# Efficiency at the core

## Annual Report 2008

John Menzies plc

Menzies
JOHN MENZIES PLC

**John Menzies plc is a company with two operating divisions, Menzies Aviation and Menzies Distribution.**

Both divisions operate in distinct B2B sectors where success depends on providing a safe, efficient and high-quality service to their customers and partners.

www.johnmenziesplc.com

**£30.7m**
**underlying profit before tax**

**£1,667.1m**
**revenue**

**31.3p**
**underlying earnings per share**

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**Cautionary statement**

This Annual Report contains information which readers might consider to be forward-looking statements relating to or in respect of the financial condition, results, operations and businesses of John Menzies plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

# At a glance Aviation

## One of the world's largest and most respected independent ground and cargo handlers.

**£14.1m**
**underlying operating profit**

**£500.9m**
**revenue**

**107**
**locations**

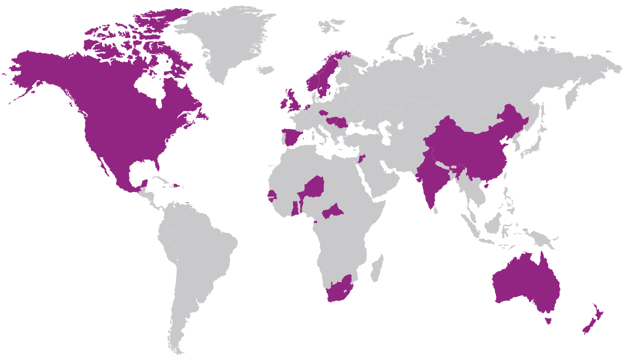
**27**
**countries**

**With over 14,000 employees worldwide servicing over 500 airline customers at 107 locations in 27 countries, we handled more than 600,000 flight turns, 67 million passengers and 1.7 million tonnes of cargo in 2008.**

Passenger
A full ground handling service is available to airlines, including ticketing, check-in, baggage services and management of passenger lounges.

Ramp
Out on the ramp we offer load control, passenger and baggage transfer, and other ramp handling services including aircraft towing and pushback, cabin cleaning, water services and de-icing.

Cargo
Our service provision includes ramp transfer, load management, import and export handling, warehousing, trucking, and other track and trace services. Our AMI business provides airfreight services and forwarder handling.



For further information see page 10
or visit the Menzies Aviation website
www.menziesaviation.com

# **At a glance** Distribution

## A leading provider of added value distribution and marketing services to the UK's newspaper and magazine supply chain.

**£23.9m**
**underlying operating profit**

**£1,166.2m**
**revenue**

**19**
**hub branches**

**18**
**spoke branches**

**With 4,000 employees at 19 hub and 18 spoke branches throughout the UK and Ireland, the division is a strongly cash generative business with around 30% of the newspaper and magazine wholesale distribution market in the UK. It has a track record of investment in innovation and customer service delivery.**

### Newspaper and magazine distribution

We handle 4.8 million newspapers (5.1 million on Sundays) and 2.2 million magazines (covering 3,000 titles) every day. Deliveries are made in the early hours of the morning 364 days a year, to more than 23,000 retail customers from the Northern Isles to the Isle of Wight.

### Marketing services

Services to multiple and independent retailers include space and range planning, racking, displays and sales promotion, category management and sales-based replenishment. Services to publishers include supporting the launch of new titles, ongoing sales promotion and development, and bespoke services such as data analysis and returns processing.

### Field marketing

We provide long-term and short notice resources for field marketing and promotional campaigns of any size at local or national levels across the UK and Ireland, such as free newspaper and magazine distribution, compliance auditing, event organising, point-of-sale placement, mystery shopping, market research and face-to-face targeted promotions.

Menzies Distribution
Menzies JV
Others

For further information see page 16 or visit the Menzies Distribution website www.menziesdistribution.com

# Chairman's statement

## While we live in unprecedented times, the Board believe that with two clearly focused operating divisions, the Group remains well placed to benefit from market improvements.

**In 2009 the Group will focus on cash generation and debt reduction. Capital expenditure will be less than depreciation at both divisions, and as a result I expect both Aviation and Distribution to be comfortably cash generative during the year.**

**William Thomson**
Chairman
John Menzies plc

At Menzies Aviation the business continued to grow, entering significant new markets (India and South Africa) during the year. These new market entries were successful and will bear fruit for the division in the coming year. Revenue was hit as customers faced soaring oil prices and the consumer slowdown impacted passenger and cargo volumes, particularly in the last quarter.

Menzies Distribution had a good year with profitability increasing modestly. This represents a good performance in a difficult market. In particular, the cost and productivity performance was excellent, with cost savings significantly outstripping inflation.

In the last quarter the translated value of the Group's US Dollar and Euro denominated debt substantially increased as a result of Sterling weakening against most major currencies. The value of the Group's overseas assets, however, also increased substantially resulting in a £4.7m credit to reserves.

In response to this market downturn and foreign exchange environment, rapid management actions were taken to reduce costs and conserve cash to shape the Group to meet its challenging marketplace.

I am pleased to report that the two banking facilities that were up for renewal in the first half of 2009 have been successfully renewed ahead of schedule.

In 2009 the Group will focus on cash generation and debt reduction. Capital expenditure will be less than depreciation at both divisions and as a result I expect both Aviation and Distribution to be comfortably cash generative during the year. The Group is reviewing its asset base and where appropriate, any non-core assets may be disposed of to further reduce debt.

To reflect the Group's cautious outlook and cash conservation strategy the Board has decided that it would not be appropriate to recommend a final dividend. As a result, the full-year dividend was 7.56p, which was paid in November 2008.

### Board

In September 2008, Iain Napier was appointed as an independent Non-Executive Director. Iain has extensive knowledge of international business gained during his executive and non-executive career. Iain has previously held CEO positions at Taylor Woodrow plc, Bass Brewers and Bass International Brewers, as well as senior executive positions at the Ford Motor Company.

In February 2009, Ian Harley was also appointed as an independent Non-Executive Director. Ian is Chairman of Rentokil Initial Pension Trustee Limited and spent nine years on the Board of Abbey National plc as CFO and CEO. Ian's experiences in the financial sector will undoubtedly prove beneficial to the Board.

Iain Robertson has indicated that he will retire following the Annual General Meeting in May 2009, and I thank him sincerely for the valuable contribution that he has made in the time that he has been on the Board. He will be replaced as Chairman of the Audit Committee by Ian Harley. Also following the Annual General Meeting, and in accordance with the Company's policy of refreshing and rotating Committee memberships, David Coltman will be retiring as Chairman of the Remuneration Committee, and will be replaced by Iain Napier.

Following Iain Robertson's retirement, the Board will have 10 directors including four independent Non-Executive Directors, well in excess of the minimum recommended by Corporate Governance guidelines for a company of our size, and ensures that the Board is well balanced and able to meet its ambitions and the challenges that face the business.

**People**
Our staff continue to be our greatest asset, and in businesses which rely on delivering a service, it is essential that we have the best people working for us. 2008 was a challenging and difficult year, although the changes made and results achieved across the Group owes a great deal to the commitment of all our staff. Their dedication and commitment to providing a quality, efficient service to our customers continues, and their efforts are greatly appreciated.

**Prospects**
2009 will be a challenging year but we have two strong operating divisions. Menzies Aviation has an excellent reputation with its airline customers as evidenced by the continuing contract win and renewal momentum. The marketplace is difficult but the operating model is resilient and we will continue to seek attractive airlines in attractive markets.

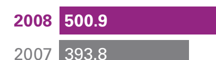
Menzies Distribution is well placed. The investment in new technologies and the remodelling of the operating base is now delivering real benefits. Publisher contract negotiations are gathering pace and I believe we are very well placed to benefit from any opportunities that may arise.

While we live in unprecedented times, the Board believe that with two clearly focused operating divisions, the Group remains well placed to benefit from market improvements.

**William Thomson**
Chairman

**Divisional revenue** (£m)

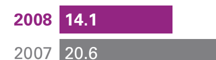
**Aviation**



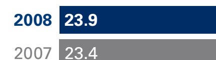

**Distribution**

**Divisional underlying operating profit** (£m)

**Aviation**




**Distribution**



# Executive Directors' team

## Our unique operating structure is built upon a strong working partnership between our Executive Directors.

**Executive Directors' team**

**Ellis Watson**
Managing Director
Menzies Distribution

**Craig Smyth**
Managing Director
Menzies Aviation

**Paul Dollman**
Group Finance Director
John Menzies plc

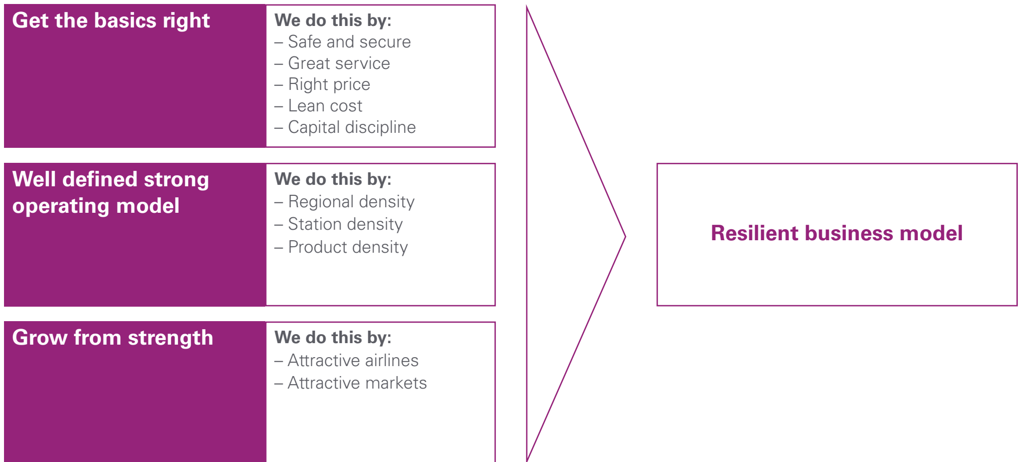
# Group strategy



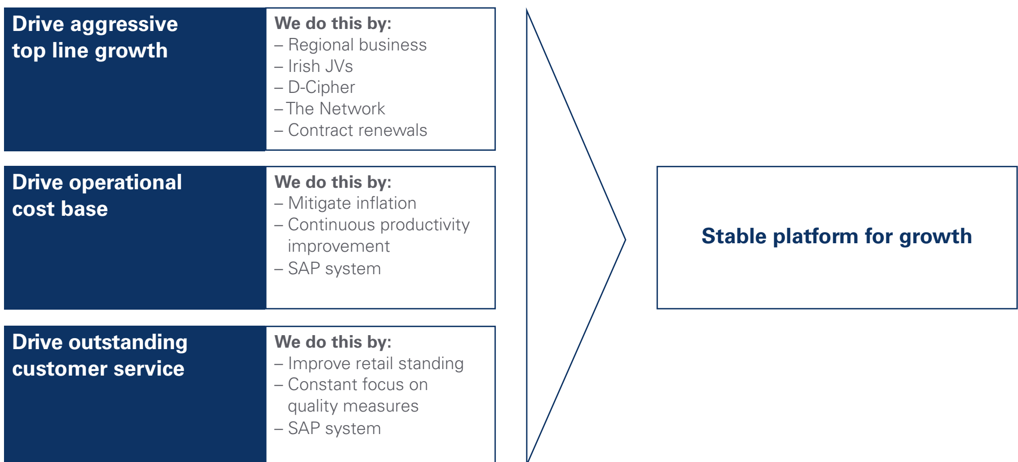
**We have a well focused strategy, with two distinct operating divisions, both committed to being the leader in their respective markets.**

**Both divisions aim to provide great customer service at the right price with lean cost. We will continue to seek expansion opportunities for both businesses at the appropriate time.**

**Menzies Aviation continued to grow, entering significant new markets (India and South Africa) during the year. These market entries were successful and will bear fruit for the division in the coming year.**



**Menzies Distribution had a good year with profitability increasing modestly. This represents a good performance in a difficult market.**



# Group performance

## The Group has secured all of its long-term facilities to 2011 and beyond.

**Revenue in the period for the Group increased by 8% to £1,667m. Menzies Aviation had a difficult year with its customers facing unprecedented times as oil prices soared and the consumer slowdown impacted passenger and cargo volumes. Menzies Distribution had a good year delivering another stable performance with revenue 2% higher at £1,166m.**

**Paul Dollman**
Group Finance Director
John Menzies plc

Revenue in the period for the Group increased by 8% to £1,667m. Menzies Aviation had a difficult year with its customers facing unprecedented times as oil prices soared and the consumer slowdown impacted passenger and cargo volumes. Menzies Distribution had a good year delivering another stable performance with revenue 2% higher at £1,166m.

Group underlying profit before tax fell by 19% to £30.7m. Profits at Menzies Aviation were materially lower than the previous year largely as a result of extremely difficult trading conditions coupled with investments in start-ups. After the impact of start-up costs of £4.2m (2007: £1.9m) to support the continued organic growth and contract win momentum, the Aviation underlying operating profit was £6.5m down at £14.1m.

Aviation revenue increased by 27% in the period. Underlying operating margin (excluding start-up costs) fell from 5.3% in 2007 to 3.4% in 2008. This was mainly as a result of higher turnover at AMI, (the cargo forwarding business which attracts lower margins), the underperformance of the USA cargo business and start-up and integration costs which restricted profits in 2008 from new ventures in Scandinavia and South Africa.

Distribution delivered underlying operating profit of £23.9m, up £0.5m on last year. Like-for-like sales of magazines were down year-on-year while newspapers' like-for-like sales were marginally ahead. This represents a good performance in a difficult market. In particular, cost and productivity performance was excellent with cost savings comfortably outstripping inflation.

Corporate costs were 50% lower than 2007 at £1.5m for the period.

**Banking facilities**

The Group now has all of its long-term facilities secured to 2011 and beyond. Of our short-term facilities, the 364-day facility with RBS due for renewal in June 2009 has been secured ahead of schedule through to June 2010 and leaves only the regular annual working capital facility with HBOS which is not due for renewal until October.

## Debt and interest

Net debt before the effect of foreign exchange rates was in line with forecasts at £144.8m, an increase of £33.5m in the year. The weakening of Sterling against most major currencies, and, in particular, the US Dollar and Euro in the latter part of the year, substantially increased the translated value of the Group's US Dollar and Euro denominated debt. As a result of this, year-end net bank debt was £165.0m. Including net derivative liabilities of £17.6m, the year-end net debt figure rose to £182.6m. At the year end the Group was comfortably within its banking covenants.

Interest costs of £5.8m were £2.8m higher than last year, £1.7m reflecting higher net debt levels, owing to the continued investment programme in Aviation and a reduction of £1.1m in the IAS19 non-cash pension credit.

## Exceptional items

Group profit before tax and basic earnings per share were impacted by a net exceptional charge of £7.3m, compared to the small exceptional gain of £0.1m in 2007. Menzies Aviation's disposal of its interest in Talma Menzies Peru gave rise to a gain on disposal of £8.2m. This was offset by an impairment charge of £3.8m (mainly relating to our investment in Aeroground), a provision for onerous leases of £5.0m, a bad debt from Sterling Airlines of £1.3m, and rationalisation and other costs of £5.4m.

## Cash flow and investment

Operating cash flow was £42.5m, a decrease of £14.3m compared to 2007, reflecting the lower operating profit and higher exceptional spend. Free cash outflow of £8.7m compared to an inflow of £14.9m in 2007 also reflects the foreign currency loss of £7.7m on a low-cost financing transaction (although this was exactly matched by tax relief of £7.7m) and higher interest and tax. The net capital investment above depreciation was £30.0m principally due to investment in India and South Africa and net contract wins.

## Final dividend

In light of the current economic outlook as well as the Group's focus on cash generation and debt reduction, the Board has decided not to recommend a final dividend, making the full-year dividend 7.56p.

**Revenue** (£m)

| Year | Value |
|---|---|
| **2008** | **1,667.1** |
| 2007 | 1,541.1 |
| 2006 | 1,450.4 |
| 2005 | 1,362.1 |
| 2004 | 1,330.6 |

**Underlying PBT** (£m)

| Year | Value |
|---|---|
| **2008** | **30.7** |
| 2007 | 38.0 |
| 2006 | 35.8 |
| 2005 | 39.4 |
| 2004 | 33.6 |

**Free cash flow** (£m)

| Year | Value |
|---|---|
| **2008** | **(8.7)** |
| 2007 | 14.9 |
| 2006 | 3.2 |
| 2005 | 23.6 |
| 2004 | 26.3 |

**Underlying EPS** (pence)

| Year | Value |
|---|---|
| **2008** | **31.3** |
| 2007 | 47.9 |
| 2006 | 46.9 |
| 2005 | 51.9 |
| 2004 | 44.0 |

**Full-year dividend per share** (pence)

| Year | Value |
|---|---|
| **2008** | **7.56** |
| 2007 | 25.6 |
| 2006 | 20.5 |
| 2005 | 19.5 |
| 2004 | 18.5 |

# Menzies Aviation

## With its market leading and resilient business model, Menzies Aviation provides a great service, at the right price, to customers across its global network.

### Qantas in LAX

13 November 2008 was one of the most important days in our long history at Los Angeles International Airport (LAX), as we began handling 31 turns per week for Qantas – including cabin cleaning services for B747 passenger flights and handling their Airbus A380 flights. During 2009, this number is expected to increase as additional new aircraft are delivered to Qantas.

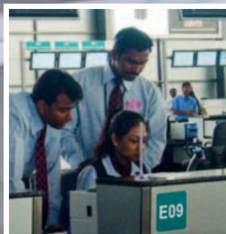
Qantas are now one of our largest customers in LAX where we provide ramp handling, cabin cleaning, cargo handling and engineering services with a combined workforce of nearly 200 staff on the Qantas account alone.

LAX is our largest individual station in the Americas region, where in total we employ approximately 1,200 people.

## Star Alliance chooses Menzies at Heathrow

Six Star Alliance member carriers appointed Menzies Aviation as their new ground handler at London Heathrow in 2008. This was Menzies first deal with a carriers alliance rather than individual airlines.

Since October, some 450 flights per week are being handled at Heathrow Terminal 1. This deal, when added to existing contracts at Terminal 1 immediately created station density.




## Safety Award winners in Hyderabad

In November 2008 our Menzies JV in Hyderabad, India, was awarded the prestigious 'Safety Award' under the 'Best Ramp Safety Practices' category, at the Ground Handling International annual conference.

The award was particularly gratifying for the local team, and reinforces our belief that the Hyderabad team is doing a great job in following strict safety guidelines and procedures – a key element of Menzies Aviation's business philosophy.

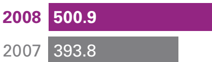
# Menzies Aviation

## Organic expansion continued, with the division a net winner of 66 contracts in the year, demonstrating the value customers see in the high levels of service provided.

