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24 hours a day 365 days a year

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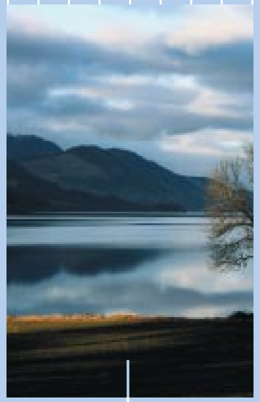
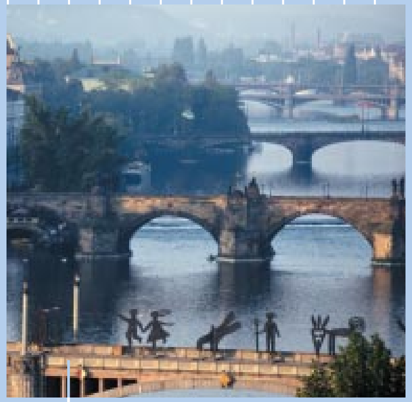
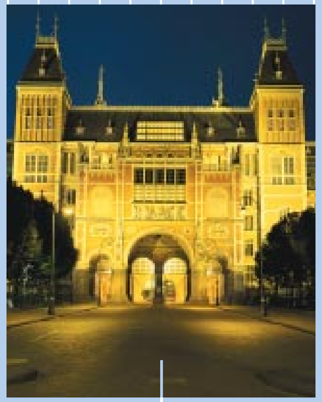
Menzies GROUP

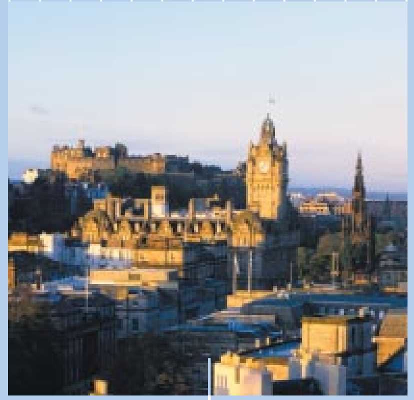
Annual Report 2002

Menzies Distribution Menzies Aviation








Beijing
Menzies Aviation made its first entry into mainland China in December 2002 with a freight forwarding joint venture.

Sheffield
Acquisition of Turners News contributed well above expectation during the year.

San Francisco
Menzies Aviation piloted its all-employee Behavioural Risk Improvement programme to improve still further the quality of its service for customers.

Inverness
From this branch some of Scotland's most rural areas receive newspapers and magazines 364 days per year.

Lima
Working with local partners can bring benefits as evidenced by our highly successful joint venture in Peru.

Prague
Menzies Aviation's Eastern European locations continued to perform well and offer excellent growth opportunities.

London
Menzies Distribution's fourth 'Super Branch' will open early next year completing the rationalisation of ten of its UK branches into four.

Sydney
The acquisition of Jardine Aviation Services Australia was a key step in expanding our Australasian network.

Amsterdam
The acquisition of Fr8 in September gave Menzies Aviation a significant presence at one of Europe's key cargo hubs.

Cancun
Menzies Aviation's ground handling service helped thousands of holidaymakers enjoy the Mexican Caribbean.

Belfast
From two branches Menzies Distribution provides the whole of Northern Ireland with its Sunday news deliveries.

Edinburgh
Menzies Distribution's network of 28 branches, servicing over 21,000 customers, is controlled from its Edinburgh headquarters.

Rio de Janeiro
Menzies Aviation has a strong presence in Latin America with 38 stations in the region.

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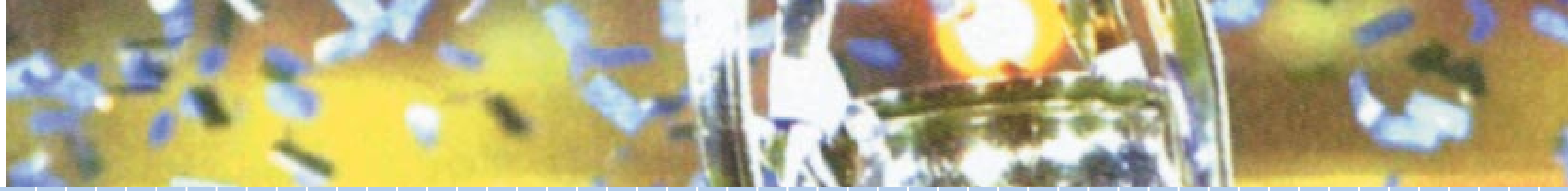


I AM DELIGHTED WITH THE GROUP'S PERFORMANCE – THE BENEFITS OF THE STRATEGIC RESTRUCTURE ARE NOW CLEARLY VISIBLE.

WILLIAM THOMSON CHAIRMAN

58 planes,
32 footballers
and 1 king

Menzies Execair handled 58 executive jets in 24 hours at Glasgow Airport on the night of the Champions League final in May 2002.

Results and Dividend

This has been a challenging but rewarding year for the Group, with operating profits from our continuing businesses increasing by over 37%. In addition, capital investment totalling over £34m included the completion of Menzies Distribution's investment in its Scottish branch network, Menzies Aviation's acquisition of Fr8 (making Menzies the largest independent cargo handler in the Netherlands), and ground-breaking IT development in MAG's cargo systems.

The news and magazine distribution industry operates in a dynamic environment which demands proactive management in its relationships with both publishers and retailers. This year it has also had to contend with one of the Office of Fair Trading's periodic reviews. Menzies Distribution's response to this is to continue to improve, to innovate, and to develop. We believe this demonstrates our resilience and reliability, setting the standard in this field and underpinning the UK's claim to have the most effective wholesale news distribution system in the world.

The aviation market is recovering from the traumas of 2001, and although it currently faces considerable global uncertainty the growth prospects remain strong. There have been high profile changes in the market, with some major airlines struggling and others seizing opportunities to expand based on a fundamentally different business strategy.

This fits closely with Menzies Aviation's strategy of offering quality mixed with the flexibility and investment needed to provide the services which our customers rightly demand. We have established a secure foundation in the marketplace, and with the management structure now in place intend to capitalise on this base, whether by organic growth or acquisition.

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

Board

Gavin Reed retired as Chairman at our Annual General Meeting in May last year having reached the age of 67, and I would like to pay tribute to his term of leadership during a time of considerable change.

David Mackay takes well-earned retirement after our AGM in May this year. His 39 years with the Group have seen him rise from trainee to Chief Executive. He has been a powerful force for change and has made an outstanding contribution to the Group, both in his twelve years as Managing Director of Menzies Distribution and six as Chief Executive. He has been the most loyal and committed of colleagues and we will wish him well in what I am sure will be a productive retirement.

Patrick Macdonald joined us in January, and will take over from David after our AGM in May as part of a carefully planned handover process. I have every confidence that he will play a significant part in taking the Group forward while continuing to assert the positive values long established within the Group.

He will be ably supported by Paul Dollman, who joined us in October as Group Finance Director replacing Martyn Smith, who played a key role in achieving our current strong position.

Prospects

The Group's strategy of expansion in aviation alongside the long established strength of our distribution business is beginning to show positive results. Our aviation business has tremendous potential, and is taking advantage of the changes and emerging opportunities in its sector. Both businesses have started the year in line with our expectations, and overall I believe that the Group has a strong future.

And finally, I am delighted that our work in maintaining close contact with our investors has been recognised when we were presented this month with the UK PLC Award 2002 for best investor communication.

William Thomson
Chairman

218 million magazines are delivered to over 21,000 customers every year

A strong performance in the Celebrity sector helped increase magazine sales by 4.5% (lfl) during 2002.

WE HAVE CLEARLY DEMONSTRATED THE STRENGTH OF OUR BUSINESS MODEL AND STRATEGY IN DIFFICULT MARKETS.

DAVID MACKAY GROUP CHIEF EXECUTIVE

Chief Executive's Review

In my final year with the Group I am delighted to report a strong set of results with good contributions from both Distribution and Aviation. This is particularly pleasing in light of the difficult economic conditions that have prevailed.

Distribution has performed ahead of expectations and delivered impressive profit growth. Last year's cover price increases, several strong magazine sector performances, the successful integration of Turners News and the equally successful opening of Newbridge and Linwood branches in Scotland have all played their part.

Aviation has recovered strongly, turning a first half loss into a full year profit of £3.7m. This represents an improvement of £6.3m against the comparative 12 month period and has been achieved despite a prolonged general downturn within the aviation industry. Aviation's improvement has been driven by vigorous action from the management team and a combination of new starts, acquisitions and strategic exits.

Results Summary

All 2001 comparatives are 12 month pro forma numbers owing to the change of financial year end to December during 2001.

Turnover from continuing operations increased by 4.5% to £1,196.5m. Distribution was 6.5% higher at £959.6m with the combined effect of the Turners acquisition and cover price increases more than offsetting the revenue impact of tabloid price wars. Aviation was £7.5m lower at £236.9m as a result of exits from loss making businesses such as our German operation and GlobeGround UK (our ground handling joint venture with Lufthansa).

Group operating profits from continuing operations increased substantially, up by 37.4% to £29.0m. Distribution profits were 10.0% higher at £28.7m. Aviation made an operating profit of £3.7m against a loss of £2.6m last year. The improvement in Aviation's operating results over the last three half year periods demonstrates the encouraging and ongoing recovery in the Division since September 11th, 2001:

6 months to December 2001:	£(3.9)m
6 months to June 2002:	£(0.6)m
6 months to December 2002:	£4.3m

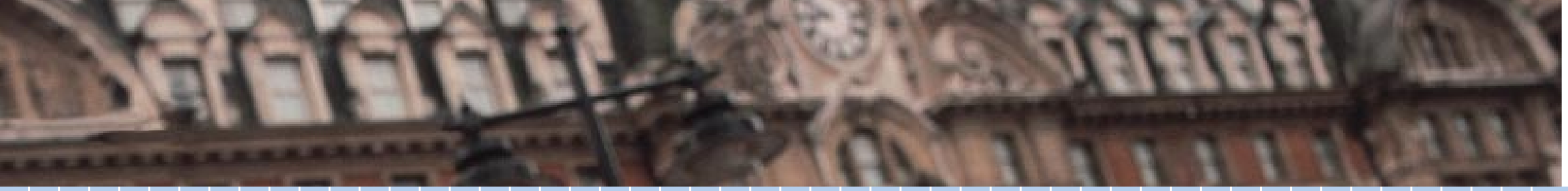
Headline profit before tax was £25.9m, £11.3m ahead of last year, with Headline earnings per share of 32.9p increasing by 18.7p.

Clearly, like most other companies operating a defined benefit pension scheme, we are not immune from falling equity valuations and we are currently reviewing the need to recommence cash contributions later in the year. We have also decided to introduce a defined contribution scheme for new employees with effect from April 2003.

Further details of pensions, financial performance and cash flow are given within the Financial Review.

19 Heralds, 7 Daily Records and 1 Horse & Hound

Menzies Distribution supports rural communities – here delivering newspapers to the Colintraive Village Hall before using the local ferry to deliver to customers on the Isle of Bute.



Over 2,000 pallets of newspapers and magazines processed for immediate delivery every day

Menzies Distribution supplies newspapers and magazines into the City of London helping commuters keep abreast of current events.

DURING AN EVENTFUL YEAR FOR THE INDUSTRY, MENZIES DISTRIBUTION HAS AGAIN DELIVERED AN EXCELLENT RESULT.

IAIN CALLAGHAN MANAGING DIRECTOR MENZIES DISTRIBUTION

Menzies Distribution

	2002 £m	2001 £m
Turnover	959.6	900.9
Operating profit	28.7	26.1

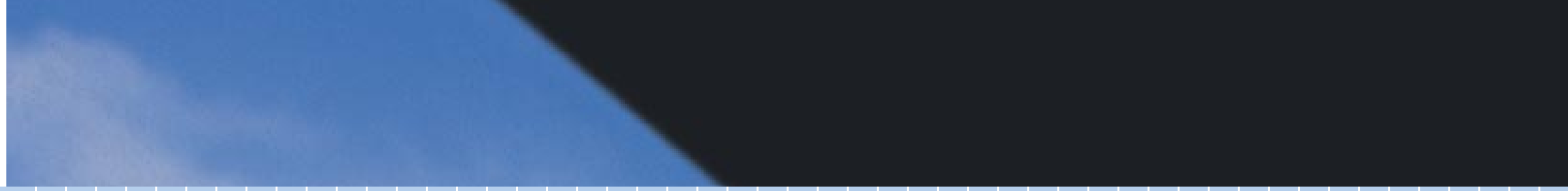
Menzies Distribution has had another successful year driven by cover price increases, encouraging magazine sales, a strong first year contribution from the Turners business and operational benefits from the Scottish branch restructuring programme.

Sales were up by 6.5%, with newspapers up 3.7% and magazines by 9.7%. Newspaper revenues would have been higher but for the tabloid price war. Stickers were over £2.0m higher, benefiting from strong World Cup sales in the first half, whilst low margin phone-card revenues were also up by £2.4m.

