half year to 28 <sup>th</sup> Jun 2003 (restated)	Full year to 27 <sup>th</sup> Dec 2003 (restated)	Half year to 26 <sup>th</sup> Jun 2004	Half year to 28 <sup>th</sup> Jun 2003 (restated)	Full year to 27 <sup>th</sup> Dec 2003 (restated)
	£m	£m	£m	£m	£m	£m
Distribution Services	562.4	524.0	1,058.0	15.0	12.0	26.2
Aviation Services	124.9	117.9	239.7	4.0	(1.5)	2.4
Corporate	-	-	-	(2.0)	(2.5)	(4.8)
	<b>687.3</b>	641.9	1,297.7	<b>17.0</b>	8.0	23.8
Goodwill amortisation	-	-	-	(1.9)	(1.9)	(3.6)
	<b>687.3</b>	641.9	1,297.7	<b>15.1</b>	6.1	20.2
<b>Joint ventures and associates included above</b>						
Distribution Services						
Joint ventures	4.9	4.3	11.6	-	-	-
Associates	6.8	6.3	12.9	0.1	0.1	0.2
Aviation Services						
Joint ventures	2.3	2.2	4.9	0.3	0.1	0.1
Associates	5.0	3.5	8.0	2.0	1.5	3.7
	<b>19.0</b>	16.3	37.4	<b>2.4</b>	1.7	4.0
Goodwill amortisation	-	-	-	(0.7)	(0.7)	(1.8)
	<b>19.0</b>	16.3	37.4	<b>1.7</b>	1.0	2.2

Goodwill amortisation is attributable £0.2m (2003: £0.2m) to Distribution Services and £1.7m (2003: £1.7m) to Aviation Services.

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

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. Prior period comparatives have been restated on a consistent basis.

#### 4 Exceptional Items

On 20<sup>th</sup> June 2003 the Group sold its Aviation Services operation in Canada at a loss of £0.9m.

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

An analysis of the exceptional loss of £17.2m in the full year to 27<sup>th</sup> December 2003 was included in note 5 of the Group accounts for that year.

#### 5 Taxation

Taxation has been estimated at a Headline tax rate of 27.5% (2003: 30%). The overall effective rate of 31.3% (2003: 51.3%) is impacted by unrelieved overseas losses, goodwill and exceptional items.

#### 6 Earnings per share

	Headline			Post exceptional items (FRS 3)		
	Half year to 26 <sup>th</sup> Jun 2004 £m	Half year to 28 <sup>th</sup> Jun 2003 (restated) £m	Full year to 27 <sup>th</sup> Dec 2003 (restated) £m	Half year to 26 <sup>th</sup> Jun 2004 £m	Half year to 28 <sup>th</sup> Jun 2003 (restated) £m	Full year to 27 <sup>th</sup> Dec 2003 (restated) £m
Operating profit	15.1	6.1	20.2	15.1	6.1	20.2
add back: goodwill amortisation	1.9	1.9	3.6	-	-	-
Exceptional items	-	-	-	-	(0.9)	(17.2)
Interest	(1.7)	(1.3)	(3.1)	(1.7)	(1.3)	(3.1)
Profit/(loss) before taxation	15.3	6.7	20.7	13.4	3.9	(0.1)
Taxation	(4.2)	(2.0)	(5.7)	(4.2)	(2.0)	(5.3)
Minority interests	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.1)
Preference dividends	(0.1)	(0.9)	(0.9)	(0.1)	(0.9)	(0.9)
Earnings for the period	10.8	3.6	14.0	8.9	0.8	(6.4)
<b>Headline</b>						
Earnings per ordinary share (pence)	19.1	6.4	24.8			
Diluted earnings per ordinary share (pence)	19.0	6.4	24.8			
<b>FRS 3</b>						
Earnings per ordinary share (pence)				15.7	1.4	(11.4)
Diluted earnings per ordinary share (pence)				15.7	1.4	(11.3)
<b>Number of ordinary shares in issue (millions)</b>						
Weighted average	56.514	56.310	56.359			
Diluted weighted average	56.811	56.322	56.399			

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.

## 7 Reconciliation of movements in shareholders' funds

	As at 26 <sup>th</sup> Jun 2004 £m	As at 28 <sup>th</sup> Jun 2003 £m	As at 27 <sup>th</sup> Dec 2003 £m
<b>Profit/(loss) for the financial period</b>	<b>9.0</b>	1.7	(5.5)
Dividends: ordinary shares	<b>(3.1)</b>	(3.1)	(10.3)
preference shares	<b>(0.1)</b>	(0.9)	(0.9)
New share capital issued	<b>0.1</b>	-	0.4
Investment in own shares	<b>0.4</b>	-	(0.1)
Preference shares redeemed*	-	(20.0)	(20.0)
Actuarial gain (net of deferred tax)	<b>7.8</b>	1.9	5.1
Currency translation	<b>(0.2)</b>	0.8	0.3
<b>Net increase/(decrease) in shareholders' funds</b>	<b>13.9</b>	(19.6)	(31.0)
Shareholders' funds at beginning of period as previously stated	<b>15.4</b>	115.4	115.4
Prior year adjustment - UITF 38	-	(3.6)	(3.6)
- FRS 17	-	(65.4)	(65.4)
<b>Shareholders' funds at end of period</b>	<b>29.3</b>	26.8	15.4

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

## 8 Interim dividend

Payment of the interim dividend of 5.5p per Ordinary share (2003: 5.5p) will be made on 30<sup>th</sup> November 2004 to shareholders on the register at the close of business on 12<sup>th</sup> November 2004.