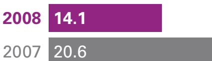
**The division will continue to position itself as the market leader in the ground handling market, focusing on providing great service to attractive airlines in attractive markets.**

**Craig Smyth**
Managing Director
Menzies Aviation

**Revenue** (£m)




**Underlying operating profit** (£m)




**Performance**

Menzies Aviation had a tough year in the face of unprecedented market uncertainty.

The rising oil price and the general consumer slowdown led to a significant reduction in scheduled flights and cargo volumes, particularly in quarter four. This was partially offset by early decisive actions to align the cost base with the challenging market, together with continued organic growth.

Underlying operating profit fell by £6.5m to £14.1m. This was largely attributable to very poor cargo volumes, particularly in quarter four, and reduced flight schedules as winter flights were significantly down on the prior year. Start-up costs for new ventures of £4.2m were £2.3m higher than the previous year as a result of significant new contracts gained.

Organic expansion continued, with the division a net winner of 66 contracts in the year (2007: 54), demonstrating the value customers see in the high levels of service provided. Additionally, significant new ventures were delivered during the year in India and South Africa. Both ventures are operating successfully and will have a positive full year impact in 2009.

Swift and decisive management action was taken to reduce the cost base as volumes started to decline, while ensuring high levels of customer service were maintained. Indirect costs were reduced by £2m (£4m on an annualised basis). The operations in Peru and Hong Kong were sold, generating a further £12.2m of cash. Underperforming stations in Fort Myers, Atlanta and Copenhagen were closed as part of the division's continued focus on its fix/close/sell strategy. Direct costs were also trimmed in light of the difficult market conditions.

The overall product offering has evolved with ground handling now representing 54.4% of the divisional turnover and cargo handling 28.2%. This reflects a greater commercial focus on the less operationally geared ground handling operations during these difficult times.

During this difficult year the strategy of focusing on attractive airlines in attractive markets proved to be invaluable. Tight cash management led to only one material bad debt being incurred. The division has a resilient business model and is well placed to quickly benefit when the market strengthens.

## New ventures

During the year, the division entered the Indian aviation market with a cargo handling operation at Bangalore International Airport and both cargo and ground handling operations at Hyderabad International Airport. Licences to operate at both of these brand new airports were secured after an open tender process and demonstrate the international reputation that the division has for quality and safety. Both operations have performed very well and delivered the returns expected.

Ground handling operations at six airports in South Africa commenced on 1 March 2008. The operations have been a huge commercial success with a large number of attractive airlines becoming customers. Unfortunately, the nature of the handover from the previous incumbents and airlines' reluctance to sign contracts until the eleventh hour, resulted in operations being overstaffed for much of 2008, which resulted in a drag on earnings. Staffing has now been reduced to the required levels and the region's 2008 exit rate was in line with that anticipated at the time of investment.

Three businesses were acquired during the first quarter of the year.

Airline Cargo Resources, a cargo handling business operating at the three main gateways in South Africa, was acquired in January to complement the region's ground handling operations.

MMA Consolidators Pty Ltd, a South African freight forwarder, was acquired in March and amalgamated within the division's cargo forwarding arm.

In Scandinavia, the ground handling business Novia Sverige AB, was acquired in March. This strategic acquisition made the division the largest independent handler in the region, while creating a regional density in combination with our existing Scandinavian operations.

## Cargo handling

2008 was a very difficult year for cargo with all the division's major cargo hubs suffering significant volume shortfalls. Global cargo markets, as evidenced by recent IATA statistics, were significantly down year on year but, in particular, sharply down in the fourth quarter.

During quarter four, the traditional peak cargo months, like-for-like volume fell 19.7%.

**Key statistics:**

**107**
**stations worldwide**

**27**
**countries operated in**

**14,000**
**employees**

**1.7m**
**tonnes of cargo handled**

**67m**
**passengers handled**

**602,000**
**aircraft turns**

Operations in the USA were impacted by a number of operational issues highlighted at the half year. These operational issues cost the division *c.*£2.0m. Management actions have now resolved these issues, the benefit of which will be seen during 2009.

**Cargo forwarding**
AMI, the world's largest trade-only airfreight consolidator, made modest progress in the face of falling cargo volumes. Turnover was up 54% following the annualisation of acquisitions made

**Menzies Aviation Operating Board**

**Craig Smyth**
Managing Director

**Stephen Koller**
EVP IT

**Graeme Jenkins**
EVP Finance

**Mervyn Walker**
EVP Operations

in the previous year and a good performance from the core business. During the period, MMA Consolidators Pty Ltd, a business based in South Africa, was acquired and the combined business now has a significant presence in the world's key cargo markets. The AMI business represents *c.*17% of divisional turnover and although it has a lower average margin than the other parts of the business, it makes a welcome contribution to divisional earnings.

**Ground handling**
Organic expansion resulted in absolute turns increasing 13.7%, demonstrating the strong contract momentum across the network and the new regional densities in Scandinavia and South Africa. Like-for-like turns fell 5.5% as a result of the general reductions in flight schedules particularly during quarters three and four. Like-for-like turns in quarter four were down 12.1%.

There were great start-ups at six locations in South Africa. Our burgeoning relationship with jetBlue in the USA was extended to a further four airports. In April, following the acquisition of GB Airways by easyJet, the division increased the size of its operations (from 68 to 102 flights per day) for easyJet at their biggest hub, London Gatwick.

In June the division was awarded contracts at London Heathrow (LHR) by the Star Alliance. This is the first deal made with a carriers' alliance rather than an individual airline. The contract started successfully in October and sees the division handle six airlines under one agreement and provides the division with a scale operation within Terminal 1 at LHR.

Operations in Denmark ceased in October following the collapse of Sterling Airlines. This bankruptcy was the only material bad debt incurred by the division during the year.

Within the Americas, the turnaround of the USA ground handling business continues and the region performed well. Like-for-like turns were down 5.7% reflecting lower volumes at Alaska Airlines' hub in Seattle and the loss of the Spirit Airlines contract early in the year. However, absolute turns in the USA are up 1.1% due to the successful remodelling of the customer base. Contract win momentum was excellent, Qantas awarded the division a three-year contract to handle 44 A380 flights per week at LAX. In addition, new contracts were awarded by British Airways, jetBlue and Virgin America, and the portfolio is strong.

In China, operations in Hong Kong were sold in October. Despite the best efforts of the local team it had proved difficult to build scale in what is a controlled local market with two very strong local players.

### Strategy

Prior to 2008, the division had delivered five consecutive years of growth. During the year, unprecedented events within the airline industry led to a fall in underlying flight movements and cargo volumes.

The division will continue to position itself as the quality player in the ground handling market, focusing on providing great service to attractive airlines in attractive markets.

Given the economic outlook, the division will also focus on cost management, productivity, underperforming stations and the disposal of non-core assets. Decisive action is already under way and the fix/close/sell policy will be pursued as is required.

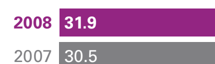
The business model is resilient and the strategy is sound.

### KPIs and key statistics

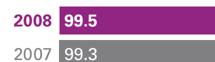
Menzies Aviation monitors a number of financial and operational Key Performance Indicators (KPIs) to help achieve key business objectives, and they are shown on this page.

The Group's main financial KPIs are highlighted on page 9 of this Annual Report.

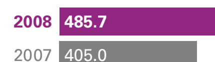
**Ground handling – labour hours per turn**



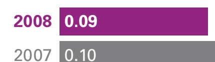

**Ground handling – on-time performance** (%)




**Cargo handling – tonnes per FTE**




**Aircraft damage – category A incidents per 1,000 turns**



# Menzies Distribution

## With cutting-edge technology and leaner processes allied to 175 years of experience, Menzies Distribution is reinventing the famous 'Nightly Miracle' for the 21st century.

### Axon

Following a successful trial period, the new Axon returns system has now been introduced to the majority of our hub branches throughout the UK. Equipped with advanced optical technology which not only reads barcodes, but also recognises front and back cover images, the system increases the speed of processing and reduces the number of rejections due to barcode problems. As a result, we are now scanning more product in a shorter period of time and improving the service provided to both publishers and retail customers.

## Nightly miracle

Every night, between the hours of 12pm and 6am, Menzies Distribution performs a meticulously choreographed logistical ballet. Menzies employees, in 19 hub and 18 spoke branches, unload, check, assemble, separate and pack over 23,000 orders, to be dispatched via our 400 Menzies vans and trucks and fleet of contractors. Now aided by our Pack by Light and HS Packing systems, this flurry of activity will see 4.8 million newspapers and 2.2 million magazines delivered to more than 23,000 customers every day.

## Blue trucks turn green

Menzies Distribution has become the first wholesaler to operate a Modec electric vehicle, following the delivery of this 5.5-tonne model which operates out of our DNDS branch. The van will make 30 drops each morning throughout the Westminster area. Although its route passes deep into the heart of the Congestion Charging zone, it will be exempt from charges due to its eco-friendly engine. The van has already made a splash on early trips around the capital – according to DNDS driver Gavin Lightfoot, "It attracts a lot of attention from pedestrians and other motorists – I've lost count of how many people have said it looks like the Mystery Machine from Scooby Doo!"

# Menzies Distribution

## The division produced an excellent result reducing like-for-like costs by £6.4m, more than double the cost of inflation. This performance validates the division's investment in new technologies.

**Over the last two years the division has successfully revolutionised its operating model. As a result, it is now very well placed to take advantage of opportunities that exist within the marketplace in the short to medium term.**

**Ellis Watson**
Managing Director
Menzies Distribution

**Revenue** (£m)

| | |
|---|---|
| **2008** | **1,166.2** |
| 2007 | 1,147.3 |

**Underlying operating profit** (£m)

| | |
|---|---|
| **2008** | **23.9** |
| 2007 | 23.4 |

**Performance**

Menzies Distribution had a good year despite a very difficult market environment, in particular during the second half of the year when sales declines began to reflect the challenging market conditions. Operating profit was up 2.1%, and revenue was up 1.6%, largely reflecting the annualised effect of the acquisition of Grays of York and the new business in Chester that was secured in the second half of 2007.

As predicted, the magazine market remained difficult throughout the year with like-for-like magazine revenue down 4.6%. Newspapers performed better, with like-for-like revenue up 1.1% as cover price growth more than offset volume declines.

In October, contract renegotiations were successfully completed with our largest customer, News International. New terms have been secured for five years and the division's overall market share has been maintained. This outcome positions the division favourably for future publisher negotiations.

During the year, the division entered the Republic of Ireland in a joint venture with Eason & Son Ltd. The operational network has been rationalised and Menzies' standard systems implemented, bringing enhanced service levels to both publishers and retailers. The joint venture with Eason & Son Ltd in Northern Ireland performed well during 2008 after an operationally difficult time in 2007.

Customer service levels were increased after a year of operational upheaval in 2007. Publisher and retailer feedback was excellent and the division strives to lead the industry in this vitally important area.

### Cost and productivity initiatives

The division produced an excellent result reducing like-for-like costs by £6.4m, more than double the cost of inflation.

This performance validates the division's investment in new technologies. Over the last two years it has revolutionised working processes and improved customer service through the implementation of semi-automated magazine packing systems, state-of-the-art high-speed returns machinery, centralisation of product allocations and the introduction of regional contact centres for all customers.

A strategic operational review of the business in March led to the launch of further initiatives. Good progress was made on reducing transport costs, utilising Optrak route planning technology, while an incentivised productivity and service level programme led to significant benefit in all warehouse processes.

### New revenue streams

In August 2008, the division acquired 'The Network', one of the top 10 field marketing companies in the UK. The acquisition brings the division a high-quality field marketing operation that will complement existing field sales activities and our D-Cipher and Jones Yarrell Leadenhall businesses.

D-Cipher, the retail category management service business, continued to build momentum. The business provides full range planning to retailers including Marks & Spencer, Boots, Tesco and Total Petrol, and more than doubled its contribution during the year.

Menzies Digital, the virtual magazine wholesaling venture, made further progress during the year. It is now embedded in the websites of WH Smith, Asda and ITV.com amongst others and offers a large range of the UK's top selling titles. The venture remains in development and progress has been slower than anticipated as a result of the consumer slowdown, but this exciting venture – with little fixed cost – is worth pursuing at this time.

### Key Performance Indicators:

**Newspapers delivered on time** (%)

| | |
|---|---|
| **2008** | **97.71** |
| 2007 | 97.50 |

**Magazines delivered on time** (%)

| | |
|---|---|
| **2008** | **98.64** |
| 2007 | 97.60 |

**Newspaper packing accuracy** (%)

| | |
|---|---|
| **2008** | **99.82** |
| 2007 | 99.80 |

**Magazine packing accuracy** (%)

| | |
|---|---|
| **2008** | **99.57** |
| 2007 | 99.60 |

**Newspaper returns processed on time** (%)

| | |
|---|---|
| **2008** | **92.01** |
| 2007 | 89.70 |

# The division handles 4.8 million newspapers (5.1 million on Sundays) and 2.2 million magazines (covering 3,000 magazine titles) each day, with deliveries to more than 23,000 customers.

**Menzies Distribution Operating Board**

**George Kirkwood**
Finance Director

**Tom Boyle**
Operations Director

**David Speirs**
IT Director

**David Morton**
Strategic Development Director

**Ellis Watson**
Managing Director

**David McIntosh**
Commercial and Marketing Director

**Office of Fair Trading (OFT)**
The OFT announced their findings in relation to newspaper and magazine distribution in October. The findings were within the range of outcomes expected. The division is playing a full part in the industry consultation and is confident that it is well placed to respond to any potential conclusions.

**Strategy**
Over the last two years the division has successfully revolutionised its operating model. As a result, it is now very well placed to take advantage of opportunities that exist within the marketplace in the short to medium term.

At all times the division strives to lead the industry in terms of the customer service provided to our publisher and retail customers. With the revised operational model in place, the focus is to aggressively drive top-line growth while continuing to reduce the cost base.

# Non-financial Group business risks

**The management of the business and the execution of strategy are subject to a number of risks, beyond those identified in the Group Financial Review on pages 22 to 27 and Note 16 on page 80.**

**Risks are formally reviewed by each Divisional Operating Board on an annual basis. A formal Group-wide review of risks is also performed annually by the Group Board and appropriate processes and controls are put in place to monitor and mitigate these risks.**

**The key non-financial business risks affecting the Group are as follows:**



### Safety and security

This is the risk of safety and security incidents occurring within the business. Both divisions have dedicated teams who regularly visit operational sites, monitoring health and safety and security issues and drive improvements. They also monitor legislative and regulatory changes. We work with industry bodies to lead improvements and to benchmark our performance. Monthly reports are tabled at the Divisional Operating Boards and the Group Board.

### Changing business environment

This is the risk that we do not respond to a changing business environment. Following stability in the market environment in 2007 for both Menzies Aviation and Menzies Distribution, 2008 saw a far more challenging year for Menzies Aviation. A strategy review exercise, which involves a full examination of market conditions, is held each year prior to budget setting. Board reports from each Managing Director, reviewing all aspects of market conditions, are tabled for discussion at each meeting. Customer surveys have been introduced in both divisions which we will repeat regularly.

### Investment decisions

This is the risk of making the wrong corporate portfolio investment decisions. An investment review committee exists which meets whenever it is required to review significant capital expenditure decisions and all acquisitions and disposals. Projects are measured against a number of strict financial criteria such as payback, net present value and internal rate of return. Recommendations from the investment review meetings must be ratified by the Group Board. All potential acquisitions are subject to rigorous due diligence involving internal and external specialists.

### People development

This is the risk that we do not successfully develop our people and lose key management. To mitigate this risk, the Group has introduced a leadership development programme and a regular 360 degree appraisal process. A number of incentive schemes linked to the Group's results have been designed to help retain key managers.

### External shock

This is the risk of the business being impacted by a major external shock, such as terrorism, disease, or natural disaster. To mitigate this risk, we have emergency response procedures in place at both divisions, which deal with communication guidelines, customer liaison, staff safety contingency actions and escalation procedures. In each division, we have developed strong leadership teams with a broad experience of dealing with a wide variety of operational issues.

# Group financial review

**Shareholders' funds**
Shareholders' funds decreased by £45.8m during the year to £62.6m, as follows:

| | £m |
|---|---|
| **Shareholders' funds at December 2007** | **108.4** |
| Profit for year | 9.9 |
| Taxation | (11.1) |
| Dividends | (15.5) |
| Net actuarial loss | (35.1) |
| Currency translation | 4.7 |
| Increase in share capital | 0.8 |
| Share-based payment | 0.4 |
| Movement in own shares | 0.1 |
| **Shareholders' funds at December 2008** | **62.6** |

**Cash flow**
The Group generated an operating cash flow of £42.5m in 2008 (2007: £56.8m). Share issues and net investment disposals in 2008 raised a further £4.9m. Some £46m was invested in the business whilst dividend and tax payments accounted for £20.1m. Net debt increased from £111.3m to £182.6m.

| | **2008** | | 2007 | |
|---|---|---|---|---|
| **Cash flow** | **£m** | **£m** | £m | £m |
| **Operating profit** | | **19.4** | | 33.2 |
| Share-based payments | | **0.4** | | 0.4 |
| Depreciation | | **23.6** | | 21.0 |
| Amortisation of intangibles | | **3.0** | | 1.6 |
| Net pension movement | | **(1.3)** | | 0.2 |
| Working capital | | **(4.0)** | | (1.5) |
| Exceptional items | | **7.3** | | (0.1) |
| Cash spend on exceptional items | | **(9.3)** | | (1.2) |
| Dividends from associates and joint ventures | | **3.3** | | 4.0 |
| Non-cash items | | **0.1** | | (0.8) |
| **Operating cash flow** | | **42.5** | | 56.8 |
| Purchase of property, plant and equipment | **(40.4)** | | (32.0) | |
| Sale of property, plant and equipment | **9.1** | | 0.7 | |
| Net capital expenditure | | **(31.3)** | | (31.3) |
| Net interest paid | | **(7.6)** | | (5.5) |
| Foreign currency loss | | **(7.7)** | | (2.1) |
| Minority dividends paid | | – | | (0.1) |
| Tax paid | | **(4.6)** | | (2.9) |
| **Free cash flow** | | **(8.7)** | | 14.9 |
| Equity dividends paid | | **(15.5)** | | (12.8) |
| Additional pension payment | | – | | (4.3) |
| Acquisitions | | **(11.8)** | | (14.9) |
| Other investments | | **4.1** | | (13.5) |
| Minority interest acquisition | | – | | (0.4) |
| Intangible asset additions | | **(2.4)** | | (3.0) |
| Shares | | **0.8** | | 2.7 |
| Total movement | | **(33.5)** | | (31.3) |
| **Opening net debt** | | **(111.3)** | | (77.0) |
| Currency translation | | **(37.8)** | | (3.0) |
| **Closing net debt** | | **(182.6)** | | (111.3) |

The statutory IFRS cash flow statement is shown on page 61.

The cash spend on exceptional items of £9.3m includes £3m paid in January 2008 in respect of a negotiated dilapidations settlement on a sublet property, where the remaining lease term was 65 years. The cost of settling this obligation was fully provided during 2007 and the Group's obligations under this onerous lease have been renounced.