Operating profit was 10.0% up as the benefits of increased turnover were once again augmented by strong control of costs, operational benefits from the completed Scottish branch rationalisation programme and a full year's contribution from the Turners acquisition which performed ahead of our expectations.

The planned restructuring of the Division's Central Scotland operation with the opening of new branches at Newbridge and Linwood was completed on time and on budget. The last remaining branch (East London) in the programme to consolidate ten branches into four major units remains on track for completion in Spring 2004. The planned customer service improvements and operational efficiencies have been achieved.

In December the Office of Fair Trading (OFT) announced the results of its review of the Industry Code of Practice for the supply of newspapers. We are supportive of the OFT's proposals on the rights of retailers to sell-on titles to other retailers and we shall be working closely with all sides of the industry to ensure that the UK network remains the best and most progressive in the world.



IN 2002 MENZIES AVIATION ESTABLISHED ITSELF AS ONE OF THE WORLD'S LEADING INDEPENDENT PROVIDERS OF SERVICES TO THE AVIATION MARKETPLACE.

PETER SMITH CHIEF EXECUTIVE MENZIES AVIATION

206 bmibaby flights, 22,660 passengers and 25,750 bags every week

Menzies Aviation continues to push the boundaries of traditional ground handling with the launch of "KISS", a ground handling service specifically tailored to low cost airlines.

Menzies Aviation Group

	2002 £m	2001 £m
Turnover	236.9	244.4
Operating profit/(loss)	3.7	(2.6)

	H2 2002 £m	H1 2002 £m	H2 2001 £m	H1 2001 £m
Turnover	125.5	111.4	121.4	123.0
Operating profit/(loss)	4.3	(0.6)	(3.9)	1.3

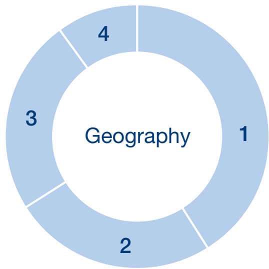
Menzies Aviation Group (MAG) turned a loss of £2.6m last year into a £3.7m profit in 2002 – a creditable performance in extremely difficult circumstances. The turnaround is testament to the measures taken during 2001 and 2002 to optimise the Division's cost structure. MAG has continued the trend reported within our Interim Report, delivering positive progress in every month since March 2002.

During the year MAG has taken a proactive approach in dealing with loss making business units. Germany, Korea and Mecanix have been exited (MAG's operating profit of £3.7m includes £0.6m of losses in respect of these businesses) and Amsterdam, a loss maker acquired from Ogden, has been returned to profitability.

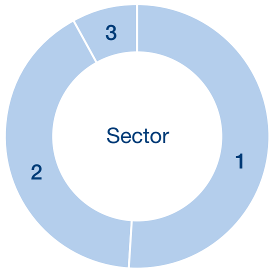
MAG has successfully completed a number of acquisitions. In September it acquired Fr8, the largest independent cargo handler in the Netherlands which handles circa 375,000 tonnes per annum. MAG also purchased Wyng, a small UK cargo business, in May and continued to develop its Australian business with the purchase in September of Jardine Airport Services Australia (JASA), a ground handling company. Investment has also been made in technology; in particular, in "Hermes", a leading edge cargo management system that has been successfully implemented in our Heathrow cargo terminals and is now being rolled out elsewhere. This system is a real service differentiator and provides a fundamental platform for the future success and profitable growth of our world-wide cargo network.

In terms of overall trading, there have been strong performances from operations within Asia Pacific, UK support services, parts of Latin America and most of Europe. North America passenger traffic and UK cargo have remained relatively depressed, in line with general economic conditions. Rising insurance costs have been tightly controlled and currency risks hedged where appropriate.

The geographic and business spread of MAG's business is:



1 United Kingdom 41%
2 Rest of Europe 25%
3 Americas 24%
4 Asia Pacific 10%



1 Passenger and Ramp 51%
2 Cargo Handling 41%
3 Support Services 8%

Source: MAG 12 months turnover to 28th December 2002 – excluding exited businesses

4.8 million newspapers sorted and delivered every day from 28 branches

Distribution continue to apply IT solutions to the supply chain. "Pack by Light" initiative will be rolled out throughout the branch network in 2003.

AS A GROUP WE ARE NOW VERY FOCUSED WITH TWO COMPLEMENTARY BUSINESSES. BOTH DO SIMPLE THINGS VERY EFFICIENTLY AND OPERATE IN A TIME CRITICAL LOGISTICS ENVIRONMENT.

United Kingdom

Turnover from continuing UK operations was 8% higher than 2001 as a result of acquisition (Wyng) and organic growth. Connect (baggage and passenger/employee transfer) commenced two new contracts at Heathrow and Execair (executive aviation service) added four new stations bringing the network total to 14. Cargo traffic to and from the UK remained relatively sluggish throughout the year and volumes were broadly in line with the trends reported by BAA. Towards the end of the year, MAG successfully launched an innovative passenger and ramp handling service geared towards the low cost airlines.

Rest of Europe

Within Europe there were strong growth performances from the Czech Republic, Romania and our core activities at Amsterdam which made its first profit since acquisition. This was particularly pleasing compared to a loss of over £1.0m in 2001. The Netherlands also benefited from an initial contribution from Fr8. Italy was profitable (before exceptional costs and tax). However, increasing competitive pressures and a complex airport tariff structure at Rome has led us to sell our share of the business, at around book value, to the majority shareholder after the year end. We continue to maintain our small presence in Spain in readiness for forthcoming licence tenders.

Asia Pacific

MAG's Asia Pacific revenues grew by 16%. Most of the growth came from Australia with a significant increase in cargo tonnes and the commencement of passenger and ramp operations following the acquisition of JASA. MAG's associate venture in Macau continues to operate profitably and has indirectly led to MAG's first venture within mainland China, a small freight forwarding joint venture with local partners.

Americas

As a region, the Americas continue to suffer most from the after effects of September 11th 2001.

North America was loss making with revenues down some 11% as airline schedules remained at depressed levels and cargo tonnages tracked the trends in the US and world economies. Until geopolitical and economic prospects pick up the focus will be one of continued cost reduction.

Latin America and the Caribbean remained profitable even though revenues were down some 7% as a result of a poor holiday season early in the year, a general scale back in operations by US airlines and adverse economic conditions in countries such as Brazil and Venezuela. All countries, with the exception of Mexico (which returned a small loss), returned a positive result. There were significant contract wins for our Mexican operation in the last quarter of the year.

People

I would like to take this opportunity to record my sincere gratitude to the very many employees who have contributed so much, often in testing circumstances, to deliver the strategic path along which the company is now set. For my part it has been a great pleasure to work with so many committed and capable individuals and I wish them all the very best in what I firmly believe will be a prosperous future.

Outlook

I have been with the Menzies Group for almost forty years, the last six as Chief Executive. Over that time there have been many changes, of both people and plans. I am absolutely convinced that our strategy has positioned the Group effectively to deliver sustained benefits for customers, shareholders and employees.

Distribution remains a strong and successful operation led, I believe, by the best management team in the industry. We have clear evidence, particularly in the second half of 2002, that Aviation is well placed in the sector to expand the strong position we have achieved.

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

Whilst the world remains an uncertain place, Distribution is a reliable cash generative business and there is huge potential to be unlocked in Aviation. Menzies has a positive future and I am proud to have participated in creating it. Our new Executive Management team is in place and, with Patrick Macdonald and Paul Dollman alongside talented and experienced Divisional teams, I have no doubt that Menzies' future is in strong hands. The emerging options are encouraging and should provide a real agenda of opportunity. We can look forward with confidence.

David Mackay
Chief Executive


1.2 million kilos of tulips, roses and other blooms every week

As the leading independent cargo handler at Schiphol Airport, Menzies Aviation handles many consignments of flowers each week all destined for the Amsterdam flower market.

BOTH OF OUR DIVISIONS MADE GOOD PROGRESS DURING THE YEAR AS THE GROUP DELIVERED PROFITS AHEAD OF EXPECTATIONS.

PAUL DOLLMAN GROUP FINANCE DIRECTOR

+40%

Menzies Group
Despite difficult market conditions for both of our businesses continuing Group Headline Profit Before Tax was up 40% to £25.9m.

Overview

The trading results are summarised as follows:

	Actual 12 Months to December 2002 £m	Pro Forma 12 Months to December 2001 £m	% Change
Turnover			
Distribution Services	959.6	900.9	6.5
Aviation Services	236.9	244.4	(3.1)
Total continuing	1,196.5	1,145.3	4.5
Operating profit			
Distribution Services	28.7	26.1	10.0
Aviation Services	3.7	(2.6)	++
Total continuing	32.4	23.5	37.9
Central costs	(7.0)	(7.4)	5.4
Pension credit	3.6	5.0	(28.0)
Interest	(3.1)	(2.6)	(19.2)
Headline PBT * (continuing)	25.9	18.5	40.0
Headline Earnings per share	32.9p	14.2p	

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

Menzies Distribution performed very well during 2002 showing an increase in operating profit of 10% to £28.7m. Menzies Aviation also performed well with a £6.3m improvement in the year from a loss of £2.6m to a profit of £3.7m. Central costs of £7.0m reduced by 5.4% from the previous year. Headline earnings per share increased substantially from 14.2p to 32.9p as a result of the increase in headline earnings and a reduced effective tax rate of 21.6%.

Shareholders' funds were £115.4m at December 2002 compared with £116.4m at December 2001. Principal movements were post-exceptional profit for the year of £17.7m offset by a taxation charge of £5.6m and dividends of £12.1m combined with an increase in share capital of £1.8m offset by currency reserve movements of £2.7m.

The Group generated an operating cashflow of £22.9m. Disposal of businesses, share issues and redemption of loan notes raised a further £10.9m. Some £34.6m was re-invested in the business whilst dividend and tax payments accounted for £15.4m. Net debt increased from £46.8m to £58.2m.

In common with many companies, the financial condition of the Company's defined benefit scheme is affected by the substantial world-wide decline in the value of equities. This will have an impact on the Group's reported profits for 2003. The SSAP 24 profit and loss account credit for 2002 of £3.6m is currently estimated to be replaced by a £1.2m pension charge for 2003.

Interest

The net interest charge is analysed as follows:

	Actual 12 Months to December 2002 £m	Pro Forma 12 Months to December 2001 £m
Bonds	2.6	2.6
US dollar term loan	1.1	2.3
Cash/overdrafts	(0.5)	(2.3)
Joint ventures/ associates	(0.1)	–
Net interest charge	3.1	2.6

Goodwill

The increased goodwill charge for the year of £3.5m results from the acquisition of Turners News in December 2001 and £10.2m capitalised on the Aviation Services acquisitions during 2002. Goodwill is being amortised on a straight line basis over 20 years.

Exceptional Items

During the year the Group incurred £4.7m of exceptional costs. £4.0m were in respect of Aviation Services. Rationalising continuing operations accounted for £1.7m, comprising mainly property and related staff costs, including £1.0m to cover redundancies in our Italian associate. Exiting Aviation Services operations in Korea, Germany and Mecanix (a vehicle repair and maintenance facility at Heathrow) resulted in non-operating exceptional costs of £2.3m.

The remaining £0.7m related to the Group's THE Games business, which was discontinued in February 2001.

In October 2002 the European Commission concluded their investigation into the alleged restriction of cross-border trading in Nintendo product. A fine of €8.64m (£5.6m) was imposed on the Group in respect of the period from August 1995 to December 1997. The Group was the exclusive distributor of such product in the UK and the Republic of Ireland at the relevant time but exited from this business in February 2001.

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.

Taxation

The tax rate on Headline earnings for the year was 21.6%, which is analysed as follows:

	%
Tax due at UK rate	30.0
Non tax-deductible items	3.6
Unrelieved overseas losses	6.2
Overseas rate impact	1.5
Utilisation of tax losses	(5.0)
Adjustments in respect of prior periods	(14.7)
Headline tax rate	21.6

The tax rate on Headline earnings has been materially reduced by the realisation of both carry forward overseas tax losses and the resolution of prior period matters with the Inland Revenue. The overall rate was 31.6% as neither the exceptional items of £4.7m nor goodwill amortisation of £3.5m attract tax relief. Tax paid during the year was £3.7m. Payments are expected to increase slightly for the 12 months to December 2003.

The Group adopted FRS 19 'Deferred tax' during the year. This standard requires full provision for deferred tax in respect of timing differences that have originated but not reversed by the balance sheet date. As a result of the restructuring programme over the last few years the Group was fully provided for deferred tax at December 2001 and no prior year adjustment to restate opening reserves on the adoption of the new standard was therefore required.

Earnings per Share

Headline earnings per share increased to 32.9p from 14.2p in the pro forma comparative 12 months to December 2001 whilst the fully diluted FRS 3 earnings per share increased to 18.2p from a loss per share of 37.5p.