## 9 Analysis of changes in net debt

	As at 27 <sup>th</sup> Dec 2003 £m	Half year cash flows £m	Currency translation £m	As at 26 <sup>th</sup> Jun 2004 £m
Cash at bank and in hand	19.0	(4.4)	-	<b>14.6</b>
Bank overdrafts	(20.6)	(2.8)	-	<b>(23.4)</b>
	(1.6)	(7.2)	-	<b>(8.8)</b>
Short term deposits	13.1	(8.2)	(0.1)	<b>4.8</b>
Bank loans due within one year	(6.5)	(6.9)	-	<b>(13.4)</b>
Loan stock due within one year	(0.1)	-	-	<b>(0.1)</b>
Debt due after one year	(68.2)	27.8	1.0	<b>(39.4)</b>
	(63.3)	5.5	0.9	<b>(56.9)</b>

## 10 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.

## 11 Pensions

Financial Reporting Standard 17, "Retirement benefits" (FRS 17) has been fully adopted with effect from 1<sup>st</sup> January 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 operating profit £m	Net interest payable £m	Taxation £m	Profit/(loss) for the financial period £m
<b>Group profit and loss account</b>				
Half year to 28 <sup>th</sup> June 2003 as previously stated	7.0	(1.6)	(2.5)	2.8
Reversal of SSAP 24	0.6	-	(0.2)	0.4
Adoption of FRS 17	(2.5)	0.3	0.7	(1.5)
Half year to 28 <sup>th</sup> June 2003 restated	5.1	(1.3)	(2.0)	1.7
Full year to 27 <sup>th</sup> 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)
Full year to 27 <sup>th</sup> December 2003 restated	2.5	(3.1)	(5.3)	(5.5)
<b>Group balance sheet</b>				
	Debtors £m	Provision for liabilities and charges £m	Net pension liabilities £m	Profit and loss account £m
As at 28 <sup>th</sup> June 2003 as previously stated	138.6	(22.7)	-	52.1
Reversal of SSAP 24	(48.0)	14.4	-	(33.6)
Adoption of FRS 17	-	-	(31.0)	(31.0)
As at 28 <sup>th</sup> June 2003 restated	90.6	(8.3)	(31.0)	(12.5)
As at 27 <sup>th</sup> 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)
As at 27 <sup>th</sup> December 2003 restated	90.4	(7.8)	(26.3)	(24.2)

	<b>Value at Jun 2004 £m</b>	Value at Jun 2003 £m	Value at Dec 2003 £m
<b>Net pension liabilities</b>			
Total market value of assets	<b>157.3</b>	136.7	153.5
Present value of scheme liabilities	<b>(183.2)</b>	(181.0)	(191.1)
Deficit in scheme	<b>(25.9)</b>	(44.3)	(37.6)
Related deferred tax asset	<b>7.8</b>	13.3	11.3
<b>Net pension liabilities</b>	<b>(18.1)</b>	(31.0)	(26.3)
<b>Movements in scheme deficits during the period</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Deficit in the fund brought forward	<b>(37.6)</b>	(44.8)	(44.8)
Current service cost	<b>(2.7)</b>	(2.5)	(5.0)
Employer contribution	<b>3.0</b>	-	4.5
Net financial return	<b>0.2</b>	0.3	0.6
Actuarial gain	<b>11.2</b>	2.7	7.1
	<b>(25.9)</b>	(44.3)	(37.6)

In deriving the valuation update of the Menzies Pension Fund as at 26<sup>th</sup> June 2004 the Actuary used the projected unit method and the following financial assumptions:

	<b>Half year to 26<sup>th</sup> Jun 2004 %</b>	Half year to 28 <sup>th</sup> Jun 2003 %	Full year to 27 <sup>th</sup> Dec 2003 %
Rate of increase in salaries	<b>3.50</b>	3.00	3.25
Rate of increase in pensions	<b>3.30</b>	3.10	3.25
Rate of increase in price inflation	<b>3.00</b>	2.50	2.75
Discount rate	<b>5.80</b>	5.30	5.40

## 12 Acquisition

On 12<sup>th</sup> 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 results for the half year to 26<sup>th</sup> June 2004 include turnover of £3.5m and operating profit of £0.3m relating to this acquisition.

## 13 Post balance sheet event

On 12<sup>th</sup> August 2004 the Group sold its stand-alone executive aviation handling business, Execair, to BBA Group plc for £11.75m and realised a pre-tax exceptional gain on sale of approximately £7.4m.