The weakening of sterling against most major currencies and, in particular, against the US dollar and the Euro in the latter part of the year, substantially increased the translated value of the Group's US dollar and Euro denominated debt. The currency translation movement results from the Group's policy of hedging its overseas net assets, which are denominated mainly in US$ and Euro. The translation effect on net debt is more than offset by the translation effect on net assets resulting in an overall net exchange gain of £4.7m (2007: £2.4m). This net gain is recognised directly in equity.



**Pensions**

With effect from 1 May 2006, the main UK pension scheme changed from a final pensionable salary scheme to an average salary scheme and employee contributions were increased. Benefits accrued to current active members prior to 1 May 2006 are now linked to future price inflation rather than future salary increases.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Income statement** | | | | |
| Current service cost | | **(2.3)** | | (3.6) |
| Expected return on scheme assets | **15.8** | | 15.1 | |
| Interest on pension liabilities | **(13.5)** | | (11.7) | |
| Net financial return | | **2.3** | | 3.4 |
| Net charge | | **–** | | (0.2) |
| **Balance sheet** | | | | |
| Total market value of assets | | **182.4** | | 250.2 |
| Present value of scheme liabilities | | **(218.0)** | | (240.7) |
| (Deficit)/surplus in scheme | | **(35.6)** | | 9.5 |
| Related deferred tax asset/(liability) | | **10.0** | | (2.7) |
| Net pension (liabilities)/assets | | **(25.6)** | | 6.8 |

The current service cost for 2008 decreased due to the impact of the changes implemented during 2006 combined with a reduction in the pensionable payroll. The service cost for 2009 is expected to reduce slightly.

During 2008 the Group contributed cash of £3.6m to the Fund.

The market value of invested assets decreased by 27% primarily as a result of poor equity and investment market performance over the year.

The present value of scheme liabilities decreased by 9.5% over the same period.

The next full actuarial valuation will be carried out as at 31 March 2009.

**Non-underlying performance**

The results for the year include the following one-off and/or material items, which the Group considers should be highlighted:

(a) during the year the Group disposed of the 50% interest in the joint venture in Peru, Talma Menzies SRL, for a consideration of £10.3m, realising a gain of £8.2m. The tax paid on this gain was £0.5m.

(b) as a result of the deterioration in the North American cargo handling market, the acquired goodwill in respect of Aeroground Inc has been tested for impairment in accordance with IAS 36 and a goodwill charge of £3.0m (approximately one-third of the original amount capitalised) has been recognised. This goodwill impairment resulted from poor post-acquisition performance exacerbated by recent global market conditions.

(c) the Group's investment in associate company Worldwide Magazine Distribution Ltd has also been reviewed for impairment in accordance with IAS 36 and restated to reflect current trading performance. As a result, an impairment charge of £0.8m has been recognised.

(d) £5m has been provided for future obligations in respect of five leasehold properties, which have become empty during the year.

(e) £6.7m has been charged in respect of the cost of rationalising excess capacity, comprising asset write-downs and staff redundancy costs in Menzies Aviation.

Under IFRS, previously capitalised goodwill is no longer amortised. However, these results include an impairment charge of £1.8m, reflecting the remaining life of the current licence at Menzies Macau Aviation Services Ltd.

IFRS requires the price paid for a business to be allocated between goodwill and other intangible assets. The other intangible assets capitalised in Aviation are amortised and this amortisation charge has been highlighted to present a clearer trading position.

Further details are disclosed in Note 5 to the accounts.

**Interest**
The net interest charge is analysed as follows:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Fixed rate sterling term loan | **1.9** | 1.9 |
| Floating rate sterling loan | **4.0** | 1.6 |
| US dollar loans | **2.3** | 2.3 |
| Preference shares | **0.1** | 0.1 |
| Cash/overdrafts | **(0.6)** | 0.2 |
| Other finance income | **(2.3)** | (3.4) |
| Foreign currency loss | **7.7** | 2.1 |
| Net interest charge | **13.1** | 4.8 |

The sterling term loan is at a fixed rate of 6.23% and is repayable between 2009 and 2020.

Other finance income is the net financial return from the pension scheme under IAS19. The amount has decreased due to the higher interest cost on the pension liabilities.

During the year the Group executed cross-currency basis swaps which reduced its interest costs by £1.0m. The foreign currency loss incurred of £7.7m is exactly matched by tax relief of £7.7m.

**Taxation**
The underlying tax rate for the year was 39.4% compared with 25.5% in 2007 and is analysed as:

| | % |
|---|---|
| Tax due at UK rate | 28.5 |
| Non tax-deductible items | 1.5 |
| Unrelieved overseas losses | 12.4 |
| Utilisation of tax losses | (3.0) |
| Underlying tax rate | 39.4 |

Tax paid during the year was £4.6m. This includes £0.5m paid locally in Peru on the £8.2m gain realised on the disposal of the Aviation joint venture operation.

The tax effect of the exceptional items, described in Note 5(a) to the accounts, is a credit of £1.1m.

## Phased abolition of Industrial Buildings Allowances

In line with the announcement made by the UK Government in the March 2007 Budget the phased abolition of industrial buildings allowances by the end of March 2011, and the reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum, on a reducing balance basis, from 1 April 2008, were both enacted in the Finance Act 2008, which received Royal Assent in July.

As previously indicated, the abolition of industrial buildings allowance has resulted in a one-off increase in the Group's deferred tax liability of £5.4m.

The reduction in the rate of capital allowances applicable to plant and machinery, from 25% to 20% per annum, represents a timing difference only, with the reduction in current year capital allowances being offset in deferred tax.

## Deferred tax assets write-off

In prior years the Group recognised deferred tax assets in relation to losses carried forward by, and other temporary differences available to, subsidiaries operating mainly in the Netherlands and the USA.

Current trading conditions in these territories are such that is no longer possible to say with a degree of certainty that, in the short term, future taxable profits will be available against which the carry forward tax losses, and other temporary differences, can be utilised. As a consequence, the Group has written off £3.9m of deferred tax assets.

## Acquisitions, intangible assets and disposals

During the year the Group acquired five new businesses. The consideration paid, in excess of the fair value of the net assets acquired, has been allocated between goodwill and other intangible assets, mainly customer contracts.

Capitalised goodwill amounts to £62.3m compared to £53.2m in 2007. This goodwill is no longer amortised but rather is subject to an annual impairment review.

Contracts capitalised in the year amount to £10.6m. This amount includes £9.6m in respect of businesses acquired and £1m capitalised in respect of the new-start contracts in India and South Africa.

Amortisation periods for these contracts are business-stream dependent and vary from zero to 10 years. Where the contracts are not amortised, they are subject to an annual impairment test at cash-generating unit level, generally considered to be 'station' level.

During the year the Group disposed of its 50% interest in the Aviation joint venture in Peru and the wholly-owned Aviation business in Hong Kong.

## Property, plant and equipment

Purchases of property, plant and equipment totalled:

| | Property £m | Plant and equipment £m | Total £m |
|---|---|---|---|
| Distribution | 0.3 | 8.4 | 8.7 |
| Aviation | 1.3 | 30.3 | 31.6 |
| | 1.6 | 38.7 | 40.3 |

During the year, Distribution invested some £5.9m in new technology, including £4.7m on the implementation of SAP.

Aviation's capital expenditure mainly comprised equipment to service new contracts.

# Group financial review

## Other investments

The cash spend on joint ventures and associates during 2008 was £8.7m, mainly comprising £8.3m in support of the new-start contracts in India and £0.3m in support of Swissport Menzies Handling in Spain.

These investments represent mainly plant and equipment to service the business.

## Working capital

Working capital movement is analysed as follows:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Inventories | **3.1** | (0.4) |
| Trade and other receivables | **(9.3)** | (21.0) |
| Trade and other payables | **2.2** | 19.9 |
| | **(4.0)** | (1.5) |

The overall movement in working capital is due in the main to the acquisitions during the year and a reduction in year-end inventory held by Menzies Distribution.

## 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.

The majority of Menzies Aviation's stations are located outside the UK and operate in currencies other than sterling. The rates of exchange to sterling for those currencies which have principally affected the Group's results were:

| | **Average for year to December 2008** | **Year end 31 December 2008** | Average for year to December 2007 | Year end 29 December 2007 |
|---|---|---|---|---|
| US dollar | **1.866** | **1.438** | 2.005 | 1.993 |
| Euro | **1.264** | **1.034** | 1.462 | 1.355 |

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

## Going concern

At 31 December, the Group had committed borrowing facilities of £199m, with an expiry profile of:

| | | |
|---|---|---|
| £25m | April 2009 | (renewed until November 2011 as a US$40m facility) |
| £20m | June 2009 | (renewed until June 2010) |
| £25m | October 2009 | (annually renewable) |
| £50m | November 2011 | |
| £50m | January 2013 | |
| £29m | March 2020 | |

Since the year end, the April 2009 facility has been renewed as a US$40m facility expiring in November 2011 and the June 2009 facility has been extended until June 2010. The October 2009 facility is an annually renewable 364 day facility. Under the terms of these facilities, the financial covenants are tested semi-annually. The Group has complied fully with the financial covenant tests.

The Group updates trading forecasts covering a forward 15 month period on a regular basis, which together with the supporting assumptions are reviewed by the Board. Despite the prevailing difficult economic conditions and the level of uncertainty regarding their duration and severity, the current forecast shows that the Group is able to operate within both its committed banking facilities and related financial covenants during this period and the Directors believe that the assumptions underpinning this forecast are both prudent and reasonable.

The Directors therefore believe, on the basis of current financial projections and facilities available, that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

# Outlook

**Since the year end, all banking facilities due for renewal in the first half of 2009 have been secured and with the cash generative nature of the Group, the Board expects to operate well within these facilities.**

**Menzies Aviation**
The division will continue to position itself as the quality player in the ground handling market. The current strategy will be pursued although given the economic outlook, the division will also focus on underperforming stations and overall productivity. Decisive action is already under way and the fix/close/sell policy will be pursued as is required.

Contract gain momentum continues and the division has been awarded contracts to handle easyJet at Stansted, Bristol, Budapest, Ibiza and Tenerife, Etihad in Sydney and Melbourne and Aer Lingus at London Gatwick.

**Menzies Distribution**
The division will continue to drive cost and productivity initiatives and new revenue opportunities will be progressed.

The division will continue to focus on providing excellent customer service to its publisher and retail customers. The implementation of SAP will lead to further operational efficiencies and an enhancement of internal and external reporting.

**Group**
The Group is expecting the difficult trading environment to continue throughout 2009 and has forecast for a further deterioration in the core markets at Menzies Aviation and Menzies Distribution. However, we expect this deterioration to be largely offset by organic growth and cost savings.

In 2009 the Group will focus on cash generation and debt reduction. Capital expenditure will be less than depreciation at both divisions, and as a result both divisions are expected to be comfortably cash generative during the year. The Group is reviewing its asset base and any non-core assets may be disposed of to pay down debt.

Since the year end, all banking facilities due for renewal in the first half of 2009 have been secured and with the cash generative nature of the Group, the Board expects to operate well within these facilities.

Current trading at Menzies Aviation is slightly behind our expectations as a result of weak cargo volumes. Visibility on cargo volumes is poor and no significant return of volume is expected in the short term. The Board believes the Aviation business is well positioned for longer term growth. At Menzies Distribution, trading is slightly ahead of last year. Management continue to drive the Group's cost base rigorously and remain well positioned to benefit from market recovery.

# Corporate social responsibility

## We take business conduct seriously and have policies and guidelines in place which set standards concerning ethics, sound business practices and wider governance issues.



**Introduction**
We acknowledge the impact our business activities have on the environment and communities in which we operate, and have systems in place to identify, analyse and manage key risks arising from our operations. This includes ensuring that we comply with relevant environmental legislation. We recognise that as an employer we have a responsibility to our employees for their safety and welfare whilst at work. This responsibility extends to their training and development, as well as to setting appropriate standards for their dealings with customers and suppliers. We take business conduct seriously and have policies and guidelines in place which set standards concerning ethics, sound business practices and wider governance issues.

**Board responsibility and management framework**
The Board member with overall responsibility for Environmental, Social and Governance (ESG) risks is the Group Finance Director. The Divisional Managing Directors are responsible for ESG within their respective divisions. This responsibility also specifically includes employees and health and safety. Significant ESG issues arising in or affecting our businesses are discussed at each Board meeting.

The Company recognises that being a socially responsible company adds to and enhances the Company's overall value, both short and long term. For example, mishandled ESG risks can be damaging to the Company's reputation as an employer, supplier or business partner. The financial costs from mishandled ESG risks can affect the Company's profitability. The Board therefore has systems in place, including access to adequate information, to identify and assess ESG risks, and to ensure that these risks, and our exposure to them, are managed appropriately.

The principal ESG risks to the Group include: failure to retain and develop key staff; failure to provide safe working conditions for staff; failure to have systems in place that prevent the occurrence of environmental hazards arising from our operations; failure to manage risks that can damage corporate image and reputation; failure to ensure that the Group's operations are conducted on a lawful, sound and ethical basis and in compliance with Group Policies and Procedures; and failure to carry out adequate due diligence or business planning on joint venture partners/acquisitions.

It is important that both of our divisions maintain an open and productive dialogue with all of our customers and suppliers, and the Board has tasked each Divisional Managing Director with ensuring that these occur. Each Divisional Managing Director is also responsible for ensuring that customers and suppliers uphold high levels of health and safety and conduct their operations in a lawful, sound and ethical basis, to minimise potential reputational and operational risk to the Group.

A description of the Company's internal control system for management, particularly of financial risks is in the Corporate Governance report on pages 40 to 45. An analysis of the key business risks facing the Group appears in the Business Review on page 21. Although the remuneration of Executives is not directly related to attainment of ESG objectives, our bonus arrangements allow senior managers to base a proportion of performance-related pay for Executives on achieving personal goals such as improving staff turnover rates or improving injury or aircraft incident rates. These flexible arrangements apply to station managers at Aviation and branch managers at Distribution.

# Corporate social responsibility

## 1. Health and safety

**Introduction**
Good health and safety practices are integral both to employee welfare and to the success of the Group, and each Divisional Managing Director is responsible to the Board for Health and Safety in their division. We are continually reviewing our procedures and our training in order to develop and adopt methods of working which reduce the likelihood of accidents occurring. Both divisions operate in a time-critical environment: newspaper deliveries work to a tight schedule, with any delay losing sales for ourselves and our customers. Ground handling operations focus on aircraft, where any slip can delay departure or damage a customer's aircraft. Reports on health and safety performance are the first operating item at all meetings of the Group Board and at Divisional Operating Board meetings. They include injury statistics and trends as well as lessons learned, training performance, contacts with regulators and legislative changes. The Group's health and safety policy statement, which is published on our website, focuses on establishing a suitable environment, providing proper training, and communication and consultation with employees. Each division has a specialist health and safety manager, who is supported by local management.

**Menzies Aviation**
The division has a comprehensive safety management programme called MORSE (Menzies Operating Responsibly Safely and Effectively), which focuses on:

- personal injury;
- aircraft damages;
- damage to equipment;
- emergency response;
- security awareness; and
- avoiding the cost of carelessness.

The MORSE safety management system and network safety team provide a dedicated resource within each region to support the field organisation and ensure we maintain a strong safety compliance focus. The network team works together to set policy, agree standard operational procedures and communicate regular safety awareness information to the field organisation. With operations at 107 airports worldwide, our priority has been to continue standardising safety processes. One key feature of MORSE is that it incorporates an intranet-based network reporting and investigation system for the recording of all incidents, including near misses, to UK standards. Follow-up action is taken so that lessons are learned and shared. MORSE is continually updated and refreshed to promote its safety and security awareness message. A newly enhanced version was developed in 2008, and was launched at the start of 2009. Additionally, the division provided Occupational Health and Safety certification training with the British Safety Council for its European regional safety managers, who successfully achieved an International Certificate in Occupational Health and Safety.

An Incident Review Board chaired by the division's Managing Director meets monthly to review major (category A) incidents, shifting the emphasis to prevention rather than cure.

Menzies Aviation continues to take a proactive position with representation on industry groups such as the International Air Transport Association (IATA), Airside Safety Group and The International Aviation Handlers Association (IAHA). Representation at these groups continues to underpin a strong message to the industry and regulators that Menzies Aviation is proactive in their commitment to safety. Menzies Aviation took a leading role in successfully lobbying industry stakeholders to further reduce the maximum permissible weight of a single piece of baggage from 32kg to 23kg to reduce muscular skeletal injuries to employees, which was approved and will be incorporated in the 2009 IATA Airport Handling Manual.

## Menzies Distribution

The most common injuries in this business are those sustained from manual handling, slips and trips, and moving objects. Menzies Distribution also uses the MORSE programme, and the division is now moving into the final year of its three-year safety strategy. The year saw the introduction of the Supervisors 'Stepping Up' training programme which includes supervisors' safety responsibilities. In total, 116 supervisors completed the five day course with a further 80 to follow in the coming year.

Innovative use of the intranet has made specialist Ergonomic and Manual handling assessments available to all managers as well as more detailed generic assessments. The division continued to improve its vehicle movement practices, separating workplace vehicle movements from people movements, and has significantly reduced the possibility of accidents occurring. Our practices were highly commended in 2005 by the Freight Transport Association and the Health & Safety Executive (HSE) which has led to the HSE publishing a case study on their website highlighting Menzies Distribution's safe systems of work as the blueprint for good working practices.

Our 'pack-by-light' newspaper allocation system has enabled standardisation of pack sizes, reducing our exposure to lifting injuries. In terms of motor and vehicle-related incidents, Distribution continually keeps its fleet under review to ensure that the most appropriate vehicles are used for driving/training purposes, loading/unloading and accessing routes for making deliveries. Consideration is also given to environmental impact when choosing fleet suppliers. All staff receive health and safety training relevant to the tasks they perform. CD-based training materials are also available, including our driver training programme which covers safety as well as advanced driving skills to maximise fuel savings.

## Injury and incident reporting

Whilst both divisions utilise key performance measures to monitor trends and to improve our performance in this area, they operate in very different sectors. Statistics for each division are analysed individually, as comparing injury or incident statistics between them, or overall Group figures against figures published by comparator companies would be meaningless.

In 2008, Menzies Aviation had 79 (2007: 52) injuries reportable under UK RIDDOR with an equivalent rate per 100 FTE employees of 2.3 (2007: 1.5).

In 2008, Menzies Distribution had 51 (2007: 42) incidents during the year that resulted in injuries reportable under UK RIDDOR, which is equivalent to an injury rate per 100 FTE employees of 0.12 (2007: 1.16). The total figure includes businesses acquired during 2008.

In respect of Menzies Aviation's overseas operations, there is no comparable UK RIDDOR, as each country where it operates has different reporting requirements. However, under the MORSE incident reporting system, all injuries are reported under standard categories depending on seriousness, where category A would be for the most serious incidents. Category A level is not the same as UK RIDDOR, but it includes major/serious incidents involving fatality, serious harm, dangerous occurrence or aircraft damage, including significant near misses.