Cash Flow

	£m	Actual 12 months to December 2002 £m	£m	Pro Forma 12 months to December 2001 £m
Headline Operating Profit		25.5		17.8
Depreciation		14.0		13.3
Goodwill amortisation		1.5		1.2
Pension prepayment		(3.6)		(5.0)
Working capital		(5.3)		18.2
Cash spend on exceptionals		(4.9)		(11.8)
Non cash items		(4.3)		(4.2)
Operating cash flow		22.9		29.5
Purchase of fixed assets	(14.0)		(30.7)	
Sale of fixed assets	1.5		2.0	
Net capital expenditure		(12.5)		(28.7)
Dividends from associates and joint ventures		4.6		4.7
Net interest paid		(3.5)		(3.9)
Preference dividends paid		(1.8)		(1.8)
Tax paid		(3.7)		(6.5)
Free cash flow				
– continuing		6.0		(6.7)
– discontinued		–		(55.0)
Loan notes redeemed		3.3		–
Equity dividends paid		(9.9)		(10.1)
Acquisitions		(22.1)		(16.7)
Disposals		5.8		21.0
Shares		1.8		0.1
Total movement		(15.1)		(67.4)
Opening (net debt)/cash		(46.8)		20.3
Currency movement		3.7		0.3
Closing net debt		(58.2)		(46.8)

+10%

Menzies Distribution
A strong performance by the magazine sector helped Distribution increase profits by 10% during 2002.

+£6.3M

Menzies Aviation
Delivered a profit turnaround with a £2.6m loss in 2001 being turned into a profit of £3.7m in 2002.

Working Capital

Working Capital movement is analysed as follows:

	Actual 12 months to December 2002 £m	Pro Forma 12 months to December 2001 £m
Stocks	0.4	(3.8)
Debtors	0.4	11.1
Creditors	(6.1)	10.9
	(5.3)	18.2

The net cash outflow in the current period is mainly the settlement of trade and other creditors in the acquired businesses.

The net cash inflow in the comparative period was mainly due to improved debtor collection within the Ogden business acquired in November 2000 combined with a large inflow from Distribution creditors as a result of different year end dates in 2000 and 2001.

Fixed Assets

Purchases of fixed assets totalled:

	Property £m	Plant & Equip-ment £m	Total £m
Distribution Services	1.0	4.0	5.0
Aviation Services	1.7	7.2	8.9
Central	–	0.1	0.1
	2.7	11.3	14.0

During the year Distribution Services completed the planned restructuring of its Central Scotland operation with the opening of new branches at Newbridge and Linwood.

Aviation Services capital expenditure included some £2m on developing Hermes, a new cargo management system that will strongly differentiate Aviation's cargo activities from those of its competitors. In addition some £1m of new coaches were purchased to service the growing Connect business at Heathrow.

Acquisitions

The Group invested some £14m in further acquisitions within Aviation Services during the year. This included the acquisition of Fr8 BV, the largest independent cargo operation at Amsterdam airport, in September for £10.7m.

The acquisition expenditure shown in the table includes £5.1m, paid in January 2002, to settle the consideration on the December 2001 acquisition of the remaining 20% interest in Menzies World Cargo Ltd from GlobeGround (UK) Ltd.

Disposals

Disposal proceeds include the receipt in January 2002 of the £5.8m consideration for the sale of the Group's 49% interest in GlobeGround (UK) Ltd in December 2001. Net disposal proceeds of £0.4m from the sale of Mecanix were offset by £0.4m of costs on exiting Aviation Services in Germany. Since the year end the Group has sold its 49% interest in Aeroporti di Roma Handling SpA for €8.6m (£5.9m).

Pensions

The Group accounted for pension costs during the year under SSAP 24 and will continue to do so for 2003. Additional detailed disclosures required in the second year of the transitional arrangements under FRS 17 are given in Note 4. These disclosures show a net FRS 17 deficit, after deferred tax, of £31.4m. The deficit has arisen primarily as a result of the turbulence in the stock market and low interest rates, combined with a lowering of price inflation expectations.

Most defined benefit pension funds have deteriorated over the last few years, and particularly over the last few months, as equity markets have declined world-wide. The financial position of the Company remains sensitive to the financial position of its main defined benefit pension fund. In the short-term this market deterioration will adversely affect the results of the Company. The longer term impact depends on market related factors and is more difficult to assess.

For many years the surplus in the fund has allowed the Company to take a contributions holiday. In the absence of this surplus the cash cost of the UK pension scheme would have been some £4m per year. The recommencement of cash contributions to cover the regular cost is currently being assessed.

Treasury Operations

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

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

Liquidity: operations are financed by a mixture of shareholders' funds, long-term bonds, bank borrowings and trade credit. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Surplus cash is currently held, and Group policy is to make major deposits only with substantial institutions with high credit ratings. In addition to its fully drawn down term loans the Group has £54.1m of unutilised committed facilities, which mature by December 2007. The £20.0m 8.58% cumulative redeemable preference shares are due for redemption in June 2003.

Interest rate fluctuations: the Group's policy is to arrange core debt with fixed rate borrowings. The £35.0m bonds are fixed at 7.362%. Foreign currency bank borrowings totalling £74.3m are at rates ranging from 1.735% to 5.46% and 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.

In respect of the Continuing businesses, approximately 12% of Group turnover and 43% of net assets are denominated in overseas currencies. It is policy to hedge material overseas net assets by means of foreign currency loans, where practicable. 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.

	Average for 12 months to December 2002	Year end December 2002	Average for 12 months to December 2001	Year end December 2001
US$	1.502	1.602	1.434	1.448
Euro	1.592	1.539	1.603	1.642

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

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

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

Paul Dollman
Group Finance Director

William Thomson *§ (62)

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

David Mackay § (59)

was appointed Chief Executive in 1997, having joined the Board as Wholesale Managing Director in 1984 and the Group in 1964. He will retire from the Board in May 2003. He is also a director of The Malcolm Group plc.

Patrick Macdonald (40)

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

Paul Dollman (46)

was appointed as Group Finance Director on 1st October 2002. A chartered accountant, he was Finance Director for William Grant & Sons Ltd, and has also held senior financial positions with Inveresk PLC, Maddox Group plc and Clydesdale Retail Group.

Iain Callaghan (55)

joined the Group in 1965 and was appointed to the Board in January 1997. He is Managing Director of Menzies Distribution.

Peter Smith (58)

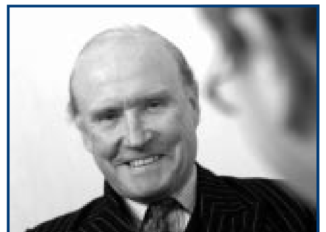
joined the Group as Chief Executive of Menzies Aviation Group in 1996. His career in aviation has included senior positions in the UK and overseas as well as a period as an independent consultant to the airline industry. He was appointed a director in 1999.

Dermot Jenkinson *+#§ (48)

was appointed to the Board in 1986 where he held various executive responsibilities prior to assuming a non-executive role in 1999. He is co-founder and Chairman of beCogent Ltd, and is Chairman of the Wren Press.

Ian Harrison *+# (46)

was appointed a non-executive director in 1987 and is Chairman of the Remuneration Committee. He is a director of Record Currency Management Limited.



Charles Ramsay *+# (66)

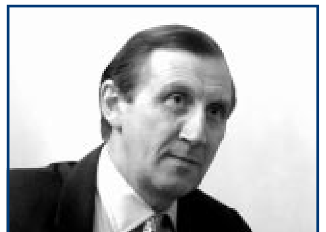
was appointed a non-executive director in 1990. He is Chairman of Cockburns of Leith Ltd.

Michael Walker *+#§ (50)

was appointed a non-executive director in 1995 and is Chairman of the Audit Committee. He is Chairman of solicitors Maclay Murray & Spens and is also a director of Securities Trust of Scotland plc, Murray VCT 2 plc and Murray VCT 3 plc.

David Coltman *# (60)

was appointed a non-executive director in 2001, and is also non-executive Chairman of Menzies Aviation Group. 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.



Adair Anderson (56)

Company Secretary

Adair Anderson was appointed Company Secretary in 1986, having joined the Group in 1974.

* Non-executive
\+ Member of Audit Committee
\# Member of Remuneration Committee
§ Member of Nominations Committee

THE FINANCIAL REPORT THIS YEAR REFLECTS THE COMPLETION OF THE STRATEGIC RESTRUCTURING OF THE GROUP OVER THE PAST FIVE YEARS.

Financial Report

Directors
The names of the directors at the date of this report are listed on page 20. In addition, Mr G B Reed retired on 2nd May 2002 and Mr M R Smith resigned on 10th September 2002. Mr P B Dollman was appointed as a director on 1st October 2002 and Mr P J Macdonald on 1st January 2003.

The directors who retire by rotation at the Annual General Meeting are Mr W R E Thomson, Mr I M Callaghan and Mr P S Smith who, being eligible, offer themselves for re-election. Mr Macdonald and Mr Dollman, who have been appointed since the previous Annual General Meeting, retire and offer themselves for election.

Each of the above directors has a service contract, as set out on page 27, with the exception of Mr Thomson who, as a non-executive director, does not have a service contract.

Substantial Shareholdings
In addition to the directors' interests, the Company has been notified of the following interests of 3% or more in its issued ordinary share capital at 17th March 2003:

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co. Limited	4,990,000	8.74
Mr J M Menzies	4,189,650	7.34
Mr D F Ramsay	2,639,878	4.62
Mrs S J Speke	2,039,920	3.57
Mrs K P Slater	1,981,552	3.47

Corporate Governance
The Board is committed to high standards of corporate governance and supports the Principles of Good Governance contained in the Combined Code set out in the Listing Rules of the Financial Services Authority. These principles are included in the Board's own Code of Practice which outlines the role and responsibilities of the Board and is regularly reviewed and updated as necessary. Other than as disclosed, the Group has complied throughout the period with the Combined Code.

Board of Directors
The Board comprises six non-executive directors, including the Chairman, and four executive directors, providing a wide range of skills and experience. Their biographies are on page 20. The roles of the Chairman, who is non-executive, and Chief Executive are separate and clearly defined, and the Board considers the majority of its non-executives to be independent. The Board has considered the appointment of a senior independent non-executive director but as the Chairman, who is non-executive, fulfils this role, it has decided not to do so at this time. This matter will be part of a review of any alterations to the Combined Code resulting from the Higgs Report.

The Board normally meets nine times a year, with a formal schedule of matters specifically reserved to it for decision. These include the approval of financial statements, acquisitions and disposals, material agreements, major non-recurring projects, treasury policies, major capital expenditures and strategic plans. It also delegates specific responsibilities with written terms of reference to the Board Committees detailed below. Information of an appropriate quality is issued in a timely manner to assist it in performing its duties. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice and training as appropriate at the expense of the Company.

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

Nominations Committee
A Nominations Committee with a majority of non-executive directors under the chairmanship of Mr Thomson is responsible for recommending new members to the Board for appointment and meets as required. The Board as a whole is responsible for the appointment of its own members and for nominating them for election by shareholders on first appointment and thereafter for re-election at three yearly intervals.

Remuneration Committee
The Report on Directors' Remuneration on pages 26 to 30 details the constitution and role of the Remuneration Committee, and how the principles of the Combined Code relating to directors' remuneration have been applied. The committee is chaired by Mr Harrison and meets at least twice a year.

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

Communication
The Group has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through its annual and interim reports, results and other announcements, and presentations to institutional shareholders, the Group seeks to present its strategy and performance in an objective and balanced manner. Information is also available through the Group's website at www.menziesgroup.com.

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

Internal Control

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

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 sets out the responsibilities of these Divisional Boards, including authority levels, reporting disciplines and responsibility for risk management and internal control. Certain activities, including treasury, taxation, insurance, pension and legal matters are controlled centrally with reports reviewed by the Board as appropriate.

Risk Identification and Review

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

Financial Reporting

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

Investment Appraisal

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

Audit Committee

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

Principal Activities

The principal activities of the Group are the wholesale distribution of newspapers and magazines and the provision of cargo and ground handling services at airports.

A review of the development of the business is contained in the Chief Executive's Review and the Financial Review on pages 5 to 19.

Going Concern

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

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 in the formulation and development of employment policies which are designed to attract, retain and motivate quality staff, and to give full consideration to the employment of disabled people. The Board believes in creating throughout the Group a culture based on sound ethical practices which is open and free from discrimination and harassment. Employees are encouraged to become involved in the financial performance of the Group; its savings-related share option scheme is open to all UK employees, of whom some 2,000 are members.

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

The Group recognises the importance of employee and management development in securing the future of the business, and its central team of professional employees provide advice, support and training to operating Divisions. Health and safety training and audits are also undertaken regularly, with an annual report to the Board.

Supplier Payment Policy

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

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

Donations

The Group made no political donations during the year. Donations to various charitable, community and arts organisations totalling £137,000 were made during the year.

Annual General Meeting

A separate document has been sent to all shareholders containing the Notice of Meeting and explaining the Special Business to be transacted at the Annual General Meeting to be held on 9th May 2003.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 31st January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and authorising the Board to set their remuneration will be proposed at the Annual General Meeting.