There were 100 category A incidents altogether reported worldwide during 2008 (2007: 107). Of the 100 incidents, 54 involved aircraft damage and 46 involved personal injury. This total of 100 includes injuries reported under UK RIDDOR that were serious enough to be classed under MORSE as being category A incidents. To provide some context, another significant figure that we monitor is the number of Category A incidents per 100 FTEs which decreased from 0.33 in 2007, to 0.24 in 2008. We also monitor the figures involving aircraft damage per 1,000 turns handled, which is an industry recognised measure. In 2008, our incident rate per 1,000 aircraft turns for category A aircraft damage was 0.09 (2007: 0.10) which compares against an IATA published benchmark figure of 0.67 and IAHA's figure for 2008 of 0.15 per 1,000 turns.

## 2. Employees

**Recruitment and equal opportunities**
The Board expects the Group to conduct its operations based on sound ethical practices which are open and free from discrimination and harassment, and will not tolerate discrimination in any form. The Group has adopted and disseminated appropriate policies and procedures, including clear guidelines on matters such as competition law, bribery and whistleblowing. The Board has tasked each Divisonal Managing Director to be responsible for the implementation of these policies in their divisions. The principles of equal opportunities are recognised through published employment policies which are designed to attract, retain and motivate quality staff and to give full consideration to the employment of disabled people and to staff who become disabled, including providing support and retraining to enable them to continue their employment. Full consideration is also given to age discrimination laws and our policies and practices encourage recruitment and promotion based on merit, irrespective of factors such as age, gender, race, religious beliefs or sexual orientation.

**Reward**
The Group recognises that its continuing success depends on the quality and motivation of its employees. It aims to ensure that its remuneration practices are competitive, enabling it to attract, retain and motivate executives and employees who have the experience, skills and talents to operate and develop its businesses to their maximum potential.

**Incentives**
Employees are able to develop a direct interest in the financial performance of the Group through its savings-related share option scheme, which is open to all UK employees, of whom over 1,000 are members.

Options are granted over the Company's shares at a discount of 20% from the prevailing market price at the time of grant, at an aggregate value based on savings of up to £250 per month over three years. Some 750 employees took up their invitation and subscribed to the 2008 sharesave scheme in which some 487,000 shares are now held under option.

For staff in the UK, the Group offers many benefits, such as a childcare scheme which allows staff to opt to receive part of their pay in tax-free childcare vouchers. Other benefits offered to staff, dependent on grade and location, include: private medical care, subsidised staff restaurant, gym membership, life insurance and a company car or car allowance.

**Training**
All executives and managers, from the Executive Directors downwards, undergo an annual review where feedback is given on the previous year's performance and goals for the upcoming year are agreed.

Within Menzies Distribution, developing our people has been a key area of focus in 2008 with the introduction of various initiatives. 'Stepping Up' provided 116 supervisors with basic leadership skills and best practices. 'Release the Potential' aimed at first level managers helped employees understand themselves better and improve the way they relate to other people with the intention of improving business performance. Twelve managers attended this programme. Fifty-five managers attended Employment Law seminars highlighting legislation to be followed and best practice procedures when it comes to managing staff. NVQ training was piloted in our warehouses and will be rolled out to the rest of the business in 2009 and Tachograph training sessions have been held in co-operation with the Freight Transport Association sharing best practice.

Leadership development initiatives remain important in Menzies Aviation and 2008 saw the continuation of the 'Leading from the Front' programme, which provides supervisory level employees with basic leadership skills and reinforces the 'Menzies Way', known as SPIRIT. SPIRIT – Safe & Secure, Passion, Integrity, Reliability, Innovation and Teamwork – underpins our leadership principles. The programme is delivered by local management and this ensures local buy-in to the SPIRIT principles. All new employees are given induction training designed to ensure that they can fulfil their tasks safely and securely, particularly where this involves lifting.

All of the Group's commercial vehicle drivers are given driver training specifically designed to help them to drive safely, economically and with consideration to those around them. Each division has resources made available to it to ensure the training needs of its staff carrying out particular functions and tasks are fully met. Managers are also encouraged to foster a work-based culture based on values espoused as part of a campaign promoting and providing guidance on ethical business practices and professional conduct concerning dealings with all our stakeholder groups such as customers, suppliers and of course employees.

**Communication and consultation**

During 2008, both divisions operated a comprehensive internal communication programme to ensure that all employees throughout the Group are kept informed about the direction and performance of their own division and of the rest of the Group.

A programme of employee communications, differentiated by location and function, was introduced in Menzies Aviation to provide all staff with timely information about all aspects of the Group and division's performance. Communications are managed for the audience, with translation into host languages as necessary. New media is utilised within Menzies Aviation to bring news bulletins to all e-mail addresses and to mobile devices. During 2008, more than 120 e-News Bulletins were delivered, equating to more than 230,000 individual e-mails. Channels are incorporated into the bulletins to aid immediate feedback. The division will continue to use the current system in 2009 along with other means such as video conferencing.

2008 saw the Managing Director of Menzies Distribution continue and expand his programme of head office and site seminars; meeting with management representatives to discuss strategy, culture and financial results. These sessions are supplemented by a tri-annual publication 'Critical Business Briefing', a document for senior staff designed to capture in writing and expand upon the themes discussed in each meeting.

Publication of the Menzies Distribution staff newsletter has also continued, with a survey conducted during the year to determine in which direction staff wished to see the newsletter progress. A network of local contacts exists covering each distribution location, with the aim of generating more content from the experiences of colleagues throughout the country. After a wide-ranging consultative exercise with stakeholders throughout the division, a regular, dedicated staff bulletin has been created to raise awareness and support for the i-SAP project and a project focused intranet site is due to be launched during 2009.

# Corporate social responsibility

## 3. Environment

**Environmental policy**

The Board acknowledges its responsibilities for ensuring that environmental risks arising from the activities of its businesses are properly identified, managed and controlled, and that its businesses are compliant with all local laws, as well as with best practice – the latter where it is practicable. Each of our two divisions has its own environmental policy, which has been approved by the Divisional Operating Boards and is integrated within existing management structures and implemented through normal business practices and procedures.

These environmental policies address the following areas:

- allocating roles, responsibilities and resources;
- complying with legislation and best practice;
- monitoring, verification and auditing of compliance;
- data collection, analysis and reporting;
- risk identification, assessment and management;
- communication and dissemination of information;
- adopting technology and working practices that are modern, environmentally friendly and energy efficient; and
- working with customers and suppliers to address environmental issues affecting our businesses.

At Group level, environmental issues affecting the businesses are the responsibility of, and reported by, each Divisional Managing Director to the Board. Environmental risks associated with new businesses are always assessed as part of our due diligence process on all acquisitions. Our operating procedures are reviewed following reporting of any significant actual or near-miss incidents involving safety issues or environmental hazards. Operational management also have to certify periodically compliance with local environmental regulations. There were no incidents last year which posed a significant environmental risk to the Group's operations and systems are in place to try to prevent their occurrence. These systems are reviewed periodically.

**Fleet and fuel – Menzies Aviation**

The division operates various vehicles in connection with its activities. Typically, these are on and off airport activities and include: bussing, trucking (cargo between airports) and air freight couriering by AMI.

The on-airport activities involve use of specialist Ground Support Equipment (GSE) for both our ground and cargo handling businesses. The division has 181 zero emission electrically powered GSE vehicles in the UK, with many hundreds more worldwide. Other than some passenger steps and baggage or cargo carts (dollies), which need to be towed, all GSE can be driven and run on diesel, electricity or LPG. In line with our policy on reduced emission equipment in 2008 we started refitting over 45 baggage tractors with a new low emission specification diesel engine in Los Angeles, USA. In accordance with our worldwide policy to use electrically powered vehicles wherever both specification and airport infrastructure allow, it was also decided to utilise electric tractor and trailers at our new operation in Stansted in preference to traditional diesel trucks.

All GSE is maintained on a strict check cycle, approved by the manufacturers, to ensure optimum efficiency. Other equipment including hydraulic loaders, aircraft push back tugs, conveyor belt loaders, and some diesel tow tractors that pull passenger steps and dollies is, wherever possible, fitted with the latest low emission standard engines for the particular equipment type. GSE is not designed to travel long distances so the mileage is low.

We also operate a fleet of forklift trucks for warehouse activity in our cargo handling operations. Of these forklift trucks, 91% run on LPG, the remaining larger machines on diesel and their average age is between two and six years old.

Our 'Connect2Work' bussing operation at London Heathrow has a fleet of 30 single-deck passenger buses (2007: 64) that transport some 29,000 essential airport workers daily to, from and around the airport. This service is under contract to BAA who supply our buses with fuel. This service considerably reduces private car journeys on the airport campus.

Menzies Aviation's UK trucking operation, which includes the AMI business (which consists of mainly forwarder handling and courier and air freight wholesaling) involves a fleet of 20 38-tonne articulated units with trailers (2007: 20) which transport cargo between airports, mainly in the UK and Ireland. Total mileage for 2008 was *c.*1.5 million (2007: 1.6 million) miles. These run on low sulphur fuel and 18 of the trucks are less than three years old. Any future trucks will be Euro IV standard low emission vehicles, further increasing the fuel efficiency of the fleet. The vehicle fleet undergoes a six-weekly maintenance check to ensure optimum engine efficiency. The division also has trucking operations in the USA and in Sweden, most of which are provided through subcontractors.

**Fleet and fuel – Menzies Distribution**
The business operates 432 vehicles (2007: 454), ranging from light commercial vehicles with a Gross Vehicle Weight of 2.0-tonne, up to 26-tonne articulated commercial vehicles. A further 1,211 (2007: 1,173) vehicles are operated by contractors in the newspaper and magazine distribution process.

Our fleet comprises diesel-only vehicles on a leased basis. Lease terms typically run for between three and five years, ensuring a modern and efficient fleet. All new additions to our fleet since January 2007 run on Euro IV engines. A MODEC electric vehicle was added to the fleet in 2008 and is operated in central London as part of our assessment of more eco-friendly vehicles. This was the second electric vehicle to be used in our London operations. Menzies Distribution remains committed to supporting low carbon operations and has subsequently extended the trials, with a further four electric vehicles for use in London, Glasgow and Edinburgh.

Third-party contractors carry out some 68% of our delivery mileage (2007: 68%). The same focus on costs, regulatory compliance, vehicle suitability and health and safety which influences the division's direct operations is also applied in selection and management of such subcontractors.

Mileage and related fuel cost is a significant overhead in our Distribution business. We have ongoing activity to address delivery route scheduling and driver training, both having received increased focus during 2008. The division began a complete nationwide route schedule review, which should be completed during 2009, and, following close support from, and pilot programmes developed with, Skills For Logistics, we are introducing NVQ skills investment in all drivers. During 2008, we covered 13.8 million miles per annum (2007: 13.6 million) with our fleet, using 3 million litres of fuel (2007: 3 million litres).

**Company cars**
The Group currently has a fleet of 232 company cars (2007: 229). In addition to lifecycle costing, future fleet structure will reflect relative emissions efficiency, with a commitment to reduction.

**Energy consumption**
At Menzies Distribution, energy consumption during the year amounted to 31m kWh, a decrease of 11% on 2007. Since October 2007, and following the carbon reduction review discussed below, all mainland UK electricity has been procured from fully 'green' renewable resources. The international nature and the organisational structure of Menzies Aviation does not allow accurate comparable figures to be measured.

## 4. Waste and emissions

### Waste

At Menzies Distribution, packaging waste, namely cardboard and polythene, and office paper are by-products of our activities. We have waste compactors installed in our 19 hub branches (2007: 19). The total volume of waste uplifted in 2008 was 5,317 tonnes (2007: 5,747 tonnes), of which 16.7% (2007: 13.3%) is recycled. Under our contracts with newspaper and magazine publishers, we are responsible for the collection of unsold copies from retail outlets.

For magazine publishers, we are further responsible for recycling unsold magazines, whereas newspaper publishers retain the responsibility for managing the flow of recycling of unsold newspaper copies.

Newspaper publishers outsource the physical uplift and recycling from our premises via third-party agents with whom we work closely to integrate an efficient transition from our processes to their collection.

In 2008, we facilitated the consignment to recycling of 110,000 tonnes of newsprint (2007: 110,000). For magazines, we are responsible for cleansing the unsold copies of polythene wrapping and cover mounted gifts where this is required to facilitate the subsequent de-inking process. Thereafter, we manage a logistics service to consolidate unsold copy from all of our branches, primarily feeding into UPM Kymmene's Shotton Paper Mill for conversion into future newsprint.

All unsold magazine products which are not required for resale are consigned for paper recycling. In 2008, some 60,494 tonnes (2007: 62,444 tonnes) of unsold magazines were processed for recycling. The division also handles other unsold products such as collectible partworks and sticker collections. These are sent back to publishers for subsequent re-use. The waste elements stripped from magazines to cleanse pre-recycling are currently consigned to landfill. Menzies Distribution is active in industry initiatives aimed at reducing the volumes of such material to landfill and supporting initiatives to increase consumer awareness of the magazine recycling opportunity.

Menzies Aviation staff are committed to reducing unnecessary consumption of resources and recycling packaging such as polythene, rope and pallets and as such, the packaging waste figure has reduced by over 30% during the year to 173 tonnes. Staff are encouraged to minimise the generation of waste where possible and to recycle any packaging.

### Carbon reduction

During 2007, Menzies Distribution worked with a team from Heriot-Watt University and their academic partners in the government-funded 'green logistics' project to establish its direct carbon footprint and (1) benchmark this in relation to the newspaper and magazine supply chain overall and (2) establish how our footprint has evolved over recent years. The exercise proved revealing and supports the strong link between operational effectiveness and environmental impact. The response to the report by Menzies Distribution in 2008 has been twofold:

Firstly, significant steps were taken to reduce carbon emissions within day-to-day practice. In warehouses and offices, this has meant a campaign to discourage unnecessary use of lighting, and collaboration with energy wholesalers to acquire Green electricity contracts. On delivery routes, Menzies Distribution has striven to increase fuel efficiency, thoroughly reviewing and revising run networks with the OPTRACK system and introducing educational programmes for drivers to encourage better practice. As discussed earlier, the division has also continued to investigate and implement transport and fuel alternatives including the electric Modec vehicle which now services the London area, and the introduction of a number of 'Eco-Start' sprinter vans.

Secondly, Menzies Distribution has sought ways to encourage greener practice at its partners and associates. The division's carbon footprint amounts to around 37,500 tonnes; however, the newspaper and magazine supply chain as a whole accounts for 4.73 million tonnes. Lobbying others within the industry is therefore one of the most significant steps the division can take to reduce carbon emissions. Menzies Distribution's newly launched website, www.enviromenzies.com is the platform from which the division aims to lead this campaign.

The most significant source of emissions in Menzies Aviation is from vehicles. Menzies Aviation is constantly reviewing all options available with manufacturers with the view to providing the most fuel-efficient equipment available. Within the last year, Menzies Aviation has converted a number of its fleet from diesel/petrol to electricity or LPG. Currently, there are 181 vehicles within the UK fleet with conversion being extended globally where the infrastructure exists during 2009.

## 5. Community involvement, payment policy

### Supplier payment policy

The Group does not operate a standard code in respect of payments to suppliers. Each division is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including the terms of payment. It is Group policy that payments to suppliers be made in accordance with the agreed terms, provided that the supplier has performed in accordance with all relevant terms and conditions. At the year end, the amount owed to trade creditors by the Group was equivalent to 37.4 days (2007: 32.8 days) of purchases from suppliers.

### Political donations

It is the Company's policy not to make political donations and no political donations were made during the year (2007: £nil).

### Community involvement

Each year the Board approves a budget for charitable donations of around 1% of gross dividends for the previous financial year. Donations are made through either the John M. Menzies Community Fund or the Charities Fund.

### The Charities Fund

The Charities Fund is the Company's main channel for supporting charitable causes or investing in community projects. Its activities are managed by a Charities Committee, which is chaired by the Group Finance Director and met three times during the year. Altogether, the Charities Fund receives over 300 applications every year from very diverse charities and projects, both local and international. In 2008, the Committee reorganised its donation policy, and now provides larger sums of money to fewer organisations. Each divisional board is responsible for nominating charities to which they wish to provide funding and providing details of what any donation provided by the Committee will be used for. The Committee decides which organisations to support in that year, with charities selected to represent a broad geographical spread and range of benefits to adults and children. All donations made are intended to make a positive impact on the receiving charity, with measurable benefits.

In 2008, a total of £142,500 (2007: £80,000) was donated to 27 (2007: 84) organisations.

Internationally, organisations we supported included Parikrma Humanity Foundation in Bangalore, India, which received £8,000. It focuses on breaking the poverty cycle and transforming communities by providing an environment for children to be integrated into mainstream society. Other organisations included the CTU earthquake appeal, which received £10,000 following the devastating Sichuan earthquake.

In the UK, organisations supported included Facing the World, which provides facial reconstructive surgery for children which received £10,000, the National Schizophrenia Fellowship (Scotland), which received £10,000 and Maggies Cancer Care Centres which also received £10,000.

### The John M. Menzies Community Fund

The Group employs more than 18,000 people in 27 countries all around the world, many of whom participate in various forms of charitable, voluntary and other community-related work. We are supportive of these initiatives, and encourage and support these through the work of our Community Investment team. The John M. Menzies Community Fund makes individual cash awards of up to £350 per employee, or £700 per team of employees, undertaking a charitable or community project. Such awards are made in consultation with the Managing Directors of each business. During 2008, some 21 applications were supported by this Fund to a total of £8,250.

# Board of Directors

**William Thomson**
Non-Executive Chairman
Note 3

William was appointed Chairman in 2002, having been a Non-Executive Director since 1987. He also chairs the Nomination Committee. He is Chairman of E G Thomson (Holdings) Ltd, a shipping and logistics group with interests in Asia, British Assets Trust plc and Fidelity Japanese Values plc. (Age 68).

**David Coltman**
Non-Executive Director, Senior Independent Director
Notes 2, 3

David was appointed a Non-Executive Director in 2001, Senior Independent Director in 2006 and chairs the Remuneration Committee. He is currently Chairman of Eredene Capital plc and Edinburgh Worldwide Investment Trust plc. He has held various senior positions with airlines in the UK and with United Airlines in Chicago. (Age 66).

**Paul Dollman**
Executive Director, Group Finance Director

Paul was appointed as Group Finance Director in 2002. He is also a Non-Executive Director of Scottish Amicable Life Association Society. A chartered accountant, he was previously Finance Director for William Grant & Sons Ltd, and has also held senior financial positions with Inveresk PLC, Maddox Group plc and Clydesdale Retail Group. (Age 52).

**Ian Harley**
Non-Executive Director
Note 1

Ian was appointed a Non-Executive Director of the Company on 2 February 2009. He is Chairman of Rentokil Initial Pension Trustee Limited, having previously spent eight years on the Rentokil Initial plc Board, and is Senior Independent Director at Remploy Ltd. Ian was previously Finance Director and Chief Executive Officer of Abbey National plc and spent nine years on their Board. He is a chartered accountant and Fellow and Past President of the Institute of Bankers. (Age 58).

**Ian Harrison**
Non-Executive Director
Note 1

Ian was appointed a Non-Executive Director in 1987. He is a Director of Record Currency Management Ltd, an institutional investment management company specialising in currency management for pension funds worldwide. (Age 52).

**Dermot Jenkinson**
Non-Executive Director
Notes 2, 3

Dermot was appointed to the Board in 1986 and held various executive responsibilities before assuming a non-executive role in 1999. He is founder and Chairman of beCogent Ltd, a contact centre and related consultancy business, and is a Director of a number of other private companies. (Age 54).

**Octavia Morley**
Non-Executive Director
Notes 1, 2

Octavia was appointed a Non-Executive Director in 2006. She is currently Chief Executive of Lighterlife Ltd and was previously Executive Director, Marketing Director and Commercial Director at Woolworths plc, and held positions as Managing Director, ecommerce at Asda Stores Ltd and as Buying and Merchandising Director at Laura Ashley plc. (Age 40).

**Iain Napier**
Non-Executive Director,
Note 1, 2

Iain was appointed Non-Executive Director of the Company on 16 September 2008. He is currently Chairman of Imperial Tobacco Group plc and McBride plc and is a Non-Executive Director of the Molson Coors Brewing Company. He was previously Group CEO of Taylor Woodrow plc and prior to this CEO of Bass Brewers and Bass International Brewers. Iain is a chartered management accountant. (Age 59).

**Iain Robertson**
Non-Executive Director
Note 1

Iain was appointed a Non-Executive Director in 2004 and chairs the Audit Committee. He is a former Director of The Royal Bank of Scotland Group plc, Chair of Cairn Capital Ltd and BT Scotland. He is a chartered accountant. (Age 63).

**Craig Smyth**
Executive Director,
Menzies Aviation

Craig was appointed to the Board in March 2007. He was a founder executive of the Aviation division and has worked for Menzies Aviation for 15 years. In 2003, he moved from being the Chief Financial Officer into the operational & commercial role as Vice President, Americas and was appointed Managing Director of Menzies Aviation in February 2004. He is a chartered accountant. (Age 41).

**Ellis Watson**
Executive Director,
Menzies Distribution

Ellis was appointed to the Board in March 2007 and has been Managing Director of Menzies Distribution since September 2005. Prior to this he was Managing Director of National Newspapers at Trinity Mirror plc and of Celador International. His media career began with nine years at News International, where latterly he was Marketing Director. He was also previously Chairman of the Newspaper Publishers Association, the trade body for daily national newspapers. (Age 41).

**John Geddes**
Company Secretary

John was appointed as Company Secretary in 2006. A chartered secretary, he joined the Group in 1997 and was previously Company Secretary of Menzies Aviation. His career has also included posts at Bank of Scotland plc and Guinness plc. (Age 40).

Notes:
1 Member of Audit Committee
2 Member of Remuneration Committee
3 Member of Nomination Committee

# Corporate governance statement

The Board is committed to maintaining high standards of corporate governance. The Company has applied throughout the year under review all the provisions of the Combined Code of Corporate Governance 2006 (the Code), other than the provisions concerning committee independence explained below.

**The Board**

### Composition

The Board currently consists of 11 Directors, eight of whom are Non-Executive (including the Chairman) and three Executive. The role of the Chairman is distinct from other positions, is clearly defined and is Non-Executive. The Company does not have a Chief Executive, instead it has an Executive Managing Director for Menzies Aviation, an Executive Managing Director for Menzies Distribution and an Executive Group Finance Director. Each Executive Director has clearly defined duties and responsibilities to the Board. Non-Executive Directors are appointed for an initial term of three years, and all Directors are required under the Articles to retire and offer themselves for re-election at least every three years.

### Appointments and retirals

In September 2008, Iain Napier was appointed as an independent Non-Executive Director, and Ian Harley was appointed as an independent Non-Executive Director in February 2009. Iain Robertson has indicated that he will retire following the Annual General Meeting (AGM) in May 2009.

The Board will then have 10 Directors including four independent Non-Executive Directors, well in excess of the minimum recommended by Corporate Governance guidelines for a company of our size, and ensures that the Board is well balanced and able to meet the challenges and opportunities that face the business.

In accordance with the Company's Articles of Association, Iain Napier and Ian Harley will stand for election at the Company's AGM in May 2009. The Company's Articles of Association also require that a third of the Directors, or a number nearest to a third, must retire by rotation. The Combined Code requires Non-Executive Directors serving for more than nine years to offer themselves up for annual re-election. The Directors who therefore retire and, being eligible, offer themselves for re-election at the AGM are William Thomson, Dermot Jenkinson, Ian Harrison, Octavia Morley and David Coltman.

William Thomson, who is Chairman, has extensive leadership skills and experience, providing highly valued advice and support to the executive management team. Octavia Morley brings to the Board extensive experience with major retailers, whilst David Coltman has substantial industry knowledge and expertise in the Aviation Sector. Dermot Jenkinson contributes from his breadth of knowledge gained both from his experiences in the Company and through a wide range of executive management roles, and Ian Harrison provides counsel and support to the Board and brings particular skills relating to pension investment and currency management. The latter two Directors also represent the interests of the Menzies family, who collectively are our major shareholder.

All five Directors standing for re-election have undergone a formal performance evaluation and the performance of each continues to be effective and demonstrates commitment to their role, including commitment of time for Board and Committee meetings in addition to their other duties. The Board recommends to shareholders the re-election of William Thomson, Dermot Jenkinson, Ian Harrison, Octavia Morley and David Coltman, and the election of Iain Napier and Ian Harley.

### Independence

Currently, five of the Non-Executive Directors, David Coltman, Iain Napier, Iain Robertson, Ian Harley and Octavia Morley, are independent under the terms of the Code, where the number required for smaller companies is two. David Coltman has been Senior Independent Director since May 2006.

Dermot Jenkinson and Ian Harrison are not independent under the terms of the Code due to their shareholding and length of service. However, they not only represent the continuing involvement of the founding Menzies family, but also contribute effectively to the Board and the work of its Committees. They bring to the Board a breadth of skills and experience from their knowledge of the Company and from their backgrounds in business and general management.

At least two of the members on each of the Audit and Remuneration Committees are independent (being a majority) including the Chairman of these Committees. The Nomination Committee only has one independent member and in this respect it is not fully compliant with the Code.

### Succession planning and Board recruitment

The Board is aware that it is essential to have a suitable succession plan in place for when any members of the Board either move on or retire. With regards to the replacement of any Executive Directors, the Board has tasked the Nomination Committee with reviewing potential internal candidates and nominating suitable external candidates as and when such a position arises. Alongside this, each of the Divisional Operating Boards have a responsibility to ensure that talented individuals within the business are nurtured and

given every opportunity to develop their skills, such that they might become suitable candidates to join the Board.

For the Chairman, the Nomination Committee has responsibility for ensuring that there is a suitable candidate on the Board for a smooth transition of Chairmanship when required.

The Committee will also engage external recruitment agencies in finding suitable candidates for either executive or non-executive positions where required, and any candidate will be expected to meet with each member of the executive team and the Nomination Committee prior to any offer being made.

### Board and Committee meetings and attendance in 2008

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Meetings | 10 | 4 | 5 | 2 |
| W Thomson | 10 | – | – | 2 |
| P Dollman | 10 | – | – | – |
| C Smyth | 10 | – | – | – |
| E Watson | 10 | – | – | – |
| D Coltman | 10 | – | 5 | 2 |
| D Jenkinson | 10 | – | 5 | 2 |
| I Harrison | 10 | 4 | – | – |
| O Morley | 10 | 4 | 5 | – |
| I Robertson | 9 | 4 | – | – |
| I Napier[1] | 3 | 1 | 3 | – |
| I Harley[2] | – | – | – | – |

1 I Napier was appointed to the Board on 16 September 2008.

2 I Harley was appointed on 2 February 2009, after the year end.

A description of the Board's Committees is provided below, along with the Chairman and membership of each Committee. The Board met 10 times in 2008 and has a formal schedule of matters specifically reserved to it for decision. These include: strategic plans, the approval of financial statements, acquisitions and disposals, major non-recurring projects and major capital expenditures.

The Board also delegates specific responsibilities with written terms of reference to the Board Committees detailed below. Information of an appropriate quality is issued in a timely manner to assist the Board in performing its duties. New Directors receive an appropriate induction tailored to their needs. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice as appropriate at the expense of the Company. Directors are also encouraged to visit both divisional operations and to undertake such activities and training as is appropriate or may be required or desirable in order to carry out their duties.

### Board Performance Evaluation

The Board is supportive of the principles and provisions of the Code on Board Performance Evaluation. The Board's policy is to conduct performance evaluations internally on an annual basis, using external consultants to refresh the process every three to five years. During 2008, an independent external consultant was again used to undertake a rigorous process of performance evaluation of the Board and its members, and to investigate whether any individual Board members had any concerns that they wished to be addressed.

The Chairman then undertook an informal discussion with each member of the Board, reviewing performance and addressing any concerns they had relating to their performance, the Board's performance and the composition of the Board and its Committees. The results of the external evaluation were reported to the Board in January 2009, and actions are under way to implement the findings.

In addition to this review, the Non-Executive Directors held one meeting last year without the Chairman being present, during which his performance was reviewed. They also held a meeting with the Chairman present at which the performance of the Executive Directors was discussed.

### Communication with shareholders

The Board has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through its annual and interim reports, results and other announcements, as well as through presentations to institutional shareholders and the dissemination of information via the Group's website at www.johnmenziesplc.com, the Board seeks to present its strategy and performance in an objective and balanced manner.

Shareholders attending the AGM are invited to ask questions during the Meeting and also to meet the Directors after the formal business of the Meeting has concluded. The Chairmen of the Board Committees are also available to answer questions from any shareholder at the Meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the Meeting and, in keeping with best practice, are made available on the Company's website after the Meeting.

The Board receives reports at each of its meetings on any meetings held with shareholders or analysts. The Chairman and Senior Independent Director are also available for contact by shareholders at any time.

# Corporate governance statement

## Board Committees

The Board has established Committees with defined terms of reference. The Board's policy on the membership of its Committees is that all Non-Executive Directors should contribute, and to keep membership fresh, one member of each committee be changed every two years. The Nomination, Remuneration and Audit Committees each consist of three Non-Executive Directors. The Chairmen of the Audit and Remuneration Committees will be chosen from Directors who are independent under the terms of the Code. It is the Board's intention that they will serve for three years. The inclusion of Dermot Jenkinson on the Remuneration and Nomination Committees and of Ian Harrison on the Audit Committee respectively does not comply with the Code; however, they provide valuable experience from their knowledge of the Group's operations, and from their backgrounds in business.

The Board has also delegated operational and strategy implementation matters to the Operating Boards of Menzies Aviation and Menzies Distribution, both of which have two Executive Directors on them.

## Nomination Committee

Composition:

| Name | Title | Attendance |
|---|---|---|
| W Thomson | Chairman | 2/2 |
| D Jenkinson | Member | 2/2 |
| D Coltman | Member | 2/2 |

The Nomination Committee has terms of reference modelled closely on those set out in the Code and its responsibilities include recommending new Board appointments and succession planning. A copy of the terms of reference is available on the Company's website. The Board as a whole is responsible for making new appointments to the Board on the recommendation of the Nomination Committee and nominating recommended candidates for election by shareholders on first appointment and thereafter for re-election at relevant intervals.

During 2008 the Committee reviewed the structure, balance and composition of the Board and its Committees and concluded that an additional independent Non-Executive Director should be appointed. Iain Napier has joined the Board as an independent Non-Executive Director. Ian Harley has also been appointed as an independent Non-Executive Director and will replace Iain Robertson, who will retire following the AGM in May 2009.

## Remuneration Committee

Composition:

| Name | Title | Attendance |
|---|---|---|
| D Coltman | Chairman | 5/5 |
| D Jenkinson | Member | 5/5 |
| O Morley | Member | 5/5 |
| I Napier | Member | 3/3 |

The Report on Directors' Remuneration on pages 46 to 55 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to Directors' remuneration have been applied.

## Audit Committee

Composition:

| Name | Title | Attendance |
|---|---|---|
| I Robertson | Chairman | 4/4 |
| I Harrison | Member | 4/4 |
| O Morley | Member | 4/4 |
| I Napier | Member | 1/1 |

The Audit Committee assists the Board in the execution of its responsibilities for corporate governance and internal control, and has adopted terms of reference modelled on those set out in the Code. The Group Finance Director and certain senior financial executives as appropriate, together with representatives from the internal and external audit teams, attend each meeting. A copy of the terms of reference is available on the Company's website.

The Committee has delegated authority from the Board for ensuring adherence to the Code provisions and related guidance concerning the following matters:

- monitoring the integrity of the financial statements and reviewing significant accounting policies, judgements and estimates contained within them;
- reviewing the effectiveness of the internal control and risk management systems, including control over financial reporting;
- reviewing the effectiveness of the internal audit function, including the business risk programme;
- reviewing the Group's policies and practices concerning business conduct, ethics and integrity and whistleblowing; and
- overseeing all aspects of the relationship with the external auditors, including their appointment, the audit process, the supply of non-audit services and monitoring their effectiveness and independence.

The Committee met four times in 2008 and a full report of its activities and of findings and recommendations from each meeting is given to the Board. During the year, the Committee formally

reviewed and approved (prior to the Board) draft annual and interim reports (including the statements on internal control and the work of the Committee), associated preliminary and interim results announcements and the two Interim Management Statements made by the Company. This aspect of its work focused on key accounting policies and estimates and judgements, including significant or unusual transactions or changes to these. In doing so the Committee reviewed the reports of management and the controls assurance (internal audit) provider and took into account the views of the external auditors.

The Committee also reviewed the Group's internal control structure, approved the scope of work and fees for the controls assurance provider and debated whether the internal audit function should be brought in-house. It concluded that due to the complexity of the Group's business and the international nature of the aviation business, the internal audit function was best served by continuing to be outsourced to Deloitte & Touche LLP, given their global spread and resources. Findings from the internal audit programme (on financial and key non-financial risks) and areas identified for improvement are reviewed by the Committee and prioritised for action by management. The Committee reviews follow-up reports from management to ensure that any weaknesses identified in internal audit reports submitted to it are fully addressed and that improved procedures are adopted.

The Committee also reviewed the work of management on updating the Group's Business Risk register, which involved assessing key risks at Group and divisional level according to their significance, likelihood and impact, as well as the Company's exposure to and management of these risks.

After taking into account reports from the controls assurance provider, the Committee was satisfied that management had appropriate risk management strategies and systems in place to address the Group's key business risks. The Committee reviewed and approved the audit plan, as well as the findings of the external auditors from its review of the interim announcement and its audit of the annual financial statements. It also assessed the effectiveness of the external auditors and of the audit process through meetings and interviews with management and key finance staff. As part of this, it keeps under review the objectivity and independence of the external auditors and the nature and extent of the non-audit services which they provide. These services consist mainly of acquisition-related due diligence, where their knowledge of the Group's business processes and controls makes them best placed to undertake this work cost-effectively on the Group's behalf.

The external auditors do not deal with the Group's tax affairs. The Committee believes that the level and scope of these non-audit services does not impair the objectivity of the auditors.

### Divisional Operating Boards

The Operating Boards of both Menzies Aviation and Menzies Distribution consist of senior executives from within each division, together with the Divisional Executive Managing Director and the Group Finance Director. The Boards have responsibility for the day-to-day running of their division and the implementation of the strategy for their division agreed by the Group Board. They also retain responsibility for approving divisional performance targets consistent with the strategic objectives set by the Group Board, and monitoring achievement. The Operating Boards also have responsibility to make recommendations to the Group Board and to monitor major initiatives. Each Operating Board normally meets a minimum of four times per year.

The three Executive Directors also meet prior to each Board meeting, with the Chairman joining them as appropriate. The meetings provide a forum for sharing ideas and experiences from within the Operating Divisions. It also allows the common financial controls, managed at Group level, to be reviewed and discussed. The composition of the Menzies Aviation Operating Board is shown on page 14 and the Menzies Distribution Operating Board is shown on page 20.

### Directors and their interests

Directors' interests in the ordinary shares of the Company were as follows:

| Name | | **31 December 2008** | 29 December 2007 |
|---|---|---|---|
| W Thomson | Beneficial | **14,000** | 4,000 |
| P Dollman | Beneficial | **60,642** | 22,467 |
| C Smyth | Beneficial | **54,810** | 18,720 |
| E Watson | Beneficial | **15,055** | 572 |
| D Jenkinson | Beneficial | **2,098,360** | 2,098,360 |
| | Non-beneficial | **3,570,360** | 3,570,360 |
| | See note | **1,257,445** | 2,514,885 |
| I Harrison | Beneficial | **2,434,320** | 2,122,832 |
| | Non-beneficial | **415,000** | – |
| | See note | **1,257,445** | 2,514,885 |
| D Coltman | Beneficial | **35,000** | 35,000 |
| O Morley | | **–** | – |
| I Robertson | Beneficial | **60,000** | 20,000 |
| I Napier[1] | Beneficial | **5,000** | – |
| I Harley[2] | | **–** | – |

1 Appointed 16 September 2008.

2 Appointed 2 February 2009.

Note: These holdings are joint beneficial interests.

# Corporate governance statement

In addition to the above holdings, William Thomson and Iain Robertson, as directors of a subsidiary which is a trustee of employee benefit trusts in which they have no beneficial interest, have non-beneficial interests in 418,361 shares. There have been no subsequent changes to these interests as at 9 March 2009.

### 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 as at 9 March 2009.

| Name | Number of ordinary shares | % ordinary share capital |
|---|---|---|
| D C Thomson & Co Ltd | 5,190,000 | 8.62 |
| Audley Capital Advisors | 4,235,807 | 7.04 |
| Threadneedle Asset Management | 3,266,300 | 5.43 |
| Aberdeen Asset Managers | 3,199,537 | 5.32 |
| Mr D Ramsay | 2,589,878 | 4.30 |
| Legal & General Investment Management | 2,532,009 | 4.21 |
| Mrs P Menzies | 2,529,650 | 4.20 |
| Mrs S Speke | 2,454,920 | 4.08 |
| Mrs K Slater | 2,396,552 | 3.98 |
| AXA Rosenberg Investment | 2,214,253 | 3.68 |

### Directors' and Officers' liability insurance

The Company maintains liability insurance for the Directors and Officers of the Company and its subsidiaries. No Director or Officer was in receipt of any indemnity from the Company during the year.

### Annual General Meeting

Paper copies of the Notice of Meeting and explanations of the Special Business to be transacted at the AGM which will be held on 21 May 2009 at the Roxburghe Hotel, Edinburgh, has been circulated to shareholders who have requested a paper copy. Notification of the availability of the Notice of Meeting on the Company's website has been circulated to all other shareholders. The Notice can be viewed on the Company's website, www.johnmenziesplc.com.