By order of the Board

C A Anderson
Secretary
17th March 2003

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. However, while the directors consider that this overall approach is prevalent throughout the Group, they have retained the Responsible Corporation Ltd, independent specialists in this field, to review this and to help them to maintain a reasonable and balanced CSR profile reflecting the nature of its business. Responsible Corporation has therefore worked with the Group to benchmark its CSR position, to understand its key risks and to assist it in formulating an appropriate action plan, and has endorsed the following comments:

Summary

The Group has in place, or is intending to implement in the near future, 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. Its current targets include the completion and alignment of Group and Divisional policy frameworks, and their progressive implementation within Menzies Aviation. It expects to make substantial progress in this in 2003.

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

Key CSR Factors

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

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

Health and Safety

Menzies Distribution has suitable policies in place, together with systems for implementation and feedback, supplemented by training and awareness at all staff levels.

Because of its rapid growth both organically and through a series of acquisitions of companies in diverse geographical locations and with their own national and company cultures, Menzies Aviation's formal policies and procedures are in process of being unified and will be issued throughout the business during 2003. Menzies Aviation recognises that implementation through the alignment of current working practices to best practice is critical, and in addition to a general drive to improve Health and Safety standards in all stations is running pilot Behavioural Risk Improvement schemes with a view to more general adoption and particularly in some parts of the USA and Europe.

Drug and Alcohol Abuse

Policies are being developed for issue and implementation during 2003.

Environment

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

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

The need to reduce CO_2 emissions is addressed by optimising delivery schedules in order to keep costs down to a minimum. Delivery schedule optimisation is a key business driver for Menzies Aviation's trucking and coaching services, and particularly for Menzies Distribution, which has grasped the initiative in this area as evidenced by the award received last year from The European Institute of Transport Management.

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

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

Remuneration Committee
The Remuneration Committee determines the remuneration of the executive directors on behalf of the Board and shareholders. It has formal Terms of Reference set by the Board, and its members are all non-executive directors as identified on page 20 under the chairmanship of Mr Harrison. The Company Secretary is secretary of the Committee.

Prior to his appointment as Chairman in May 2002, Mr Thomson was also a member of the Committee, which was chaired by Mr Reed until his retirement at that time.

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

The Chief Executive attends meetings as appropriate, as does Mr J S Warnock, Director of Group Personnel, who has been appointed by the Committee to provide information to assist it in its deliberations.

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

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

Remuneration Policy
The Group recognises that its continuing success depends on the quality and motivation of its employees. The policies followed by the Group aim to ensure that its remuneration practices are competitive, thereby enabling it to attract, retain and motivate executives and staff who are expected to perform at the highest levels. These practices are reviewed each year to ensure that they support the Group's business objectives and the creation of shareholder value. The Remuneration Committee follows these principles with regard to the executive directors, and also reviews the principles underlying the remuneration of senior executives.

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

Performance Related Bonuses
The executive directors participate in a bonus scheme which is linked to the achievement of financial performance targets set by the Remuneration Committee at the start of each financial year. The maximum potential payment is limited to 50% of basic salary for the Chief Executive and to 40% for the other executive directors. Bonus payments are subject to the approval of the Committee and are non-pensionable. The bonus noted on page 28 for Mr Dollman includes £50,000 payable in March 2003 as part of his recruitment.

Share Options
Share options are granted to each executive director normally on an annual basis at a level of one times salary. All grants are discretionary, and awards may be varied depending on specific circumstances. Mr Dollman, who was appointed a director on 1st October 2002, was granted options at three times salary, reflecting market conditions at the time of his recruitment.

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

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

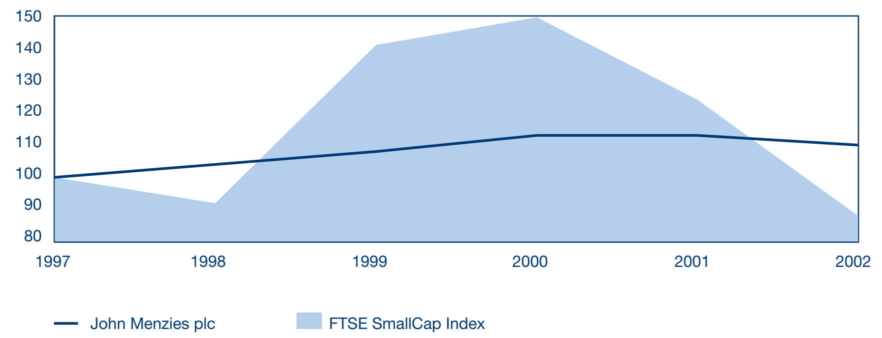
All options granted in November 2000 were subject to the condition that the growth in the Group's published headline earnings per share for the three years to April 2003 be at least equal to 6% over the rise in the Retail Price Index for that period. All other options granted since November 2000 require the Group to exceed the three-year growth target approved by the Board in February 2002.

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

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 on page 28. These are rolling contracts, terminable by the Company on two years' notice for Mr Mackay and Mr Callaghan. Following a subsequent review by the Committee, the Group's policy on notice periods was changed to an initial period of two years, reducing thereafter to 12 months' notice, with any termination payment restricted to the actual loss incurred by the director up to the maximum period stated. Mr P S Smith, Mr Dollman and Mr Macdonald each have service contracts on this basis. The service contracts for Mr Mackay, who retires in May 2003, and for Mr Callaghan provide for payment of two years' salary, the latter also restricted to an actual loss 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.

Performance Graph
The following graph compares the Company's total shareholder return for the five years to December 2002 with the equivalent performance of the FTSE SmallCap Index. It should be noted when reviewing the comparison that, during this period, the Group has successfully completed a fundamental strategic change, from a mixed retail/wholesale operation to one focused on growth in the aviation services market based on a powerful newspaper and magazine distribution operation. It has also moved from the FTSE 250 Retail sector to the SmallCap Support Services sector. These changes reduce the viability of a comparison other than with a general index. The directors consider that the most appropriate index to use for comparison is the FTSE SmallCap Index.



Non-executive Directors
The remuneration of the Chairman and the non-executive directors is determined by the Board on the recommendation of the Chief Executive on an annual basis within the limits contained in the Articles of Association and takes account of market rates based on independent advice as required. The directors involved do not have service contracts, their terms and conditions being determined by the Board on election or re-election by shareholders, and do not participate in any of the Group's bonus, share or pension schemes. Each director's date of re-election is shown on the table of remuneration on page 28.

Directors and Officers Liability Insurance
The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries.

The sections of this Report on pages 28 to 30 have been audited.

Directors' emoluments

Directors' emoluments for the year to 28th December 2002 (8 months to 29th December 2001) are:

Name (Date of service contract or re-election)	Salary/fees £'000	Bonus £'000	Car allowance £'000	Benefits £'000	**Total December 2002 £'000**	Total December 2001 (8 months) £'000
W R E Thomson (8.9.00)	82	–	–	–	82	30
D J Mackay (5.5.93)	362	185	–	15	562	240
P B Dollman (8.8.02)	56	73	3	1	133	–
I M Callaghan (13.12.96)	238	98	9	4	349	157
P S Smith (1.12.99)	195	80	7	7	289	135
D J Jenkinson (7.9.01)	23	–	–	–	23	15
I C L Harrison (2.5.02)	26	–	–	–	26	15
C A Ramsay (7.9.01)	23	–	–	–	23	15
M J Walker (2.5.02)	26	–	–	–	26	15
D A Coltman (7.9.01)	43	–	–	–	43	28
G B Reed (8.9.00)	33	–	–	–	33	67
M R Smith (12.3.99)	161	–	–	7	168	153
					1,757	870

Notes:

(1) Mr Dollman's earnings cover the period from 1st October 2002, and Mr Reed's and Mr M R Smith's to 1st May and 10th September 2002 respectively.

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

(3) Mr M R Smith purchased his company car for the net book value of £6,000 compared with the market value of £9,500.

Share options

Name	At 29th December 2001	Granted during year	Exercised during year (b)	**At 28th December 2002 or date of cessation**	Exercise price (pence)	Date exercisable from	Expiry date
D J Mackay	25,000	–	–	25,000	501	27.2.98	26.2.05
	25,000	–	–	25,000	520	1.3.99	28.2.06
	30,000	–	–	30,000	461	21.2.00	20.2.07
	123,000	–	–	123,000	492	7.4.01	6.4.08
	3,186*	–	3,186	–	304		
	18,549	–	–	18,549	391	28.1.03	27.1.10
	225,563	–	–	225,563(d)	399	20.11.03	19.11.10
	–	2,680*	–	2,680*	275	1.11.05	1.6.06
P B Dollman	–	205,166	–	205,166(e)	329	8.11.05	7.11.12
	–	2,680*	–	2,680*	275	1.11.05	1.6.06
I M Callaghan	15,000	–	–	15,000	653	25.2.97	24.2.04
	10,000	–	–	10,000	501	27.2.98	26.2.05
	10,000	–	–	10,000	520	1.3.99	28.2.06
	25,000	–	–	25,000	461	21.2.00	20.2.07
	70,300	–	–	70,300	492	7.4.01	6.4.08
	3,186*	–	3,186	–	304		
	25,000	–	–	25,000	391	28.1.03	27.1.10
	54,331	–	–	54,331(d)	399	20.11.03	19.11.10
	–	67,458	–	67,458(e)	331	10.4.05	9.4.12
	–	2,680*	–	2,680*	275	1.11.05	1.6.06
P S Smith	10,000	–	–	10,000	596	16.10.98	15.10.05
	5,000	–	–	5,000	520	1.3.99	28.2.06
	5,000	–	–	5,000	461	21.2.00	20.2.07
	5,000	–	–	5,000	404	10.10.00	9.10.07
	15,000	–	–	15,000	492	7.4.01	6.4.08
	10,000	–	–	10,000	348	18.2.02	17.2.09
	3,186*	–	3,186	–	304		
	25,000	–	–	25,000	391	28.1.03	27.1.10
	40,897	–	–	40,897(d)	399	20.11.03	19.11.10
	–	55,891	–	55,891(e)	331	10.4.05	9.4.12
	–	2,680*	–	2,680*	275	1.11.05	1.6.06
M R Smith	84,224	–	–	84,224	407	10.9.02	9.9.03
(left 10.9.02)	2,549*	–	2,549(f)	–	304		
	25,000	–	–	25,000	391	10.9.02	9.9.03
	641*	–	641(f)	–	302		
	47,619	–	–	47,619(d)	399	10.9.02	9.9.03

Notes:

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

(b) The market price on the day of exercise of options was 343.5p. The shares purchased were retained by each of the directors involved.

(c) The market price for shares in John Menzies plc ranged from 321p to 351.5p during the year, and was 327.5p at 28th December 2002.

(d) These options are subject to the performance condition that growth in Headline Earnings per Share for the three years to 30th April 2003 be equal to or greater than 6% above the level of the UK Retail Prices Index, failing which the options will lapse.

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

(f) These options lapsed during the year to 28th December 2002.

Pensions

Scheme Benefits

The executive directors are members of the Menzies Pension Fund, a defined benefit contributory scheme which provides pension on retirement at age 60 of up to two-thirds of pensionable earnings. Pensionable earnings are based on salary excluding bonuses.

Unfunded Arrangement

The pensionable salaries for Mr P S Smith and Mr Dollman are restricted as a consequence of the Finance Act 1989 and each has an unfunded pension undertaking from the Company to provide in total the same level of pension as applicable to the other executive directors. This entitlement is effective from their date of appointment as a director. Mr M R Smith, who left on 10th September 2002, enjoyed the same terms to the date on which he left service.

Pension details are as follows:

	Accrued pension			Transfer value		
Director	Age	Increase year £'000	Total entitlement at 28th December 2002 £'000	28th December 2002 £'000	29th December 2001 £'000	Increase excluding members' contributions £'000
D J Mackay	59	26	216	4,109	3,336	755
P B Dollman	46	2	2	11	Nil	8
I M Callaghan	55	10	133	1,754	1,825	(82)
P S Smith	58	7	30	515	388	118
M R Smith *(Note 4)*	47	6	10	80	164	(10)

Notes:

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

(2) 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 Gilt indices over 15 years. The movements in the transfer values shown above are therefore strongly influenced by the movements in these indices. At the year-end the UK All Share Index showed a significant reduction whereas the Gilt indices over 15 years had strengthened in relation to their 1st January 2002 values.

(3) The pension benefits disclosed above include unfunded benefits. Unfunded transfer values at 28th December 2002 totalled £148,000.

(4) The decrease in Mr M R Smith's accrued pension reflects the difference in benefits between 29th December 2001 and 10th September 2002. Thereafter, his unapproved benefits were transferred out on payment of £85,000 (less tax) to him by the Company.

Annual General Meeting

This Report will be tabled for consideration by shareholders at the Annual General Meeting to be held on 9th May 2003.