### Dividends

The Directors have decided not to pay a final dividend. This means that the dividend for the full year was 7.56p per ordinary share, which was paid on 28 November 2008.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In preparing these financial statements, the Directors have also elected to comply with IFRSs issued by the International Accounting Standards Board ('IASB'). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group and Company.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website (www.johnmenziesplc.com). Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

### Disclosure of information to and reappointment of auditors
The Directors have confirmed that they are confident that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have confirmed that they have taken all steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Board to set their remuneration will be proposed at the AGM.

### Significant agreements – change of control
The Company's divisions, Menzies Aviation and Menzies Distribution, have agreements in place with suppliers and customers, some of which contain change of control clauses giving rights to these suppliers and customers on a takeover bid for the Company. A change of control of the Company following a takeover bid may cause a number of other agreements to which the Company or its subsidiaries are party, such as banking arrangements, property leases and licence agreements to take effect, alter or terminate. In addition, the Directors' service agreements and employee share plans would be similarly affected on a change of control.

## 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, through the Board's review of risk and the work of the Audit Committee, have reviewed the effectiveness of the system of internal control for the accounting period under review and consider that it accords with revised guidance. There were no material weaknesses in the Group's system of internal control relating to financial control during the year. The key features of the Group's internal control system are:

### Control environment
A key factor in the Group's approach to internal control is the recognition of the need for risk awareness and the ownership of risk management by Executives at all levels. Each operating division has its own Board. A Statement of Group Policies and Procedures sets out the responsibilities of these Operating 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, both financial and non-financial (the latter including environmental, social and governance 'ESG' risks), are reviewed by the Board as well as at Operating Board level on an ongoing basis, with a formal annual review of risks and controls taking place, supported by the Group's Controls Assurance provider.

The Divisional Operating Boards also review each division's performance, strategy and risk management. Annual compliance statements on internal control are certified by each Divisional Board. A Treasury Review Committee meets regularly to review the adequacy of the Group's facilities against potential utilisation and commitments, as well as to monitor and manage the Group's exposure to interest rate and currency movements. Further details on how the Board manages ESG risks in particular is given in the Corporate Social Responsibility report on pages 29 to 37.

### 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 reforecasting exercise is undertaken at least twice during the year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate.

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

# Report on Directors' remuneration

**Remuneration Committee**
The Remuneration Committee determines the remuneration of the Chairman and the Executive Directors on behalf of the Board. It has formal Terms of Reference set by the Board modelled on the Combined Code, which are displayed on the Company's website.

The Committee's membership is shown on page 42. In accordance with the Company's policy of refreshing the membership on Committee's every two years, David Coltman will stand down as Chairman at this year's Annual General Meeting (AGM) and will be replaced by Iain Napier. The Company Secretary is the secretary of the Committee. Paul Dollman, Group Finance Director, who also has responsibility for advising on Executive remuneration, attends meetings as appropriate. Research commissioned from Kepler Associates was used by the Committee in its determination of Executive remuneration, bonus payments and incentive schemes. Legal advice, from Maclay Murray & Spens LLP, was sought by the Committee during the year where it felt appropriate.

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

**Committee review**
The Board extended its review of its own performance to the performance of the Committee during the year, and as part of the independent boardroom evaluation, an external evaluator undertook a survey of the Committee members. Both the Company Chairman and the Committee Chairman held individual and confidential discussions with each member of the Committee where they were invited to raise any concerns or issues that they felt needed addressing.

**Annual General Meeting**
A resolution to approve this report on Directors' remuneration will be tabled at the AGM. The Chairman of the Committee will be available to answer questions from shareholders on the report.

**Remuneration policy, practice and principles**
The Group recognises that its continuing success depends on the quality and motivation of its employees. The Group aims to ensure that its remuneration packages are competitive, thereby enabling it to attract, retain and motivate Executives who have the experience, skills and talents to operate and develop its businesses to their maximum potential. This total pay position is analysed by looking across each of the different elements of remuneration, including salary, pension, the annual bonus plan, and long-term incentives to provide a total remuneration rather than just the competitiveness of the individual elements. Pay, salary increases and employment conditions elsewhere in the Group are taken into account by the Committee in determining the remuneration packages for Executive Directors, along with current external market conditions and package competitiveness.

**Salary spread/package mix**
The total remuneration package is designed to include performance and non-performance-related elements. Non-performance elements include salary, taxable benefits and pension entitlements. In addition, Executive Directors are entitled to participate in the Company's savings-related share option scheme.

All other parts of the package are performance-related, and combine a mixture of cash and share-based incentives, described in detail below. The performance-based schemes also adopt a variety of performance criteria rather than one criteria used over all the schemes. This is to ensure that the Directors provide a broadly-based growth and development plan for the business. The schemes are designed to reward improvements within divisional performance (such as the Divisional Performance Share Plan), as well as the performance of the Company against external factors, such as Performance Share Plan which measures the Company's TSR against that of the FTSE250. The Committee believes that by using a combination of internal and external targets across the various schemes, it can better align the Directors' interests with the interests of the shareholders.

It is intended that on-target performance payouts should be made where the Company achieves its objectives for the year, which will be a combination of financial performance of the Group and divisions, cost savings, business development and other divisional objectives. Stretch performance will be paid where the objectives set for the Group have been exceeded, as well as Executive Directors' individual targets as set by the Board.

Directors' salaries are maintained at competitive levels for comparable positions (based on information provided by Kepler Associates) reflecting, where appropriate, the international nature of the business. Additional rewards for success are built into the remuneration package through incentives designed to share with Directors' profitability of the Group and wealth generated for shareholders.

In considering and determining suitable remuneration packages for the Executive Directors the Committee has given full consideration to the relevant best practice provisions set out in the Combined Code. The Committee also determines the extent to which all performance targets are met, using research findings as described above.

**Distribution of total 'on-target' performance remuneration**

| | Salary | Bonus | BCIP | PSP/DPSP | LTIP | TIP |
|---|---|---|---|---|---|---|
| **2008 (% of total)** | **56** | **17** | **4** | **15** | **8** | **–** |
| 2007 (% of total) | 47 | 19 | 5 | 10 | 7 | 12 |

**Distribution of total 'stretch' performance remuneration**

| | Salary | Bonus | BCIP | PSP/DPSP | LTIP | TIP |
|---|---|---|---|---|---|---|
| **2008 (% of total)** | **26** | **16** | **16** | **27** | **15** | **–** |
| 2007 (% of total) | 22 | 13 | 13 | 18 | 13 | 21 |

**Basis for calculations**

Cash-based awards are calculated on the real cash value when the award is made.

Share-based awards are calculated on the actual share price on the date that the award is made, not an anticipated value on vesting date.

**Incentive schemes summary**

| Component | Measured by | Maximum performance summary |
|---|---|---|
| 2005 Performance Share Plan (PSP Scheme) | Growth in TSR in comparison to the TSR of the FTSE250 | A maximum annual award of 100,000 shares can be made in any year.<br>100% payout should TSR exceed the FTSE250 by >30% in a three-year performance period. |
| 2007 Divisional Performance Share Plan (DPSP Scheme) | Divisional-based targets<br>Menzies Aviation operating profit<br>Menzies Distribution split between: operating profit cost savings new revenue | Three-year calendar performance period.<br>A maximum annual award of 100,000 shares can be made in any year.<br>Targets are considered Inside Information and will be disclosed at the end of every performance period. |
| 2005 Bonus Co-Investment Scheme (BCIP) | Measured by the growth in earnings per share in excess of growth in the Retail Price Index | Three-year calendar performance period.<br>Matching shares will be released to Executive Directors where growth in EPS exceeds growth in the RPI of at least 3%. Growth in excess of 8% will achieve maximum payout. |

# Report on Directors' remuneration

| Component | Measured by | Maximum performance summary |
|---|---|---|
| Annual Bonus Scheme | A combination of targets:<br><br>Individual;<br>Group; and<br>Divisional | One-year calendar performance period.<br><br>Bonuses are payable at up to 60% of the individual's salary, with Executive Directors payment capped at £200,000.<br><br>No bonus is paid at threshold level or below, rising on a straight-line basis to 100% paid where stretch targets are achieved. |
| Transitional Incentive Plan (TIP) | Divisional-based targets<br><br>Menzies Aviation<br>2008 operating profit<br><br>Menzies Distribution<br>split between:<br>2008 operating profit<br>cost savings<br>new revenue<br><br>Group<br>Group profit before tax | One-year calendar performance period.<br><br>Payout up to a maximum of £250,000 for Executive Directors based on achievement of performance criteria.<br><br>Targets were:<br>Menzies Aviation: threshold payments (25%) payable where 2008 divisional operating profit was £24m, increasing on a straight-line basis to maximum payments (100%) payable where 2008 operating profit was £27m or greater.<br><br>Menzies Distribution: a combination of threshold payments where 2008 divisional operating profit was £22m, cost reduction programme was £3m and new profit streams generated £2m profit, rising to maximum payments payable where 2008 divisional operating profit was £25m, cost reduction programme was £4.5m and new profit streams generated £4.7m profit.<br><br>Group: threshold payments were made where the Group's PBT was £35.3m, increasing on a straight-line basis to maximum payments payable where 2008 PBT was £40.3m or greater. |

It is expected that Executive Directors will build up a holding of at least 50,000 shares in the Company over a period of time. Both Paul Dollman and Craig Smyth hold in excess of 50,000 shares in the Company. To assist in building up a shareholding, Directors are encouraged to invest up to 50% of their bonus in the Bonus Co-Investment Scheme.

**Basic salary and benefits**
Salaries are reviewed annually, on appointment, or on change in position or responsibility. In conducting annual reviews of the Executive Directors salaries', the Committee considers the pay awards and employment conditions across the Group, the Executive Director's individual performance, experience, as well as the external competitive levels for comparable positions.

In addition to salary, the Executive Directors may receive additional benefits covering car allowance, private medical insurance and life cover. Craig Smyth and Ellis Watson also received a cash allowance in place of any pension entitlement above the 'earnings cap'. Paul Dollman has an unfunded pension undertaking from the Company to provide in total the same level of pension as if the 'earnings cap' did not apply.

## Annual bonus scheme

The Executive Directors participate in a discretionary bonus scheme which is subject to the achievement of challenging Group and Divisional and personal targets designed to encourage excellent performance. Bonus payments are non-pensionable.

The 2008 bonus scheme contained performance targets that include threshold and stretch levels derived from a review of the historical and projected performance of the Group and its peers, together with an analysis of City analysts' expectations. Bonuses at the higher end of the range are payable only for demonstrably superior Group and individual performance and the stretch level represents upper quartile performance.

Executive Directors receive a bonus payment of £nil on achieving below threshold performance, increasing on a straight-line basis to a maximum payment of £200,000 for stretch performance. Up to 20% of any entitlement is dependent on the extent to which identified personal Key Result Areas (KRAs) are achieved. Whilst all Directors were entitled to receive a bonus payment in respect of their individual KRAs, they have each waived their entitlement to receive the payment for 2008.

For 2008, bonuses were calculated as follows:

| Name | Measure | Threshold | Target | Achieved | Award entitlement | Bonus paid |
|---|---|---|---|---|---|---|
| P Dollman | Group profit before tax | £35.3m | £40.3m | £30.7m | – | – |
| | KRA (20% of award) | – | – | 85% | £34,000* | – |
| C Smyth | Aviation EBIT | £22.5m | £26.0m | £14.1m | – | – |
| | KRA (20% of award) | – | – | 80% | £32,000* | – |
| E Watson | Distribution profit | £23.0m | £25.0m | £23.9m | £44,500 | £44,500 |
| | New profit streams | £2.0m | £4.7m | £2.1m | £1,500 | £1,500 |
| | Cost reduction | £3.0m | £4.0m | £6.2m | £50,000 | £50,000 |
| | KRA (20% of award) | – | – | 92.5% | £37,000* | – |

*Bonus in respect of KRA waived.

## Transitional Incentive Plan

Following the restructuring of the Board in 2007, and acknowledging the unique set of circumstances and extra responsibility placed upon the Executive Directors and the Divisional Operating Boards, the Company introduced a Transitional Incentive Plan. Designed to promote retention and stability during a period of change, this one-off plan operated over a one-year period which commenced on 1 January 2008 and run concurrently with the Company's accounting year.

The performance conditions were based on the achievement of targeted Divisional Financial Results (DFR). The DFR was set at threshold and stretch level; at the stretch level, the performance target has been set by the Remuneration Committee as being suitable and challenging and as being equivalent to achieving upper quartile performance.

A threshold performance receives a payout of 25% of the individual's salary rising on a straight-line basis to a maximum payout of 100% of salary (capped with a maximum potential payout of £250,000) at stretch level.

At Menzies Distribution, the DFR was based on a combination of the division's operating profit, reduction in operating costs and income from new revenue streams. At Menzies Aviation the DFR was based on the division's operating profit and at Group the DFR was based on a profit before tax.

| DFR measure | Threshold target | Stretch target | Actual result |
|---|---|---|---|
| Aviation operating profit | £24m | £27m | £14.1m |
| Distribution operating profit | £22m | £25m | £23.9m |
| Distribution reduction in operating costs | £3.0m | £4.5m | £6.2m |
| Distribution income from new revenue streams | £2.0m | £4.7m | £2.1m |
| Group – profit before tax | £35.3m | £40.3m | £30.7m |

Actual payouts under the scheme are detailed on the Directors' remuneration table on page 54.

# Report on Directors' remuneration

**Bonus Co-Investment Plan**

Under the Bonus Co-Investment Plan, Executive Directors may elect to invest up to 50% of their annual bonus in shares of the Company (net of tax) which qualify for an award of up to 2:1 matching shares (based on the gross invested salary) dependent on achieving a performance target set prior to election.

The performance target for the Plan is for real per annum Earnings Per Share (EPS) growth above the Retail Price Index growth over a three-year period, with the number of shares vesting being calculated on a straight-line basis from a nil award at 3% to a full award at 8% or above. Any dividends accrued on shares which vest are paid in cash on vesting.

Following a review of the scheme rules, it has been discovered that the potential maximum award of matching shares has previously been understated, having been calculated on the actual number of shares purchased by the individual, rather than on the gross amount of deferred bonus. The revised figures for each of the outstanding awards are shown in the table below.

| | 2007 Original | 2007 Revised | 2006 Original | 2006 Revised |
|---|---|---|---|---|
| P Dollman | 3,296 | 5,586 | 4,816 | 8,162 |
| C Smyth | 11,426 | 19,366 | 4,968 | 8,420 |
| E Watson | 1,144 | 1,938 | – | – |

The maximum number of matching shares possible are shown in table 1 on page 53.

An award of conditional matching shares was made during the year (subject to performance conditions as noted above) at a market price of 534p (2007: 515.5p). They will vest on the day on which the Company announces its preliminary results for the year to December 2010 (2007 share awards: December 2009). The figures shown above are maximum entitlements and the actual number of shares which vest will depend on the performance conditions being achieved, as set out above.

An award made in 2005 matured in December 2007. The real per annum growth in EPS for the Company over the performance period of the award did not meet threshold levels, and therefore no matching shares vested.

**Performance Share Plan**

Executive Directors may be awarded a number of conditional shares annually under the Performance Share Plan (PSP) as determined by the Committee. The maximum number of conditional shares which may be awarded to any individual under the rules of the PSP in any year is 100,000. At the 2007 AGM it was the Committee's stated intention that no individual would receive an award from both the PSP and the Divisional Performance Share Plan (DPSP) in any given year. However, on reflection and having reviewed feedback from shareholders, the Committee decided that an award split between the two schemes is appropriate. For the avoidance of doubt, under no circumstances will any individual receive combined awards of more than 100,000 conditional shares (the stated annual maximum for each participant in each scheme) in any one year as a result of awards under both schemes.

The shares awarded in 2008 will vest after three years if the Company's Total Shareholder Return (TSR) is equal to or outperforms the FTSE250 Index (the Index) TSR for the three years to December 2010. The number of shares to vest will be based on the extent of any outperformance, with shares vesting on a straight-line basis up to 100% of the award for performance at 30% above the Index's TSR. Any dividends accrued on shares which vest are paid in cash on vesting.

The maximum number of shares which could vest under the PSP to Executive Directors are shown in table 2 on page 53.

An award of conditional shares was made during the year (subject to performance conditions as noted above) at a market price of 487p (2007: 576p). These will vest on the day on which the Company announces its preliminary results for the year to December 2010 (2007 share awards: December 2009). The figures shown are maximum entitlements and the actual number of shares which vest will depend on the performance conditions being achieved, as set out above.

The award of conditional shares made in 2005 which had a performance period from January 2005 to December 2007 lapsed during the period with the performance criteria not being met.

### Divisional Performance Share Plan

The DPSP is the same in practically all respects as the PSP, except that the performance conditions are based on the achievement of targeted Divisional Financial Results (DFR), rather than TSR within the PSP. The PSP therefore aligns each divisional Director to the performance of the Group while the performance criteria within the DPSP is set against future divisional profitability and is appropriate given the structure of the Group to incentivise each Divisional Managing Director.

When the DPSP was proposed to shareholders at the 2007 AGM it was the Committee's stated intention that no individual would receive an award from both the PSP and DPSP in any given year. However, on reflection and after reviewing feedback from shareholders, the Committee has decided that an award split between the two schemes would be more appropriate. It is therefore the intention of the Committee to split the overall award to each Divisional Managing Director equally between the DPSP and the PSP. For the avoidance of doubt, under no circumstances will any individual receive combined awards of more than 100,000 conditional shares (the stated annual maximum for each participant in each scheme) in any one year as a result of awards under both schemes.

The DFR are set at threshold and stretch level. At threshold, 25% of the award will be paid to an individual, increasing on a straight-line basis to 100% for stretch or greater achievement. At stretch level, the performance targets have been externally verified by Kepler Associates as being equivalent to achieving upper quartile performance.

For Menzies Distribution, the DFR are based on a combination of three factors: operating profit; reduction in operating costs; and income from new revenue streams. For Menzies Aviation the DFR are based on operating profit. As the disclosure of these targets could be considered as a profits forecast and are viewed by the Committee to be both price and commercially sensitive, the Committee has decided that it will retrospectively disclose the threshold and stretch targets for an award in its report following the end of the performance period. Disclosure of the performance targets made during 2008 will therefore be made in the Committee's Report for the financial year ending 2010.

The maximum number of shares which could vest under the DPSP to Executive Directors are shown in table 3 on page 53.

An award of conditional shares was made during the year (subject to performance conditions as noted above) at a market price of 487p (2007: 576p). These will vest on the day on which the Company announces its preliminary results for the year to December 2010 (2007 share awards: December 2009). The figures shown are maximum entitlements and the actual number of shares which vest will depend on the performance conditions being achieved, as set out above.