By order of the Board

C A Anderson
Secretary
17th March 2003

The interests, all ordinary shares, of the directors in the share capital of the Company at 28th December 2002 and 29th December 2001 were as follows:

		2002	2001
W R E Thomson	Beneficial	4,000	2,000
D J Mackay	Beneficial	27,837	24,651
P B Dollman	Beneficial	–	–
I M Callaghan	Beneficial	10,194	6,884
P S Smith	Beneficial	16,501	13,315
D J Jenkinson	Beneficial	2,258,360	2,258,360
		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
		2,514,885*	2,514,885*
	Non-beneficial	82,350	82,350
C A Ramsay	Beneficial	1,712,600	1,712,600
	Non-beneficial	759,286	759,286
M J Walker	Beneficial	1,000	1,000
D A Coltman	Beneficial	7,000	–
G B Reed	Beneficial	–	8,650
M R Smith	Beneficial	–	3,000

** Joint beneficial interests*

There have been no subsequent changes to these interests as at 17th March 2003.

The directors are required by law to prepare accounts 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 and cash flows of the Group for the financial year then ended.

In preparing the accounts 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 accounts on a going concern basis.

The directors confirm that these accounts comply with these requirements. 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.

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 to 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 corporate information, 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 seven provisions of the 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 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 28th December 2002 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
17th March 2003

GROUP PROFIT AND LOSS ACCOUNT
for the 52 weeks ended 28th December 2002 (34 weeks ended 29th December 2001)

	Notes	12 months to December 2002 Before exceptional items £m	Exceptional items (Note 5) £m	Total £m	8 months to December 2001 Before exceptional items £m	Exceptional items (Note 5) £m	Total £m
Turnover	2						
Continuing operations		1,196.5	–	1,196.5	760.0	–	760.0
Discontinued operation		–	–	–	55.9	–	55.9
		1,196.5	–	1,196.5	815.9	–	815.9
Less share of:							
Joint ventures		(13.7)	–	(13.7)	(9.5)	–	(9.5)
Associates		(50.0)	–	(50.0)	(42.9)	–	(42.9)
Group turnover		1,132.8	–	1,132.8	763.5	–	763.5
Net operating costs	3	(1,112.0)	(1.4)	(1,113.4)	(762.8)	(10.4)	(773.2)
Continuing operations		20.8	(0.7)	20.1	6.4	(10.4)	(4.0)
Discontinued operations		–	(0.7)	(0.7)	(5.7)	–	(5.7)
Group operating profit/(loss)		20.8	(1.4)	19.4	0.7	(10.4)	(9.7)
Share of operating profit/(loss) in							
Joint ventures		–	–	–	–	–	–
Associates		4.7	(1.0)	3.7	2.7	(0.8)	1.9
Total operating profit/(loss)	2	25.5	(2.4)	23.1	3.4	(11.2)	(7.8)
Loss on disposal of businesses	5	–	(2.3)	(2.3)	–	(11.3)	(11.3)
Profit/(loss) on ordinary activities before interest		25.5	(4.7)	20.8	3.4	(22.5)	(19.1)
Net interest payable	7	(3.1)	–	(3.1)	(2.0)	–	(2.0)
Profit/(loss) on ordinary activities before taxation		22.4	(4.7)	17.7	1.4	(22.5)	(21.1)
Taxation	8	(5.6)	–	(5.6)	(2.4)	1.9	(0.5)
Profit/(loss) after taxation		16.8	(4.7)	12.1	(1.0)	(20.6)	(21.6)
Minority interests	22	(0.1)	–	(0.1)	0.2	1.0	1.2
Profit/(loss) for the financial period		16.7	(4.7)	12.0	(0.8)	(19.6)	(20.4)
Dividends (including non-equity)	9	(12.1)	–	(12.1)	(8.0)	–	(8.0)
Retained profit/(loss) for the financial period		4.6	(4.7)	(0.1)	(8.8)	(19.6)	(28.4)
Earnings per ordinary share	10						
Headline		32.9p			0.4p		
FRS 3				18.2p			(38.7)p
Headline/FRS 3 diluted		32.9p		18.2p	0.4p		(38.7)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 weeks ended 28th December 2002 (34 weeks ended 29th December 2001)

	December 2002 £m	December 2001 £m
Profit/(loss) for the financial period	12.0	(20.4)
Currency translation	(2.7)	(0.3)
Total recognised gains/(losses) for the financial period	9.3	(20.7)

GROUP AND COMPANY BALANCE SHEETS
as at 28th December 2002 (29th December 2001)

	Notes	Group £m	Group December 2002 £m	Group £m	Group December 2001 £m	Company December 2002 £m	Company December 2001 £m
Fixed assets							
Intangible assets	11		34.6		26.6	–	–
Tangible assets	12		116.1		113.8	4.8	4.9
Investments	13						
– joint ventures							
Goodwill		8.9		10.2		–	–
Share of gross assets		4.1		3.2		–	–
Share of gross liabilities		(3.5)		(2.2)		–	–
Shareholder loans		0.6		0.6		–	–
			10.1		11.8	–	–
– associates			32.0		36.7	–	–
– other			3.6		6.9	–	3.3
– subsidiaries			–		–	98.6	95.6
Total investments			45.7		55.4	98.6	98.9
			196.4		195.8	103.4	103.8
Current assets							
Stocks			10.8		11.2	–	–
Debtors – amounts due after more than one year	14		48.6		45.0	42.5	42.5
– amounts due within one year	14		96.7		92.6	130.0	95.3
Cash at bank and in hand	16		55.7		38.8	2.6	1.6
			211.8		187.6	175.1	139.4
Creditors: amounts falling due within one year							
Bank loans and overdrafts	16		(22.3)		(18.6)	(15.7)	(10.5)
Other	15		(153.0)		(155.8)	(86.0)	(85.0)
Net current assets			36.5		13.2	73.4	43.9
Total assets less current liabilities			232.9		209.0	176.8	147.7
Creditors: amounts falling due after more than one year							
Loans and other borrowings	16		(91.5)		(66.9)	(91.5)	(66.8)
Other	15		(2.8)		(4.2)	–	–
Provisions for liabilities and charges							
Deferred taxation	19		(12.9)		(11.0)	0.3	–
Other	19		(10.2)		(10.5)	–	–
			115.5		116.4	85.6	80.9
Capital and reserves							
Called up share capital	20		14.3		14.1	14.3	14.1
Share premium account	21		5.6		4.0	5.6	4.0
Profit and loss account	21		73.5		73.6	42.7	39.8
Other reserves	21		0.6		3.3	1.6	1.6
Equity shareholders' funds			94.0		95.0	64.2	59.5
Non-equity share capital	20		21.4		21.4	21.4	21.4
Shareholders' funds	23		115.4		116.4	85.6	80.9
Minority interests	22		0.1		–	–	–
			115.5		116.4	85.6	80.9

The accounts were approved by the Board of Directors on 17th March 2003 and signed on its behalf by:

David Mackay, Chief Executive

Paul Dollman, Group Finance Director

GROUP CASH FLOW STATEMENT
for the 52 weeks ended 28th December 2002 (34 weeks ended 29th December 2001)

	Notes	£m	12 months to December 2002 £m	£m	8 months to December 2001 £m
Net cash inflow from continuing operations			22.9		7.2
Net cash outflow from discontinued operations			–		(10.2)
Net cash inflow/(outflow) from operating activities	24a		22.9		(3.0)
Dividends from joint ventures and associates			4.6		3.3
Returns on investments and servicing of finance					
Interest received		1.3		2.2	
Interest paid		(4.8)		(4.7)	
Preference dividends paid		(1.8)		(1.8)	
Net cash outflow from returns on investments and servicing of finance			(5.3)		(4.3)
Tax paid			(3.7)		(4.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(14.0)		(21.7)	
Sale of tangible fixed assets		1.5		0.9	
Net cash outflow from capital expenditure and financial investment			(12.5)		(20.8)
Acquisitions and disposals					
Investment in joint ventures and associates		(0.2)		(0.2)	
Purchase of subsidiaries		(21.5)		(7.3)	
Net (overdrafts)/cash acquired with subsidiaries	25	(0.4)		0.1	
Disposal of associate		5.8		–	
Disposal of subsidiaries		–		24.6	
Net cash disposed of with subsidiaries		–		(3.6)	
Net cash (outflow)/inflow from acquisitions and disposals			(16.3)		13.6
Equity dividends paid			(9.9)		(7.1)
Management of liquid resources					
Increase in short-term deposits		(16.9)		(2.9)	
Net cash outflow from management of liquid resources			(16.9)		(2.9)
Net cash outflow before financing			(37.1)		(25.5)
Financing					
Proceeds from shares issued		1.8		–	
Loan notes redeemed		3.3		–	
Finance leases		–		(0.3)	
Increase in loans		32.5		0.9	
Net cash inflow from financing			37.6		0.6
Increase/(decrease) in cash in the period	24b,c		0.5		(24.9)

NOTES ON ACCOUNTS

1 **Accounting policies**

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

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

Turnover
Turnover represents the invoiced value of goods sold and services provided. Turnover excludes value added and sales taxes and intercompany transactions.

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

Freehold and long leasehold properties	– over 50 years.
Short leasehold properties	– over the remaining lease term.
Plant and equipment	– over the estimated life of the asset.

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

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

Deferred taxation
The Group has adopted FRS 19 'Deferred Tax'. Under FRS 19, 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.

The adoption of FRS 19 has not resulted in prior year adjustment or restatement of previously reported figures.

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 20 years. 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 period, with the exchange difference between average rates and the rates ruling at the balance sheet date being taken to reserves.

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

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

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

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

2 Segmental analysis

	Turnover		Pre-exceptional operating profit/(loss)		Net assets	
	12 months to December 2002 £m	8 months to December 2001 £m	12 months to December 2002 £m	8 months to December 2001 £m	December 2002 £m	December 2001 £m
By class of business						
Distribution Services	959.6	594.4	28.7	16.5	30.2	31.5
Aviation Services	236.9	165.6	3.7	(3.8)	137.0	123.2
	1,196.5	760.0	32.4	12.7	167.2	154.7
Central services	–	–	(7.0)	(4.7)	–	–
Pension credit/prepayment	–	–	3.6	3.3	48.6	45.0
Continuing operations	1,196.5	760.0	29.0	11.3	215.8	199.7
Goodwill amortisation	–	–	(3.5)	(2.2)	–	–
Discontinued operation	–	55.9	–	(5.7)	–	–
	1,196.5	815.9	25.5	3.4	215.8	199.7
Reconciliation of net assets:						
Net debt					(58.2)	(46.8)
Unallocated net liabilities					(42.1)	(36.5)
Net assets					115.5	116.4
By geographical origin						
United Kingdom	1,053.2	662.8	21.1	9.9	122.9	112.2
Continental Europe	62.9	43.5	2.3	(0.8)	26.1	16.3
Americas	57.5	40.0	(0.6)	(0.3)	29.3	29.9
Rest of the World	22.9	13.7	2.7	0.3	37.5	41.3
Continuing operations	1,196.5	760.0	25.5	9.1	215.8	199.7
Discontinued operation – United Kingdom	–	55.9	–	(5.7)	–	–
	1,196.5	815.9	25.5	3.4	215.8	199.7
Joint Ventures and Associates included above						
Distribution Services						
Joint ventures	8.6	6.0	(0.2)	–	0.7	0.9
Associates	14.1	9.6	0.1	–	0.8	0.8
Aviation Services						
Joint ventures	5.1	3.5	0.6	0.4	9.4	10.9
Associates	35.9	33.3	6.2	3.8	31.1	35.9
	63.7	52.4	6.7	4.2	42.0	48.5
Goodwill amortisation	–	–	(2.0)	(1.5)	–	–
	63.7	52.4	4.7	2.7	42.0	48.5
Joint Ventures and Associates by geographical origin						
United Kingdom	22.9	20.6	(0.2)	(0.4)	1.7	1.9
Continental Europe	25.9	21.7	0.9	0.3	5.7	6.9
Americas	4.9	3.5	0.3	0.1	9.2	10.7
Rest of the World	10.0	6.6	3.7	2.7	25.4	29.0
	63.7	52.4	4.7	2.7	42.0	48.5

Turnover by geographical origin and destination do not materially differ.

Goodwill amortisation is attributable to Distribution Services – £0.4m (2001: nil) and Aviation Services – £3.1m (2001: £2.2m).

Discontinued operations comprise Early Learning Centre (sold in September 2001).

Due to the timing of the acquisitions their contribution during the year was not material.

3 Net operating costs

	Continuing £m	Discontinued £m	12 months to December 2002 £m	Continuing £m	Discontinued £m	8 months to December 2001 £m
Goods for resale and consumables	885.3	–	885.3	554.9	40.6	595.5
Other operating charges	48.7	–	48.7	34.9	10.3	45.2
Employment costs (Note 4)	162.5	–	162.5	101.8	8.6	110.4
Goodwill amortisation (Note 11)	1.5	–	1.5	0.7	–	0.7
Depreciation (Note 12)	14.0	–	14.0	8.9	2.1	11.0
Exceptional operating expenses (Note 5)	0.7	0.7	1.4	10.4	–	10.4
	1,112.7	0.7	1,113.4	711.6	61.6	773.2
Other operating charges include:						
Hire charges – plant and machinery	6.7	–	6.7	3.8	–	3.8
Rent of properties	18.5	–	18.5	11.9	8.2	20.1
During the period PricewaterhouseCoopers LLP earned the following fees:						
Statutory UK audit			0.3			0.3
Overseas audit			0.2			0.2
Due diligence work:						
– United Kingdom			0.1			0.2
– Rest of the World			0.1			–

The auditors' remuneration for the parent company was £15,000 (December 2001: £15,000).

4 Employees

	12 months to December 2002 £m	8 months to December 2001 £m
Wages and salaries	150.3	103.2
Social security costs	14.5	9.4
	164.8	112.6
Pension credit (net)	(2.3)	(2.2)
	162.5	110.4

The average number of full time equivalent persons employed by Group subsidiaries during the period was:

	12 months to December 2002 number	8 months to December 2001 number
Distribution Services	4,037	3,867
Aviation Services	5,874	5,661
Central services	59	65
Continuing operations	9,970	9,593
Discontinued operation	–	1,170
	9,970	10,763

The numbers above include 4,424 full time equivalent persons employed outside the UK (December 2001: 4,180).

4 Employees (continued)

Pension schemes

With regard to the principal Group 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 of a defined contribution nature. The profit and loss charge for defined contribution schemes represents the contributions made. A subsidiary company participates in the UK defined benefit scheme of a third party and accordingly the profit and loss charge in respect of this particular scheme represents the contributions made.

SSAP 24 regular pension costs

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

	12 months to December 2002 £m	8 months to December 2001 £m
Menzies Pension Fund		
Regular pension cost	2.8	2.6
Interest on balance sheet prepayment	(3.7)	(1.9)
Amortisation of, and interest on, additional surplus	(2.7)	(4.0)
Increase in balance sheet prepayment	(3.6)	(3.3)
Other schemes	1.3	1.1
	(2.3)	(2.2)

In respect of the Menzies Pension Fund, the Actuary prepared a valuation update as at 31st December 2001 when the market value of the scheme's assets was £156.0m. The actuarial value represented 166% of the value of the benefits that had accrued to members, yielding a surplus of £61.8m. The next actuarial valuation will be prepared as at April 2004.

Interest on the balance sheet prepayment is calculated using a market related rate of investment return of 8.25%. The additional surplus over the balance sheet prepayment, which also earns interest at this rate, is credited to the profit and loss account, and brought onto the balance sheet, on a straight line basis over the anticipated remaining service lives of the current members. The assumptions used in the actuarial valuation to determine the valuation results were:

	%
Rate of return on investments	8.25
Rate of increase in salaries	3.0
Rate of increase in pensions	3.25
Rate of increase in price inflation	2.5

In view of the substantial surplus no employer contributions were payable during the periods covered by the Accounts.

4 Employees (continued)

FRS 17 disclosures

The Actuary also undertook an actuarial valuation of the Menzies Pension Fund as at 31st December 2002 (2001: 29th December) for the purposes of disclosure under FRS 17.

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

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

Net pension asset

The assets in the scheme and the expected rates of return as at 31st December 2002 were as follows:

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

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

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

4 **Employees (continued)**

FRS 17 disclosures

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

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

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

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

Movement in the surplus/(deficit) during the year	£m
Surplus in the Fund brought forward	10.1
Current service cost	(4.9)
Contributions	–
Past service costs	–
Net financial return	4.1
Actuarial loss	(54.1)
Deficit in the Fund carried forward	(44.8)

Movement in FRS 17 surplus/(deficit)

The increase in the net pension liability calculated under FRS 17 is principally attributable to a reduction in the market value of assets, a reduction in long-term AA bond yields used to discount future liabilities and a lowering of price inflation expectations.

The Fund's assets principally comprise equities and these have been subject to significant fluctuations. During the year the FTSE-All-Share Index used as a benchmark for the Fund's equity investment assets fell by 25% from 2,524 to 1,894.

FRS 17 five year history

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

5 **Exceptional items**

	Notes	12 months to December 2002 £m	8 months to December 2001 £m
Exceptional operating expenses:			
Aviation Services	a	(0.7)	(9.0)
Distribution Services	b	–	(1.4)
Discontinued operation	c	(0.7)	–
		(1.4)	(10.4)
Aviation Services – associate	d	(1.0)	(0.8)
Total exceptional operating expenses		(2.4)	(11.2)
Non-operating exceptional items:			
Net loss on disposal of businesses	e	(2.3)	(11.3)
Total non-operating exceptional items		(2.3)	(11.3)
Total exceptional items		(4.7)	(22.5)

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

(b) Rationalisation costs – £0.5m and additional provision in respect of an investment in an internet magazine subscription service – £0.9m.

(c) On 30th October 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) The Group's share of the cost of reducing excess capacity in Aeroporti di Roma Handling SpA.

(e) 2002: On 28th February the Group sold Mecanix, a vehicle repair and maintenance facility at Heathrow, at a loss of £0.2m.
On 31st March the Group closed its Aviation Services operation in Korea at a cost of £1.0m.
On 1st April the Group sold its Aviation Services operation in Germany at a loss of £1.1m.
2001: On 28th September Early Learning Centre was sold for £29.6m. The disposal generated a loss of £4.2m before writing off goodwill of £8.5m previously charged to reserves.
On 21st December the Group, in selling its 49% interest in GlobeGround (UK) Limited for £5.8m, generated a gain of £1.4m.

6 **Directors**

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 26 to 31.

7 Interest

	12 months to December 2002 £m	8 months to December 2001 £m
Receivable:		
Bank deposits	(1.4)	(1.9)
Share of associates	(0.1)	–
	(1.5)	(1.9)
Payable:		
Bank loans and overdrafts	4.6	3.9
Net interest payable	3.1	2.0

8 Taxation

(a) Analysis of charge in period	12 months to December 2002 £m	8 months to December 2001 £m
Current tax		
UK corporation tax on profits for the period	4.5	(1.6)
Overseas tax	1.2	1.0
Adjustments to prior periods' liabilities	(3.8)	–
Share of joint ventures	0.2	0.2
Share of associates	1.6	0.9
Total current tax	3.7	0.5
Deferred tax		
Origination and reversal of timing differences	1.9	(0.1)
Adjustments to prior periods' liabilities	–	0.1
Total deferred tax	1.9	–
Tax on profit on ordinary activities	5.6	0.5

The tax charge includes a credit of £nil (December 2001: £1.9m) in respect of exceptional items.

The tax charge for the period is lower (2001: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

(b) Factors affecting tax charge for the period	12 months to December 2002 £m	8 months to December 2001 £m
Profit/(loss) on ordinary activities before tax	17.7	(21.1)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	5.3	(6.3)
Effects of:		
Permanent differences (principally goodwill amortisation and exceptional items)	3.4	5.7
Capital allowances in excess of depreciation and other timing differences	(0.8)	1.0
Pension prepayment	(1.1)	(1.0)
Utilisation of tax losses	(1.3)	(0.7)
Adjustments to prior periods' liabilities	(3.8)	–
Unrelieved overseas losses	1.6	2.1
Higher tax rates on overseas earnings	0.4	(0.3)
Current tax charge for period	3.7	0.5

8 Taxation (continued)

(c) Factors that may affect future tax charges

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

Some of the Group's overseas operations, particularly in the Netherlands, Hong Kong and Germany, 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 £17.3m (2001: £13.4m) 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 £8.5m (2001: £8.5m).

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

9 Dividends

	12 months to December 2002 £m	8 months to December 2001 £m
Dividends on equity shares:		
Ordinary – Interim paid, 5.5p (December 2001: 5.5p) per share	3.1	3.1
– Final proposed, 12.6p (December 2001: 6.6p) per share	7.2	3.7
Dividends on non-equity shares:		
Preference shares	1.8	1.2
	12.1	8.0

Dividends of £0.1m (December 2001: £0.1m) were waived by employee share trusts (Note 13) during the period.

10 Earnings per share

	Headline		Post exceptional items	
	12 months to December 2002 £m	8 months to December 2001 £m	12 months to December 2002 £m	8 months to December 2001 £m
Operating profit	25.5	3.4	25.5	3.4
add back: goodwill amortisation	3.5	2.2	–	–
Exceptional items	–	–	(4.7)	(22.5)
Interest	(3.1)	(2.0)	(3.1)	(2.0)
Profit/(loss) before taxation	25.9	3.6	17.7	(21.1)
Taxation	(5.6)	(2.4)	(5.6)	(0.5)
Minority interests	(0.1)	0.2	(0.1)	1.2
Preference dividends	(1.8)	(1.2)	(1.8)	(1.2)
Earnings for the period	18.4	0.2	10.2	(21.6)
Headline				
Earnings per ordinary share (pence)	32.9	0.4		
Diluted earnings per ordinary share (pence)	32.9	0.4		
FRS 3				
Earnings per ordinary share (pence)			18.2	(38.7)
Diluted earnings per ordinary share (pence)			18.2	(38.7)
Number of ordinary shares in issue (millions)				
Weighted average	55.903	55.761		
Diluted weighted average	55.941	55.780		

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

11 Intangible assets – goodwill

	Joint ventures £m	Associates £m	Subsidiaries £m	Total £m
Cost				
At 29th December 2001	10.8	31.3	28.5	70.6
Acquisitions (Note 25)	–	–	10.2	10.2
Currency translation	(0.8)	(2.7)	(0.7)	(4.2)
At 28th December 2002	10.0	28.6	38.0	76.6
Amortisation				
At 29th December 2001	0.6	1.6	1.9	4.1
Charge for the period	0.5	1.5	1.5	3.5
At 28th December 2002	1.1	3.1	3.4	7.6
Net book value				
At 28th December 2002	8.9	25.5	34.6	69.0
At 29th December 2001	10.2	29.7	26.6	66.5

Goodwill arising on the earlier acquisition of Ogden Ground Services and Fr8 BV continues to remain provisional pending finalisation of the formal completion accounts process, which may result in an adjustment to the consideration.

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 29th December 2001	37.8	14.4	18.4	91.1	161.7	5.6	0.1	0.3	6.0
Acquisitions	–	–	–	6.3	6.3	–	–	–	–
Additions	1.5	–	1.2	11.6	14.3	–	–	–	–
Transfers	(1.8)	(13.9)	13.9	1.8	–	–	–	–	–
Disposals	(0.2)	–	(1.0)	(18.6)	(19.8)	–	–	–	–
Currency translation	(0.1)	–	0.5	(2.0)	(1.6)	–	–	–	–
At 28th December 2002	37.2	0.5	33.0	90.2	160.9	5.6	0.1	0.3	6.0
Depreciation									
At 29th December 2001	2.9	0.8	4.5	39.7	47.9	0.9	–	0.2	1.1
Charge for the period	0.7	–	1.9	11.4	14.0	0.1	–	–	0.1
Accelerated write down	–	–	0.3	0.3	0.6	–	–	–	–
Transfers	–	(0.7)	0.7	–	–	–	–	–	–
Disposals	–	–	(0.6)	(16.5)	(17.1)	–	–	–	–
Currency translation	–	–	–	(0.6)	(0.6)	–	–	–	–
At 28th December 2002	3.6	0.1	6.8	34.3	44.8	1.0	–	0.2	1.2
Net book value									
At 28th December 2002	33.6	0.4	26.2	55.9	116.1	4.6	0.1	0.1	4.8
At 29th December 2001	34.9	13.6	13.9	51.4	113.8	4.7	0.1	0.1	4.9

13 Investments

	Group						Company		
	Shares in joint ventures £m	Loans to joint ventures £m	Shares in associates £m	Own shares held £m	Other £m	Total £m	Other £m	Subsi-diaries £m	Total £m
Cost									
At 29th December 2001	1.0	0.6	7.0	3.6	3.3	15.5	3.3	95.6	98.9
Loan notes redeemed	–	–	–	–	(3.3)	(3.3)	(3.3)	–	(3.3)
New investments	–	–	0.2	–	–	0.2	–	3.0	3.0
Share of profits after tax	0.2	–	3.8	–	–	4.0	–	–	–
Dividends received	(0.5)	–	(4.1)	–	–	(4.6)	–	–	–
Currency translation	(0.1)	–	(0.4)	–	–	(0.5)	–	–	–
At 28th December 2002	0.6	0.6	6.5	3.6	–	11.3	–	98.6	98.6
Goodwill									
At 29th December 2001	10.2	–	29.7	–	–	39.9	–	–	–
Amortisation	(0.5)	–	(1.5)	–	–	(2.0)	–	–	–
Currency translation	(0.8)	–	(2.7)	–	–	(3.5)	–	–	–
At 28th December 2002	8.9	–	25.5	–	–	34.4	–	–	–
At 28th December 2002	9.5	0.6	32.0	3.6	–	45.7	–	98.6	98.6
At 29th December 2001	11.2	0.6	36.7	3.6	3.3	55.4	3.3	95.6	98.9

Joint ventures

The Group holds:

a 50% interest in the ordinary share capital of Ogden & Talma Aviation Services of Peru SA

a 50% interest in the ordinary share capital of Dolphin Logistics Limited

a 33.3% interest in the ordinary share capital of Eurobip, a border inspection post facility at London Heathrow.