### 2009 Performance Share Plan

The Committee has decided to recommend the introduction of a one-off three-year Performance Share Plan (2009 PSP), which will offer Executive Directors the opportunity to benefit from the potential success of the Company over the forthcoming three years, as measured by an increase in the Return On Capital Employed (ROCE). It will provide for a conditional award to be made of up to 450,000 ordinary shares for each participant, over a three-year period. Vesting is based on attainment of a prescribed performance criteria (ROCE) and continued employment over a three-year period. On the Committee's recommendation, the Board is proposing to adopt the 2009 PSP to augment the Company's existing share incentive plans as part of the Company's policy of ensuring that its remuneration practices remain competitive.

Further details of the 2009 PSP are set out in the Notice of Annual General Meeting.

### Share options

#### Executive share option scheme

Prior to the introduction of the above share and incentive schemes, share options were granted to each Executive Director normally on an annual basis at a level of one times salary. All grants were discretionary, and awards could be varied depending on specific circumstances. Paul Dollman was granted options at three times salary in 2002, reflecting market conditions at the time of his recruitment, and an award of one times salary in 2004. The number of shares held in the scheme are shown in table 4 on page 54, and the cost to the Company is shown in Note 20 to the accounts.

# Report on Directors' remuneration

The options are exercisable on a sliding scale if growth in underlying earnings per share exceeds RPI plus 3%-8% per annum in the three years from grant, adjusted to normalise pension and tax charges. The performance conditions attaching to these options have been met in full.

Savings Related Share Option Scheme
The Company operates a H.M. Revenue & Customs approved Savings Related Share Option Scheme (the SAYE Scheme) available to all UK-based employees in the Group, including Executive Directors. The Company believes that the SAYE Scheme is an important tool in the motivation and retention of staff and at the AGM in 2008 the Company approved the introduction of a new SAYE Scheme to replace the one which was due to expire in September 2008. Further details of the SAYE Scheme and the cost to the Company are shown in Note 20 to the accounts.

The interests of the Directors in the SAYE Scheme are set out in table 5 on page 54.

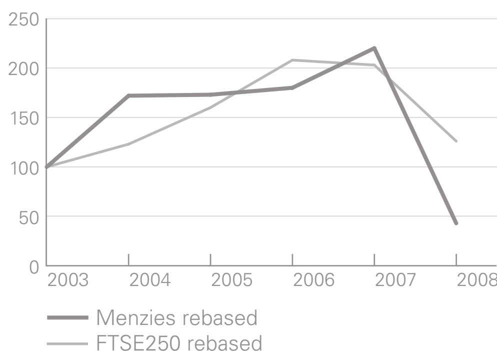
**Service contracts**
The Executive Directors have service contracts with the Company, the dates of which are listed in the Directors' Emoluments table on page 54. The Group's practice on notice periods is that they should be for a period of 12 months' notice. It is the Company's policy that any termination payment be restricted to the actual loss incurred by the Director. All Executive directors who served during the year have service contracts on this basis. The Committee considers that the notice periods are reasonable and in the interests of shareholders having due regard to prevailing market conditions and practice among companies of comparable size.

**Non-Executive Directors**
The Chairman and each of the Non-Executive Directors have letters of appointment. The letters of appointment do not contain any contractual entitlement to a termination payment and the Directors can be removed in accordance with the Company's Articles of Association. The Chairman and all Non-Executive Directors are subject to re-election by shareholders at least every three years, with the exception of any Director whose appointment exceeds nine years, in which case there is a requirement for annual re-election.

**Salary**
The salary mix for Non-Executive Directors comprises a basic payment, and additional payments for being Chairman or a Committee member, or the Senior Independent Director. It is intended to be a competitive mix broadly in line with comparable companies.

| | |
|---|---:|
| Payment | £32,229 |
| Committee Chairmanship | £6,000 |
| Committee Membership | £2,500 |
| SID fee | £14,061 |

**Performance graph**
The following graph compares the Company's total shareholder return for the five years to December 2008 with the equivalent performance of the FTSE250 Index. The Directors consider that, given the scale and global spread of the businesses within the Group, the most appropriate comparison is with this index.



## External appointments

The Board recognises the benefits to the individual and to the Company of involvement by Executive Directors as Non-Executive Directors on other companies. Prior to accepting an invitation to become a Non-Executive Director of another company, an Executive Director must receive approval from the Chairman. This approval will not be denied where the Chairman is confident that the appointment will not interfere in any way with the Director's ability to perform his duties for the Company or provide a conflict of interest. Executive Directors are entitled to retain any fees received under these appointments. During the year, Paul Dollman accepted an external non-executive appointment with Scottish Amicable Life Association Society. Details of fees received by Executive Directors are as follows:

Paul Dollman £25,986 (Scottish Amicable Life Association Society)

## Payments to outgoing Directors

No Directors left the Board during the year, and so the Company did not make any payments. It is the Company's policy that any termination payments that are made to a Director are mitigated wherever possible, and will not exceed their entitlement based on their service contract.

## Share price

The market price for shares in John Menzies plc ranged from 77.5p to 594p during the 2008 financial year and was 106.75p at 31 December 2008.

The following sections of this Report have been audited:

### Table 1 – Bonus Co-Investment Plan

| | 29 Dec 2007 (restated) | Granted during year | Market price of award | Lapsed during year | 31 Dec 2008 |
|---|---|---|---|---|---|
| P Dollman | 33,337 | 23,792 | 534p | 19,589 | 37,540 |
| C Smyth | 27,786 | 20,646 | 534p | – | 48,432 |
| E Watson | 1,938 | 12,720 | 534p | – | 14,658 |

### Table 2 – Performance Share Plan

| | 29 Dec 2007 | Granted during year | Market price | Lapsed during year | 31 Dec 2008 |
|---|---|---|---|---|---|
| P Dollman | 95,000 | 70,000 | 487p | 30,000 | 135,000 |
| C Smyth | 60,000 | 35,000 | 487p | 30,000 | 65,000 |
| E Watson | 72,500 | 35,000 | 487p | 42,500 | 65,000 |

### Table 3 – Divisional Performance Share Plan

| | 29 Dec 2007 | Granted during year | Market price | Lapsed during year | 31 Dec 2008 |
|---|---|---|---|---|---|
| C Smyth | 35,000 | 35,000 | 487p | – | 70,000 |
| E Watson | 35,000 | 35,000 | 487p | – | 70,000 |

### Table 4 – Executive Share Option Scheme

| | 29 Dec 2007 | Granted during year | Exercised during year | Market price at date of exercise | Lapsed during year | Gain | 31 Dec 2008 | Exercise price | Date exercisable from | Date exercisable to |
|---|---|---|---|---|---|---|---|---|---|---|
| P Dollman | 196,048 | – | – | – | – | – | 196,048 | 329 | 08/11/2005 | 07/11/2012 |
| | 58,714 | – | – | – | – | – | 58,714 | 418 | 07/05/2007 | 06/05/2014 |
| C Smyth | 7,500 | – | 7,500 | 550p | – | £4,350 | – | 492 | 07/04/2001 | 06/04/2008 |
| | 5,000 | – | – | – | – | – | 5,000 | 348 | 18/02/2002 | 17/02/2009 |
| | 5,000 | – | – | – | – | – | 5,000 | 391 | 28/01/2003 | 27/01/2010 |
| | 43,062 | – | – | – | – | – | 43,062 | 418 | 07/05/2007 | 06/05/2014 |

### Table 5 – Savings Related Share Option Scheme

| | 29 Dec 2007 | Granted during year | Exercised during year | Market price at date of exercise | Lapsed during year | Gain | 31 Dec 2008 | Exercise price | Date exercisable from | Date exercisable to |
|---|---|---|---|---|---|---|---|---|---|---|
| P Dollman | 1,561 | – | – | – | 1,561 | – | – | 467 | 01/12/2007 | 01/06/2009 |
| | 510 | – | – | – | – | – | 510 | 348 | 01/12/2009 | 01/06/2010 |
| | 67 | – | – | – | – | – | 67 | 452 | 01/12/2010 | 01/06/2011 |
| | – | 1,684 | – | – | – | – | 1,684 | 285 | 01/12/2011 | 01/06/2012 |
| C Smyth | 2,123 | – | – | – | – | – | – | 452 | 01/12/2010 | 01/06/2011 |

### Table 6 – Directors' emoluments

Directors' emoluments for the year to 31 December 2008 (29 December 2007) were:

| | Date of appointment/ (resignation) | Salary/fees | | Benefits | | Bonus | | Transitional incentive plan | | Compensation for loss of office | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 |
| **Chairman** | | | | | | | | | | | | | |
| W Thomson | | **162** | 151 | **–** | – | **–** | – | **–** | – | **–** | – | **162** | 151 |
| **Executive Directors** | | | | | | | | | | | | | |
| P Dollman | 08/08/2002 | **311** | 294 | **14** | 13 | **–** | 127 | **–** | – | **–** | – | **325** | 434 |
| C Smyth | 20/03/2007 | **290** | 211 | **51** | 39 | **–** | 110 | **–** | – | **–** | – | **341** | 360 |
| E Watson | 20/03/2007 | **308** | 237 | **51** | 42 | **96** | 97 | **171** | – | **–** | – | **626** | 376 |
| P Macdonald | (20/03/2007) | **–** | 108 | **–** | 4 | **–** | 33 | **–** | – | **–** | 447 | **–** | 592 |
| **Non-Executive Directors** | | | | | | | | | | | | | |
| D Jenkinson | | **34** | 33 | **–** | – | **–** | – | **–** | – | **–** | – | **34** | 33 |
| I Harrison | | **34** | 33 | **–** | – | **–** | – | **–** | – | **–** | – | **34** | 33 |
| D Coltman | | **52** | 51 | **–** | – | **–** | – | **–** | – | **–** | – | **52** | 51 |
| O Morley | | **34** | 33 | **–** | – | **–** | – | **–** | – | **–** | – | **34** | 33 |
| I Napier | 16/09/2008 | **10** | – | **–** | – | **–** | – | **–** | – | **–** | – | **10** | – |
| I Robertson | | **38** | 37 | **–** | – | **–** | – | **–** | – | **–** | – | **38** | 37 |
| | | **1,273** | 1,188 | **116** | 98 | **96** | 367 | **171** | – | **–** | 447 | **1,656** | 2,100 |

Notes

(a) For Executive Directors, this is the date of their service contract, and for Non-Executive Directors, the date of appointment or latest date of re-election to the Board.

(b) Provision of pension benefits under the Group's approved pension arrangements is restricted as a consequence of the Finance Act 1989 (the earnings cap).

**Pensions**

Scheme benefits

Paul Dollman and Craig Smyth are members of the Menzies Pension Fund, a defined benefit scheme which provides pension on retirement at age 60 of up to two-thirds of pensionable earnings, or the 'earnings cap' if lower, together with additional benefits as detailed below. Pensionable earnings are based on salary excluding bonuses. Ellis Watson is a member of the defined contribution pension scheme.

Unfunded arrangement

The pensionable salary of Paul Dollman is restricted as a consequence of the 'earnings cap'. He has an unfunded pension undertaking from the Company to provide in total the same level of pension as if the 'earnings cap' did not apply. This entitlement is effective from his date of appointment as a Director.

In the case of Craig Smyth and Ellis Watson they both receive a cash payment equal to 20% of their respective salaries above the earnings cap which is included in other benefits. Pension details are as follows:

| Name | Age | Total accrued penions at start of the period £'000 | Transfer value of total accrued pension at start of the period £'000 | Increase in accrued pension during year (net of inflation) £'000 pa | Including statutory revaluation £'000 | Total accrued pension at 31 Dec 2008 £'000 | Transfer value of increase at 31 Dec 2008 (net of inflation and Director's contri-butions) £'000 | Transfer value of total accrued pension at 31 Dec 2008 £'000 | Director's contri-butions during the period £'000 | Increase in value of pension during the period (net of director's contri-butions) £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| P Dollman[1] | 52 | 18.6 | 255.0 | 6.5 | 0.6 | 25.6 | 76.0 | 390.0 | 22.6 | 112.4 |
| P Dollman[2] | 52 | 30.2 | 409.0 | 4.4 | 0.9 | 35.6 | 67.4 | 540.5 | – | 130.6 |
| C Smyth | 41 | 31.3 | 260.1 | 3.3 | 0.9 | 35.6 | 23.7 | 357.2 | 9.8 | 87.3 |
| E Watson[3] | 41 | n/a | 67.5 | n/a | n/a | n/a | (4.1)[4] | 71.5 | 6.1 | (2.1) |

Notes

1 The funded portion of P Dollman's benefits.

2 The unfunded portion of P Dollman's benefits.

3 These are fund values as E Watson is a member of the Defined Contribution Scheme.

4 This is an increase in fund value (less inflation and member contributions) as E Watson is a member of a Defined Contribution Scheme.

(a) Accrued pension entitlements are the amounts which would be paid at normal retirement date if the Director left service as at 30 December 2008, with no allowances for increases in the period between leaving service and normal retirement date. The entitlements disclosed above include unfunded benefits.

(b) Transfer values represent the value of the assets which the pension scheme (together with the Company where appropriate) would need to transfer to another pension provider on transferring its liability in respect of the Directors' pension entitlements. They do not represent sums payable to individual Directors.

(c) Transfer values have been calculated in accordance with 'Retirement Benefit Schemes (GN 11)' published by the Institute of Actuaries and the Faculty of Actuaries. This methodology determines the values attributable to the deferred pensions for younger members by reference mainly to the UK All-Share Index and for members nearing normal retirement date mainly to the Gilts Over 15 Years Index and the Index-linked Over 5 Years (5% inflation) Index.

(d) The total of the transfer values for unfunded pension entitlements as above, held on the Company's balance sheet at 31 December 2008 for current and former Directors, calculated on an IAS 19 basis, totalled £817,645 (2007: £810,105), from which annual pensions of £17,645 (2007: £16,982 p.a.) are paid to former Directors.

By order of the Board

J F A Geddes
Company Secretary
9 March 2009

# Independent auditors' report to the members of John Menzies plc

We have audited the Group and Parent Company financial statements (the financial statements) of John Menzies plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report (comprising those elements identified in the contents list as the 'Directors' report and business review') is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, excluding the audited part of the Directors' Remuneration Report, and the General Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008 and of its cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
9 March 2009

Notes:

1. The maintenance and integrity of the John Menzies plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Group income statement

for the year ended 31 December 2008 (year ended 29 December 2007)

| | Notes | **Before exceptional and other items £m** | **Exceptional and other items £m** | **2008 Total £m** | Before exceptional and other items £m | Exceptional and other items £m | 2007 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2 | **1,667.1** | **–** | **1,667.1** | 1,541.1 | – | 1,541.1 |
| Net operating costs | 3 | **(1,636.1)** | **(11.6)** | **(1,647.7)** | (1,505.2) | (2.7) | (1,507.9) |
| **Operating profit** | 2 | **31.0** | **(11.6)** | **19.4** | 35.9 | (2.7) | 33.2 |
| Share of post-tax results of joint ventures and associates | | **5.1** | **(1.5)** | **3.6** | 4.8 | (1.4) | 3.4 |
| **Operating profit after joint ventures and associates** | 2 | **36.1** | **(13.1)** | **23.0** | 40.7 | (4.1) | 36.6 |
| *Analysed as* | | | | | | | |
| Underlying operating profit* | | **36.5** | **–** | **36.5** | 41.0 | – | 41.0 |
| Non-recurring items | 5(a) | **–** | **(7.3)** | **(7.3)** | – | 0.1 | 0.1 |
| Intangible amortisation | 5(b) | **–** | **(4.3)** | **(4.3)** | – | (2.8) | (2.8) |
| Share of interest and tax on joint ventures and associates | | **(0.4)** | **(1.5)** | **(1.9)** | (0.3) | (1.4) | (1.7) |
| Operating profit after joint ventures and associates | | **36.1** | **(13.1)** | **23.0** | 40.7 | (4.1) | 36.6 |
| Finance income | 7 | **18.1** | **–** | **18.1** | 17.3 | – | 17.3 |
| Finance charges | 7 | **(23.5)** | **(7.7)** | **(31.2)** | (20.0) | (2.1) | (22.1) |
| **Profit before taxation** | | **30.7** | **(20.8)** | **9.9** | 38.0 | (6.2) | 31.8 |
| Taxation | 8 | **(12.1)** | **1.0** | **(11.1)** | (9.7) | 4.0 | (5.7) |
| **(Loss)/profit for the year** | | **18.6** | **(19.8)** | **(1.2)** | 28.3 | (2.2) | 26.1 |
| Attributable to equity shareholders | | **18.6** | **(19.8)** | **(1.2)** | 28.2 | (2.2) | 26.0 |
| Attributable to minority interests | | **–** | **–** | **–** | 0.1 | – | 0.1 |
| | | **18.6** | **(19.8)** | **(1.2)** | 28.3 | (2.2) | 26.1 |
| **Earnings per ordinary share** | 10 | | | | | | |
| Basic | | **31.3p** | **(33.3)p** | **(2.0)p** | 47.9p | (3.7)p | 44.2p |
| Diluted | | **31.3p** | **(33.3)p** | **(2.0)p** | 47.7p | (3.7)p | 44.0p |

*Underlying operating profit is consistently presented adjusting for non-recurring exceptional items, intangible amortisation associated with goodwill impairment on associate assets and contract amortisation, and the Group's share of interest and tax on joint ventures and associates to provide an appreciation of the impact of those items on operating profit.

# Group statement of recognised income and expense

for the year ended 31 December 2008 (year ended 29 December 2007)

| | Notes | **2008 £m** | 2007 £m |
|---|---|---|---|
| (Loss)/profit for the year | | **(1.2)** | 26.1 |
| Actuarial loss on defined benefit pensions | 4 | **(48.7)** | (3.2) |
| Deferred tax associated with defined benefit pensions | | **13.6** | 1.0 |
| Net exchange adjustments | 24 | **4.7** | 2.4 |
| Net (losses)/gains recognised directly in equity | | **(30.4)** | 0.2 |
| Total recognised (loss)/income for the year | | **(31.6)** | 26.3 |
| Attributable to equity shareholders | | **(31.6)** | 26.2 |
| Attributable to minority interests | | **–** | 0.1 |
| | | **(31.6)** | 26.3 |

The Parent Company Statement of Recognised Income and Expense includes a profit for the year of £18.5m (2007: loss of £5.6m) and a net actuarial loss on defined benefit pensions of £35.1m (2007: loss of £2.2m). There are no minority interests in the Parent Company.