Associates

The Group holds:

a 29% interest in the ordinary share capital of MASC-Ogden Aviation Services (Macau) Limited

a 49% interest in the ordinary share capital of Aeroporti di Roma Handling SpA (Note 28)

a 30% interest in the ordinary share capital of Worldwide Magazine Distribution Limited

a 26.7% interest in the ordinary share capital of TC Cox and Son (Tonbridge) Limited

a 29% interest in the ordinary share capital of Great Wall Menzies International Transportation Limited.

Own shares held

The Company's ordinary shares are held in trust for an employee share scheme and are treated as assets of the Group. The trusts are funded by loans from a Group subsidiary. At 28th December 2002 the trusts held 800,238 (December 2001: 797,770) shares with a market value of £2,620,779 (December 2001: £2,772,251).

14 Debtors

	Group		Company	
	December 2002 £m	December 2001 £m	December 2002 £m	December 2001 £m
Due within one year				
Trade debtors	73.9	65.9	–	–
Other debtors	13.9	17.2	4.9	–
Prepayments and accrued income	8.9	9.5	0.6	0.6
Amounts owed by Group companies	–	–	124.5	94.7
	96.7	92.6	130.0	95.3
Due after more than one year				
Pension prepayment (Note 4)	48.6	45.0	–	–
Amounts owed by Group companies	–	–	42.5	42.5
	48.6	45.0	42.5	42.5

15 Creditors

	Group		Company	
	December 2002 £m	December 2001 £m	December 2002 £m	December 2001 £m
Due within one year				
Trade creditors	84.2	85.7	–	–
Accruals and deferred income	49.3	48.8	9.9	3.5
Corporation tax	8.2	10.7	–	–
Other taxes and social security costs	3.9	3.6	–	–
Dividends	7.3	6.9	7.3	6.9
Unsecured loan stock	0.1	0.1	–	–
Amounts owed to Group companies	–	–	68.8	74.6
	153.0	155.8	86.0	85.0
Due after more than one year				
Accruals and deferred income	2.8	4.2	–	–

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 16.

	Group		Company	
	December 2002 £m	December 2001 £m	December 2002 £m	December 2001 £m
Maturity profile				
Borrowings due within one year:				
Bank loans and overdrafts	22.3	18.6	15.7	10.5
Unsecured loan stock	0.1	0.1	–	–
Total borrowings due within one year	22.4	18.7	15.7	10.5
Borrowings due after one year:				
Loans repayable between one and two years	5.8	6.5	5.8	6.4
Loans repayable between two and five years	62.5	19.2	62.5	19.2
Loans repayable after five years	23.2	41.2	23.2	41.2
Total borrowings due after one year	91.5	66.9	91.5	66.8
Total borrowings	113.9	85.6	107.2	77.3
Less: Cash at bank and in hand	55.7	38.8	2.6	1.6
Net debt	58.2	46.8	104.6	75.7

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 28th December 2002, the Group had undrawn committed facilities of £54.1m (December 2001: £34.0m) with the following expiry profile:

	December 2002 £m	December 2001 £m
Less than one year	37.6	26.1
Between one and two years	–	7.9
Between two and five years	16.5	–
	54.1	34.0

In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £2.7m (December 2001: £2.0m).

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 28th December 2002.

	December 2002 Book Value £m	December 2002 Fair Value £m	December 2001 Book Value £m	December 2001 Fair Value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings	22.4	22.4	18.7	18.7
Medium term borrowings	68.3	68.3	25.7	25.7
Long term borrowings	23.2	23.2	41.2	41.2
	113.9	113.9	85.6	85.6
Cash and deposits	55.7	55.7	38.8	38.8
Derivative financial instruments held to manage interest rate profile and currency transaction exposure:				
Interest rate swap	–	–	–	0.3

The fair value of the interest rate swap was 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 on instruments used for hedging, and the movements therein, are as follows:

	Gains £m
Unrecognised gains on hedges arising before 29th December 2001 that were not recognised by 29th December 2001	0.3
Gains arising in the year to 28th December 2002 that were not recognised in the year	–
Gains recognised in this year's profit and loss account that arose in previous periods and were unrecognised at 29th December 2001	(0.3)
Unrecognised gains on hedges as at 28th December 2002	–

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 28th December 2002 is shown below.

Currency	Floating rate financial assets £m	Fixed rate financial assets £m	December 2002 Total financial assets £m	Floating rate financial assets £m	Fixed rate financial assets £m	December 2001 Total financial assets £m
Sterling	44.5	1.6	46.1	20.2	10.3	30.5
Euro	3.7	–	3.7	2.9	1.2	4.1
US dollar	4.0	–	4.0	2.3	0.3	2.6
Hong Kong dollar	0.2	–	0.2	0.3	–	0.3
Other	1.7	–	1.7	0.8	0.5	1.3
	54.1	1.6	55.7	26.5	12.3	38.8

The floating rate financial assets of £54.1m (December 2001: £26.5m) are at interest rates linked to Base rates and LIBID. The fixed rate financial assets of £1.6m (December 2001: £12.3m) are on 2 month fixed deposit at 3.8125% (December 2001: £10.0m on 3 month fixed deposit at 3.94% and the remaining £2.3m are at interest rates based on 2 month LIBID).

Currency	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	December 2002 Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	December 2001 Total financial liabilities £m
Sterling	4.7	34.9	39.6	5.0	34.8	39.8
Euro	11.4	–	11.4	3.8	–	3.8
US dollar	56.1	–	56.1	41.1	–	41.1
Hong Kong dollar	0.5	–	0.5	0.5	–	0.5
Czech koruna	4.5	–	4.5	–	–	–
Other	1.8	–	1.8	0.4	–	0.4
	79.0	34.9	113.9	50.8	34.8	85.6

Floating rate financial liabilities of £79.0m (December 2001: £50.8m) comprise bank loans, overdrafts and unsecured loan stock. Interest on these liabilities is determined by reference to short term rates linked to Base rates and LIBOR.

Fixed rate financial liabilities comprise loans repayable between 2007 and 2009 of £34.9m (December 2001: £34.8m) on which interest is at a fixed rate of 7.362%.

17 Operating lease commitments

	Group			
	Property		Other	
	December 2002 £m	December 2001 £m	December 2002 £m	December 2001 £m
Annual commitments in respect of leases which expire:				
within one year	1.3	1.4	1.7	0.4
within two to five years	7.5	5.7	3.3	2.6
after five years	9.5	10.7	–	–
	18.3	17.8	5.0	3.0

The Company had no operating lease commitments (December 2001: £nil).

18 Capital commitments

	Group		Company	
	December 2002 £m	December 2001 £m	December 2002 £m	December 2001 £m
Contracted but not provided	3.4	3.6	–	–

19 Provisions for liabilities and charges

	Group	
	December 2002 £m	December 2001 £m
Deferred taxation		
Provided:		
Accelerated capital allowances and other timing differences	(1.7)	(2.5)
Pension prepayment	14.6	13.5
	12.9	11.0
Movement in period:		
Profit and loss charge (Note 8)	1.9	–
Disposals	–	(0.7)
	1.9	(0.7)

Other	Property related £m
At 29th December 2001	10.5
Provided during year	1.8
Utilised during year	(2.1)
At 28th December 2002	10.2

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

Contingent liabilities

There are contingent liabilities, including those in respect of disposed and acquired businesses (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 a voluntary petition for Chapter 11 reorganisation in the US. In addition, in the normal course of business the Company has guaranteed certain trading obligations of its subsidiaries.

20 Share capital

	December 2002 £m	December 2001 £m
Authorised		
73,056,248 Ordinary shares of 25p each	18.3	18.3
20,000,000 8.58% Cumulative redeemable preference shares of £1 each, redeemable at par on 20th June 2003	20.0	20.0
1,735,938 9% Cumulative preference shares of £1 each	1.7	1.7
	40.0	40.0
Allotted, called up and fully paid		
57,108,336 Ordinary shares of 25p each, fully paid (2001: 56,566,105 shares)	14.3	14.1
20,000,000 8.58% Cumulative redeemable preference shares of £1 each, fully paid, redeemable at par on 20th June 2003 (2001: 20,000,000 shares)	20.0	20.0
1,394,587 9% Cumulative preference shares of £1 each, fully paid (2001: 1,394,587 shares)	1.4	1.4
	35.7	35.5

As a result of options being exercised, 542,231 Ordinary shares having a nominal value of £0.2m were issued during the period at a share premium of £1.6m.

At 28th December 2002 options granted and outstanding under the Company's executive share option schemes amounted to 2,663,298 ordinary shares (December 2001: 2,518,493). These options are exercisable at varying dates up to 8th November 2012 and at prices varying from 329p to 653p per share.

21 Reserves

	Group				Company		
	Share premium account £m	Profit and loss account £m	Currency reserve £m	Capital redemption reserve £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m
At 29th December 2001	4.0	73.6	1.7	1.6	4.0	39.8	1.6
Movement during the year	1.6	–	(2.7)	–	1.6	–	–
Profit for the year	–	12.0	–	–	–	15.0	–
Dividends	–	(12.1)	–	–	–	(12.1)	–
At 28th December 2002	5.6	73.5	(1.0)	1.6	5.6	42.7	1.6

The cumulative amount of goodwill resulting from acquisitions undertaken before April 1998, which has been written off to reserves, is £28.9m (December 2001: £28.9m).

22 Minority interests

	December 2002 £m	December 2001 £m
At beginning of period	–	6.2
Share of profit/(loss) after tax	0.1	(1.2)
Disposals	–	(5.0)
At end of period	0.1	–

23 Reconciliation of movements in shareholders' funds

	December 2002 £m	December 2001 £m
Retained loss for the financial period	(0.1)	(28.4)
Goodwill previously written off to reserves	–	8.5
New share capital issued (Note 20)	1.8	–
Currency translation	(2.7)	(0.3)
Net decrease to shareholders' funds	(1.0)	(20.2)
Shareholders' funds at beginning of period	116.4	136.6
Shareholders' funds at end of period	115.4	116.4

24 Cash flow

		12 months to December 2002 £m	Continuing £m	Discontinued £m	8 months to December 2001 £m
a	**Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities**				
	Total operating profit/(loss)	25.5	9.1	(5.7)	3.4
	Depreciation	14.0	8.9	2.1	11.0
	Goodwill amortisation	1.5	0.7	–	0.7
	Share of operating profit in joint ventures	–	–	–	–
	Share of operating profit in associates	(4.7)	(2.7)	–	(2.7)
	Cash spend on exceptional items	(4.9)	(6.7)	(1.1)	(7.8)
	Movement on pension prepayment	(3.6)	(3.3)	–	(3.3)
	Other items not involving the movement of cash	0.4	0.2	–	0.2
	Decrease/(increase) in stocks	0.4	(3.6)	(2.5)	(6.1)
	Decrease in debtors	0.4	5.3	2.1	7.4
	Decrease in creditors	(6.1)	(0.7)	(5.1)	(5.8)
	Net cash inflow/(outflow) from operating activities	22.9	7.2	(10.2)	(3.0)

Due to the timing of the acquisitions their operating cash flows during the year were not material.

		December 2002 £m	December 2001 £m
b	**Reconciliation of net cash flow to movement in net debt**		
	Increase/(decrease) in cash in the period	0.5	(24.9)
	Increase in short term deposits	17.0	2.9
	Increase in debt and finance leases	(28.9)	(0.6)
	Movement in net debt in the period	(11.4)	(22.6)
	Net debt at beginning of period	(46.8)	(24.2)
	Net debt at end of period	(58.2)	(46.8)

24 Cash flow (continued)

	December 2001 £m	Cash flows £m	Currency translation £m	December 2002 £m
c Analysis of changes in net debt				
Cash at bank and in hand	12.5	(0.1)	–	12.4
Bank overdrafts	(7.6)	0.6	–	(7.0)
	4.9	0.5	–	5.4
Short term deposits	26.3	16.9	0.1	43.3
Bank loans due within one year	(11.0)	(5.0)	0.7	(15.3)
Loan stock due within one year	(0.1)	–	–	(0.1)
Debt due after one year	(66.9)	(27.5)	2.9	(91.5)
	(46.8)	(15.1)	3.7	(58.2)

25 Acquisitions and disposals

Acquisitions

	Wyng Group Ltd £m	Fr8 BV £m	JASA Pty Ltd £m	Other £m	Fair value adjustments £m	Total £m
Net assets acquired:						
Tangible fixed assets (Note 12)	0.1	6.2	1.7	–	(1.7)	6.3
Debtors	1.0	6.4	0.6	–	(0.2)	7.8
Overdrafts	–	(0.4)	–	–	–	(0.4)
Creditors	(1.1)	(6.3)	(0.5)	–	(2.0)	(9.9)
	–	5.9	1.8	–	(3.9)	3.8
Satisfied by:						
Cash	1.6	10.2	0.8	0.7	–	13.3
Acquisition costs	0.1	0.5	0.1	–	–	0.7
	1.7	10.7	0.9	0.7	–	14.0
Goodwill (Note 11)	1.7	4.8	(0.9)	0.7	3.9	10.2

On 1st May 2002 the Group acquired Wyng Group Limited.

On 6th September 2002 the Group acquired Fr8 BV.

On 13th September 2002 the Group acquired Jardine Airport Services Australia Pty Limited.

On 15th October 2002 the Group acquired the 19.9% minority interest in Menzies Aviation Group (Asia Pacific) Limited from Kleinwort Benson General Investment Company Limited for US$1m.

The fair value adjustments of £3.9m (Fr8 BV – £3.1m and JASA Pty Ltd – £0.8m) relate to the write down of fixed assets and certain working capital adjustments to align accounting policies. The goodwill remains provisional pending finalisation of the completion accounts process.

25 Acquisitions and disposals (continued)

Disposals

	Mecanix £m	MAG Holdings (Germany) GmbH £m	Total £m
Net assets disposed:			
Tangible fixed assets	0.6	0.2	0.8
Debtors	–	0.7	0.7
Creditors	–	(0.1)	(0.1)
	0.6	0.8	1.4
Disposal costs	0.2	0.4	0.6
Consideration received in cash	(0.6)	(0.1)	(0.7)
Loss on disposal	0.2	1.1	1.3

On 28th February 2002 the Group sold Mecanix, a vehicle repair and maintenance facility at London Heathrow.

On 1st April 2002 the Group sold its Aviation Services operation in Germany.

26 Related party transactions

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

Related party	Group share-holding %	Sales to related party £m	Purchases from related party £m	Amounts owed by related party at 28th December 2002 £m
Dolphin Logistics Limited	50	0.2	–	–
Ogden & Talma Aviation Services of Peru SA	50	0.8	–	0.1
Eurobip	33.3	–	0.2	–

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.

During the year the Group also incurred fees for legal services amounting to £0.1m (December 2001: £0.2m) to Maclay Murray & Spens, of which Mr M J Walker, a director of the Company, is a partner.

27 Subsidiary companies

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

28 Post balance sheet event

On 10th March 2003 the Group sold its 49% interest in Aeroporti di Roma Handling SpA for a consideration of €8.6m (£5.9m).

	12 months to December 2002 £m	8 months to December 2001 £m	12 months to April 2001 £m	2000* £m	1999 £m
Turnover					
(excluding joint ventures and associates)					
Distribution Services	936.9	578.8	844.2	847.5	814.4
Aviation Services	195.9	128.8	137.1	67.6	42.4
Continuing operations	1,132.8	707.6	981.3	915.1	856.8
Discontinued operations	–	55.9	306.8	383.0	422.5
	1,132.8	763.5	1,288.1	1,298.1	1,279.3
Operating profit					
Distribution Services	28.7	16.5	26.3	30.0	30.8
Aviation Services	3.7	(3.8)	4.3	2.2	1.7
	32.4	12.7	30.6	32.2	32.5
Central services	(7.0)	(4.7)	(6.9)	(7.1)	(6.9)
Pension credit	3.6	3.3	5.0	5.0	4.0
Continuing operations	29.0	11.3	28.7	30.1	29.6
Goodwill amortisation	(3.5)	(2.2)	(1.7)	(0.4)	–
Discontinued operations	–	(5.7)	22.9	4.2	1.2
Total operating profit	25.5	3.4	49.9	33.9	30.8
Exceptional items	(4.7)	(22.5)	(34.8)	2.0	(15.2)
Profit/(loss) before interest	20.8	(19.1)	15.1	35.9	15.6
Interest payable	(3.1)	(2.0)	–	(2.6)	(2.2)
Profit/(loss) before taxation	17.7	(21.1)	15.1	33.3	13.4
Per ordinary share					
Dividends	18.1p	12.1p	18.1p	17.1p	15.8p
Headline earnings	32.9p	0.4p	62.8p	37.9p	32.3p
FRS 3 earnings	18.2p	(38.7)p	2.7p	48.0p	13.9p

*53 week year

Internet

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

Registrars

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

Capita IRG plc,
Attn Simon Stafford,
Bourne House,
34 Beckenham Road,
Beckenham,
Kent,
BR3 4TU

Tel: 0870 162 3100
Fax: 0208 639 2342
E-mail: ssd@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 and on FT Cityline by dialling 0906 8433339 (calls cost 50p per minute).

Low Cost Dealing Service

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

Alternatively write to:
Menzies Group Share Dealing Service,
Stocktrade,
PO Box 1076,
10 George Street,
Edinburgh,
EH2 2PZ

Payment of Dividends

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

Dividends are paid as follows:

Ordinary shares	
Interim	Final
30th November	30th June

9% Preference shares	
Interim	Final
1st April	1st October

8.58% Preference shares	
Interim	Final
20th June	20th December

The final dividend on the ordinary shares will be payable to shareholders on the register at 6th June 2003.

Investor Relations

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

Head of Investor Relations,
John Menzies plc,
108 Princes Street,
Edinburgh,
EH2 3AA

Tel: 0131 459 8181
Fax: 0131 226 3752
E-mail: ir@menziesgroup.com

REPORT BY PRICEWATERHOUSECOOPERS LLP

to the Directors of John Menzies plc on the pro forma statements

We report on the pro forma statements set out on pages 61 to 63 which have been prepared to enable comparability of accounting periods following the change in the financial year end in 2001. The statements have been prepared for illustrative purposes only and do not constitute statutory accounts. This report, including the opinion, has been prepared for and only for the company for management purposes 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.

Responsibilities

You have requested us to undertake a review of the basis of preparation of the pro forma statements and to report to you on whether, in our opinion, the pro forma statements have been properly compiled on the basis stated on page 62.

It is the responsibility solely of the Directors of John Menzies plc to prepare the pro forma statements in accordance with the basis set out in the Note to the pro forma statements on page 62.

Basis of opinion

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the nature of the adjustments made to arrive at the pro forma statements and discussing the pro forma statements with the Directors of John Menzies plc.

Opinion

In our opinion the pro forma statements for the year ended 29th December 2001 have, so far as the calculations are concerned, been properly compiled on the basis described in the Note to the pro forma statements on page 62.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
17th March 2003

GROUP PROFIT AND LOSS ACCOUNT

		Actual			Pro Forma		
		52 weeks to 28th December 2002			52 weeks to 29th December 2001		
	Notes	Before exceptional items £m	Exceptional items (Note b) £m	Total £m	Before exceptional items £m	Exceptional items (Note b) £m	Total £m
Turnover	a						
Continuing operations		1,196.5	–	1,196.5	1,145.3	–	1,145.3
Discontinued operations		–	–	–	108.1	–	108.1
		1,196.5	–	1,196.5	1,253.4	–	1,253.4
Less: share of joint ventures and associates		(63.7)	–	(63.7)	(76.6)	–	(76.6)
Group turnover		1,132.8	–	1,132.8	1,176.8	–	1,176.8
Continuing operations		20.8	(0.7)	20.1	13.4	(16.8)	(3.4)
Discontinued operations		–	(0.7)	(0.7)	(3.9)	–	(3.9)
Group operating profit/(loss)		20.8	(1.4)	19.4	9.5	(16.8)	(7.3)
Share of operating profit/(loss) in							
Joint ventures		–	–	–	(0.6)	–	(0.6)
Associates		4.7	(1.0)	3.7	5.0	(0.8)	4.2
Total operating profit/(loss)	a	25.5	(2.4)	23.1	13.9	(17.6)	(3.7)
Loss on disposal of businesses	b	–	(2.3)	(2.3)	–	(11.3)	(11.3)
Profit/(loss) on ordinary activities before interest		25.5	(4.7)	20.8	13.9	(28.9)	(15.0)
Net interest payable		(3.1)	–	(3.1)	(2.6)	–	(2.6)
Profit/(loss) on ordinary activities before taxation		22.4	(4.7)	17.7	11.3	(28.9)	(17.6)
Taxation		(5.6)	–	(5.6)	(5.3)	2.4	(2.9)
Profit/(loss) after taxation		16.8	(4.7)	12.1	6.0	(26.5)	(20.5)
Minority interests		(0.1)	–	(0.1)	0.4	1.0	1.4
Profit/(loss) for the financial period		16.7	(4.7)	12.0	6.4	(25.5)	(19.1)
Dividends (including non-equity)		(12.1)	–	(12.1)	(12.0)	–	(12.0)
Retained profit/(loss) for the financial period		4.6	(4.7)	(0.1)	(5.6)	(25.5)	(31.1)
Earnings per ordinary share	c						
Headline		32.9p			14.2p		
FRS 3				18.2p			(37.5)p

Basis of preparation

Following the change in financial year end to 31st December, pro forma accounts have been prepared for the 52 weeks ended 29th December 2001 to provide a better understanding of the Group's performance on an annualised basis.

The unaudited pro forma information has been derived from the Group Annual and Interim Accounts and management accounts. The pro forma was prepared in accordance with applicable accounting standards and using accounting policies consistent with those adopted for the Group Accounts on pages 34 to 57.

a Segmental analysis

	Turnover		Pre-exceptional operating profit/(loss)	
	52 weeks to 28th December 2002 £m	52 weeks to 29th December 2001 £m	52 weeks to 28th December 2002 £m	52 weeks to 29th December 2001 £m
Distribution Services	959.6	900.9	28.7	26.1
Aviation Services	236.9	244.4	3.7	(2.6)
	1,196.5	1,145.3	32.4	23.5
Central services	–	–	(7.0)	(7.4)
Pension credit	–	–	3.6	5.0
Continuing operations	1,196.5	1,145.3	29.0	21.1
Goodwill amortisation	–	–	(3.5)	(3.3)
Discontinued operations	–	108.1	–	(3.9)
	1,196.5	1,253.4	25.5	13.9

b Exceptional items

	Notes	52 weeks to 28th December 2002 £m	52 weeks to 29th December 2001 £m
Exceptional operating expenses:			
Distribution Services	(i)	–	(2.4)
Aviation Services	(ii)	(0.7)	(14.4)
Aviation Services – associate	(iii)	(1.0)	(0.8)
Discontinued operation		(0.7)	–
Total exceptional operating expense		(2.4)	(17.6)
Non-operating exceptional items:			
Net loss on disposal of businesses	(iv)	(2.3)	(11.3)
Total non-operating exceptional items		(2.3)	(11.3)
Total exceptional items		(4.7)	(28.9)

See Note 5 in the Accounts for details of the exceptional items in the 52 weeks to 28th December 2002.

December 2001:

(i) Rationalisation costs – £0.5m and additional provision in respect of an investment in an internet magazine subscription service – £1.9m.

(ii) Costs of rationalising excess capacity, comprising asset write downs, property costs and related staff costs – £9.0m.
Costs of integrating Ogden Ground Services – £3.6m and costs in respect of an abortive acquisition – £1.8m.

(iii) The Group's share of the cost of reducing excess capacity at Aeroporti di Roma Handling SpA.

(iv) On 28th September 2001 Early Learning Centre was sold for £29.6m. The disposal generated a loss of £4.2m before writing off goodwill of £8.5m previously charged to reserves.
On 21st December 2001 the Group, in selling its 49% interest in GlobeGround (UK) Limited for £5.8m, generated a gain of £1.4m.

c Earnings per share

	Headline		Post exceptional items	
	52 weeks to 28th December 2002 £m	52 weeks to 29th December 2001 £m	52 weeks to 28th December 2002 £m	52 weeks to 29th December 2001 £m
Operating profit	25.5	13.9	25.5	13.9
add back: goodwill amortisation	3.5	3.3	–	–
Exceptional items	–	–	(4.7)	(28.9)
Interest	(3.1)	(2.6)	(3.1)	(2.6)
Profit/(loss) before taxation	25.9	14.6	17.7	(17.6)
Taxation	(5.6)	(5.3)	(5.6)	(2.9)
Minority interests	(0.1)	0.4	(0.1)	1.4
Preference dividends	(1.8)	(1.8)	(1.8)	(1.8)
Earnings for the period	18.4	7.9	10.2	(20.9)
Earnings per ordinary share (pence)				
Headline	32.9	14.2		
FRS 3			18.2	(37.5)
Number of ordinary shares in issue (millions)				
Weighted average (excluding employee share trusts)	55.903	55.750		

d Reconciliation of movements in shareholders' funds

	As at 28th December 2002 £m	As at 29th December 2001 £m
Profit/(loss) for the financial period	12.0	(19.1)
Goodwill previously written off to reserves	–	8.5
Dividends: ordinary shares	(10.3)	(10.2)
preference shares	(1.8)	(1.8)
New share capital issued	1.8	0.1
Currency translation	(2.7)	(0.3)
Net decrease in shareholders' funds	(1.0)	(22.8)
Shareholders' funds at beginning of period	116.4	139.2
Shareholders' funds at end of period	115.4	116.4

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