Financial statements

# Group and Company balance sheets

as at 31 December 2008 (29 December 2007)

| | Notes | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 11 | **102.1** | 78.6 | **–** | – |
| Property, plant and equipment | 12 | **169.4** | 146.9 | **36.8** | 38.2 |
| Investments | 13 | **47.1** | 34.8 | **293.4** | 236.7 |
| Deferred tax assets | 19 | **15.0** | 4.1 | **10.0** | – |
| Retirement benefit obligations | 4 | **–** | 9.5 | **–** | 9.5 |
| | | **333.6** | 273.9 | **340.2** | 284.4 |
| **Current assets** | | | | | |
| Inventories | | **9.3** | 12.4 | **–** | – |
| Trade and other receivables | 14 | **157.4** | 142.2 | **169.6** | 101.7 |
| Available for sale investment | 13 | **2.7** | – | **–** | – |
| Derivative financial assets | 16 | **0.4** | 0.6 | **0.4** | 0.6 |
| Cash and cash equivalents | 16 | **19.6** | 22.9 | **2.6** | 1.9 |
| | | **189.4** | 178.1 | **172.6** | 104.2 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 16 | **(58.6)** | (7.8) | **(57.7)** | (6.8) |
| Derivative financial liabilities | 16 | **(17.1)** | (2.9) | **(17.1)** | (2.9) |
| Trade and other payables | 15 | **(195.8)** | (188.9) | **(213.8)** | (163.1) |
| Current income tax liabilities | | **(9.9)** | (8.7) | **–** | – |
| | | **(281.4)** | (208.3) | **(288.6)** | (172.8) |
| **Net current liabilities** | | **(92.0)** | (30.2) | **(116.0)** | (68.6) |
| **Total assets less current liabilities** | | **241.6** | 243.7 | **224.2** | 215.8 |
| **Non-current liabilities** | | | | | |
| Borrowings | 16 | **(126.0)** | (124.0) | **(125.8)** | (124.0) |
| Other payables | 15 | **(0.2)** | (0.5) | **–** | – |
| Derivative financial liabilities | 16 | **(0.9)** | (0.1) | **(0.9)** | (0.1) |
| Provisions | 19 | **(8.6)** | (5.1) | **–** | – |
| Deferred tax liabilities | 19 | **(7.7)** | (5.6) | **(5.2)** | (3.8) |
| Retirement benefit obligations | 4 | **(35.6)** | – | **(35.6)** | – |
| | | **(179.0)** | (135.3) | **(167.5)** | (127.9) |
| **Net assets** | | **62.6** | 108.4 | **56.7** | 87.9 |
| **Shareholders' equity** | | | | | |
| Ordinary shares | 20 | **15.1** | 15.0 | **15.1** | 15.0 |
| Share premium account | 21 | **15.8** | 15.1 | **15.8** | 15.1 |
| Investment in own shares | 21 | **(3.3)** | (3.4) | **–** | – |
| Retained earnings | 21 | **13.4** | 60.1 | **4.2** | 36.2 |
| Capital redemption reserve | 21 | **21.6** | 21.6 | **21.6** | 21.6 |
| **Total equity** | | **62.6** | 108.4 | **56.7** | 87.9 |

The accounts were approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

**William Thomson,** Chairman **Paul Dollman,** Group Finance Director

# Group and Company cash flow statements

for the year ended 31 December 2008 (year ended 29 December 2007)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | **2008** **£m** | 2007 £m | **2008** **£m** | 2007 £m |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 23 | **39.2** | 48.5 | **(9.9)** | (10.5) |
| Interest received | | **2.2** | 2.4 | **0.1** | 0.9 |
| Interest paid | | **(17.5)** | (10.0) | **(9.6)** | (7.3) |
| Tax (paid)/recovered | | **(4.6)** | (2.9) | **0.7** | (0.2) |
| Net cash from operating activities | | **19.3** | 38.0 | **(18.7)** | (17.1) |
| **Cash flows from investing activities** | | | | | |
| Investment in joint ventures and associates | | **(8.7)** | (13.8) | **–** | – |
| Loan repaid by joint venture | | **0.5** | 0.1 | **–** | – |
| Loan repaid by associate | | **0.1** | – | **–** | – |
| Proceeds from disposal of investments | | **12.2** | 0.2 | **–** | – |
| Acquisition of subsidiaries | | **(13.0)** | (16.8) | **–** | – |
| Net cash acquired with subsidiaries | 25 | **1.2** | 1.9 | **–** | – |
| Purchase of property, plant and equipment | | **(40.4)** | (32.0) | **–** | (0.2) |
| Intangible asset additions | | **(2.4)** | (3.0) | **–** | – |
| Acquisition of minority interest | | **–** | (0.4) | **–** | – |
| Proceeds from sale of property, plant and equipment | | **9.1** | 0.7 | **–** | – |
| Dividends received | | **3.3** | 4.0 | **–** | – |
| Net cash used in investing activities | | **(38.1)** | (59.1) | **–** | (0.2) |
| **Cash flows from financing activities** | | | | | |
| Net proceeds from issue of ordinary share capital | | **0.8** | 2.7 | **0.8** | 2.7 |
| Repayment of borrowings | 24 | **(16.5)** | – | **(16.7)** | – |
| Proceeds from borrowings | 24 | **45.9** | 40.0 | **45.9** | 40.0 |
| Dividends paid to ordinary shareholders | | **(15.5)** | (12.8) | **(15.5)** | (12.8) |
| Dividends paid to minority interests | | **–** | (0.1) | **–** | – |
| Amounts repaid by/(provided to) subsidiaries | | **–** | – | **3.9** | (9.5) |
| Net cash from financing activities | | **14.7** | 29.8 | **18.4** | 20.4 |
| **(Decrease)/increase in net cash and cash equivalents** | 24 | **(4.1)** | 8.7 | **(0.3)** | 3.1 |
| Effects of exchange rate movements | | **0.3** | (0.2) | **0.3** | (0.2) |
| Opening net cash and cash equivalents | | **21.0** | 12.5 | **0.8** | (2.1) |
| **Closing net cash and cash equivalents*** | 24 | **17.2** | 21.0 | **0.8** | 0.8 |

*Net cash and cash equivalents include cash at bank and in hand and bank overdrafts.

# Notes to the accounts

## 1. Accounting policies

A summary of the more significant accounting policies, which have been consistently applied, is set out below.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been adopted early:

IFRS 8 'Operating segments' is effective for annual periods beginning on or after 1 January 2009.

IFRIC 14, IAS 19 'The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective for annual periods beginning on or after 1 January 2008. This standard will have no impact on reported results.

Amendment to IAS 23 – 'Borrowing costs' is effective for annual periods beginning on or after 1 January 2009. The impact of this amendment will be the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IFRIC 11, IFRS 2 'Group and Treasury Share Transactions' and Amendment to IFRS 2 (Share-based Payment).

IFRS 3 'Business Combinations (Revised)' is effective for annual periods beginning on or after 1 July 2009.

The Directors believe that the adoption of these standards and interpretations in future periods will have no material impact on the accounts of the Group.

New standards, amendments to standards and interpretations which are mandatory for the year ended 31 December 2008, and which have been adopted in these accounts are as follows:

IFRS 7 'Financial Instruments: Disclosures'

In accordance with Section 230 of the Companies Act 1985, no income statement is presented for the Company.

**Basis of consolidation**
The consolidated accounts, which have been prepared under the historical cost convention and in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS, 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.

**Joint ventures and associates**
A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

An associate is an undertaking, not being a subsidiary or joint venture, over which the Group has significant influence and can participate in the financial and operating policy decisions of the entity.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

**Revenue**
Distribution – revenue is recognised on the weekly invoiced value of goods sold, excluding value-added tax.

Aviation – cargo revenue is recognised at the point of departure for exports and at the point that the goods are ready for dispatch for imports. Other ramp, passenger and aviation-related services income is recognised at the time the service is provided in accordance with the terms of the contract. Revenue excludes value-added and sales taxes, charges collected on behalf of customers and intercompany transactions.

**Property, plant and equipment**
Property, plant and equipment is 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; and
Plant and equipment – over the estimated life of the asset.

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

### Pensions

The operating and financing costs of pensions are charged to the income statement in the period in which they arise and are recognised separately. The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the statement of recognised income and expense.

Pension costs are assessed in accordance with the advice of qualified actuaries.

With regard to defined contribution schemes, the income statement charge represents contributions made.

### Taxation

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is provided in full, using the liability method, on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

Deferred tax is determined using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current and deferred tax is recognised in the income statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

### Intangible assets

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill acquired is recognised as an asset and reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Any impairment is recognised in the income statement.

Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment.

Goodwill arising on acquisitions before 26 December 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

#### Contracts

The fair value attributed to contracts at the point of acquisition is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted weighted average cost of capital for the Group. This amount is included in intangible assets as 'contracts' and amortised over the estimated useful life on a straight-line basis. Separate values are not attributed to internally-generated customer relationships.

Contract amortisation is business-stream dependent. At Distribution, contracts capitalised are not amortised due to the very long-term nature of the business in the UK. These contracts are, however, tested annually for impairment using similar criteria to the goodwill test. At Aviation, contracts are amortised on a straight-line basis over 10 years as this period is the minimum time-frame management considers when assessing businesses for acquisition.

#### Development costs

Development expenditure incurred on individual projects is carried forward only if all the criteria set out in IAS 38 'Intangible assets' are met. Following the initial recognition of development expenditure, the cost is amortised over the project's estimated useful life, usually three to five years.

## 1. Accounting policies continued

### Computer software
Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly attributable with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees. Costs are amortised over their estimated useful lives, usually three to five years.

**Leases**
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets acquired under finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recorded in the balance sheet as a finance lease obligation. The lease payments are apportioned between finance charges (charged to the income statement) and a reduction of the lease obligations.

Rental payments under operating leases are charged to the income statement on a straight-line basis over applicable lease periods.

**Held for sale investments**
Investments are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Held for sale investments are stated at the lower of carrying value and fair value less costs to sell.

**Trade receivables**
If there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of an invoice, a provision on the respective trade receivable is recognised. In such an instance, the carrying value of the receivable is reduced, with the amount of the loss recognised in the income statement.

**Cash and cash equivalents**
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**Foreign currencies**
Foreign currency assets and liabilities of the Group are translated at the rates of exchange ruling at the balance sheet date. The trading results of overseas subsidiaries, joint ventures and associates are translated at the average exchange rate ruling during the year, with the exchange difference between average rates and the rates ruling at the balance sheet date being taken to reserves.

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

**Derivative financial instruments and hedging activities**
The Group uses forward contracts and cross-currency swaps as derivatives to hedge the risk arising from the retranslation of foreign currency denominated items.

The Group has derivatives which are designated as hedges of overseas net investments in foreign entities (net investment hedges) and derivatives which are designated as hedges of the exchange risk arising from the retranslation of highly probable forecast revenue denominated in non-local currency of some of our overseas operations (cash flow hedges).

In all cases, the derivative contracts entered into by the Group have been highly effective during the reporting period, and are expected to continue to be highly effective until they expire. As a result, all derivatives have been recorded using hedge accounting, which is explained below.

All derivatives are measured at fair value, which is calculated as the present value of all future cash flows from the derivative discounted at prevailing market rates.

Changes in the fair value of the effective portion of net investment hedges are recorded in equity, and are only recycled to the income statement on disposal of the overseas net investment.

Changes in the fair value of the effective portion of cash flow hedges are recorded in equity until such time as the forecast transaction occurs, at which time they are recycled to the income statement. If, however, the occurrence of the transaction results in a non-financial asset or liability, then amounts recycled from equity

would be included in the cost of the non-financial asset or liability. If the forecast transaction remains probable but ceases to be highly probable then, from that point, changes in fair value would be recorded in the income statement within finance costs. Similarly, if the forecast transaction ceases to be probable then the entire fair value recorded in equity and future changes in fair value would be posted to the income statement within finance costs.

**Critical accounting estimates and judgements**
The Group makes estimates and assumptions concerning the future. These estimates will, by definition, seldom equal the related actual results, particularly so given the prevailing difficult economic conditions and the level of uncertainty regarding their duration and severity.

The Board has considered the critical accounting estimates and assumptions used in the accounts and concluded that the main areas of significant risk which may cause a material adjustment to the carrying amount of assets and liabilities within the next financial year is in respect of the carrying value of intangible assets and the assumptions used to calculate pension benefits.

Impairment of long-lived assets
The Group periodically evaluates the net realisable value of long-lived assets, including goodwill, other intangible assets and tangible fixed assets, having regard to a number of factors, including business plans, projected results and discounted future cash flows.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is, in most cases, based on the discounted present value of the future cash flows expected to arise from the cash generating unit to which the goodwill relates, or from the individual asset or asset group.

Estimates are used in deriving these cash flows and the discount rate. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the intangible and tangible fixed asset accounting policies affect the amounts reported in the financial statements.

In particular, if different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset and, as a consequence, materially different amounts would be reported in the financial statements. These estimates are interlinked and specific to the circumstances of each asset, so that it is not appropriate to indicate how reported amounts might change if different estimates were made.

Pensions
The assumptions include corporate bond yields, investment return, price and salary inflation and mortality assumptions. Full details of assumptions used to calculate the pension assets and liabilities are found in Note 4.

**Exceptional items**
Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the income statement to enable a full understanding of the Group's financial performance. These exclude certain elements of intangible asset impairment and amortisation, which are also presented separately in the income statement.

Transactions which may give rise to exceptional items include restructurings of business activities (in terms of rationalisation costs and onerous lease provisions) and gains or losses on the disposal of businesses.

**Dividend distributions**
Final ordinary dividends are recognised as liabilities in the accounts in the period in which the dividends are approved by the Company's shareholders.

**Financial risk factors**
The Group is exposed to financial risks: liquidity risk, interest rate fluctuations, foreign exchange exposures and credit risk. These are more fully discussed in Note 16.

## 2. Segmental analysis

### Primary business segments

| 2008 | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Revenue | **1,166.2** | **500.9** | **–** | **1,667.1** |
| Operating profit/(loss) | **22.7** | **(0.6)** | **(2.7)** | **19.4** |
| Share of post-tax results of joint ventures | **0.1** | **2.5** | **–** | **2.6** |
| Share of post-tax results of associates | **–** | **1.0** | **–** | **1.0** |
| Operating profit/(loss) after joint ventures and associates | **22.8** | **2.9** | **(2.7)** | **23.0** |
| *Analysed as:* | | | | |
| Pre-exceptional operating profit/(loss)* | **23.9** | **14.1** | **(1.5)** | **36.5** |
| Gain on disposal of interest in joint venture | **–** | **8.2** | **–** | **8.2** |
| Impairment provisions (Notes 11 and 13) | **(0.8)** | **(4.8)** | **–** | **(5.6)** |
| Onerous lease provision (Note 5) | **–** | **(3.8)** | **(1.2)** | **(5.0)** |
| Rationalisation costs (Note 5) | **–** | **(6.7)** | **–** | **(6.7)** |
| Contract amortisation (Note 11) | **–** | **(2.5)** | **–** | **(2.5)** |
| Share of interest on joint ventures and associates | **(0.1)** | **(0.3)** | **–** | **(0.4)** |
| Share of tax on joint ventures and associates | **(0.2)** | **(1.3)** | **–** | **(1.5)** |
| Operating profit/(loss) after joint ventures and associates | **22.8** | **2.9** | **(2.7)** | **23.0** |

| 2007 | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Revenue | 1,147.3 | 393.8 | – | 1,541.1 |
| Operating profit/(loss) | 25.2 | 13.4 | (5.4) | 33.2 |
| Share of post-tax results of joint ventures | 0.4 | 1.2 | – | 1.6 |
| Share of post-tax results of associates | – | 1.8 | – | 1.8 |
| Operating profit/(loss) after joint ventures and associates | 25.6 | 16.4 | (5.4) | 36.6 |
| *Analysed as:* | | | | |
| Pre-exceptional operating profit/(loss)* | 23.4 | 20.6 | (3.0) | 41.0 |
| Net gain on exchange of businesses | 2.5 | – | – | 2.5 |
| Dilapidations settlement on onerous lease | – | – | (2.4) | (2.4) |
| Contract amortisation (Note 11) | – | (1.0) | – | (1.0) |
| Goodwill impairment (Note 13) | – | (1.8) | – | (1.8) |
| Share of interest on joint ventures and associates | (0.1) | (0.2) | – | (0.3) |
| Share of tax on joint ventures and associates | (0.2) | (1.2) | – | (1.4) |
| Operating profit/(loss) after joint ventures and associates | 25.6 | 16.4 | (5.4) | 36.6 |

*Pre-exceptional operating profit/(loss) is defined as operating profit/(loss) excluding intangible amortisation as shown in Note 5(b) and exceptional items but including the pre-tax share of results from joint ventures and associates.

| **2008** | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Segment assets | **167.6** | **317.5** | **3.3** | **488.4** |
| Unallocated assets | | | | **34.6** |
| Total assets | | | | **523.0** |
| Segment liabilities | **(108.3)** | **(80.7)** | **(33.6)** | **(222.6)** |
| Unallocated liabilities | | | | **(237.8)** |
| Total liabilities | | | | **(460.4)** |
| Segment net assets/(liabilities) | **59.3** | **236.8** | **(30.3)** | **265.8** |
| Unallocated net liabilities | | | | **(203.2)** |
| Net assets | | | | **62.6** |

| 2007 | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Segment assets | 164.8 | 246.4 | 4.3 | 415.5 |
| Unallocated assets | | | | 36.5 |
| Total assets | | | | 452.0 |
| Segment liabilities | (109.9) | (66.3) | (21.3) | (197.5) |
| Unallocated liabilities | | | | (146.1) |
| Total liabilities | | | | (343.6) |
| Segment net assets/(liabilities) | 54.9 | 180.1 | (17.0) | 218.0 |
| Unallocated net liabilities | | | | (109.6) |
| Net assets | | | | 108.4 |

Unallocated assets comprise retirement benefit obligations, deferred tax assets, cash and cash equivalents.

Unallocated liabilities comprise retirement benefit obligations, borrowings, current income tax liabilities and deferred tax liabilities.

| **2008** | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Capital expenditure | **8.7** | **31.6** | **–** | **40.3** |
| Depreciation | **5.6** | **17.1** | **0.9** | **23.6** |
| Amortisation of intangible assets | **0.5** | **2.5** | **–** | **3.0** |
| Goodwill impairment (Notes 11 & 13) | **–** | **4.8** | **–** | **4.8** |
| (Gain)/loss on disposal of property, plant and equipment | **–** | **(0.3)** | **0.4** | **0.1** |

| 2007 | Distribution £m | Aviation £m | Corporate £m | Group £m |
|---|---|---|---|---|
| Capital expenditure | 8.6 | 23.3 | 0.2 | 32.1 |
| Depreciation | 5.5 | 14.6 | 0.9 | 21.0 |
| Amortisation of intangible assets | 0.5 | 1.1 | – | 1.6 |
| Goodwill impairment (Note 13) | – | 1.8 | – | 1.8 |
| Gain on disposal of property, plant and equipment | – | (0.2) | – | (0.2) |

**Secondary geographic segments**

| | Revenue | | Capital expenditure | | Segment assets | |
|---|---|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| United Kingdom | **1,316.2** | 1,282.4 | **14.4** | 12.8 | **282.4** | 270.4 |
| Continental Europe | **128.2** | 95.4 | **6.0** | 6.8 | **55.2** | 45.8 |
| Americas | **116.9** | 103.0 | **7.4** | 6.8 | **65.9** | 51.4 |
| Rest of the World | **105.8** | 60.3 | **12.5** | 5.7 | **84.9** | 47.9 |
| | **1,667.1** | 1,541.1 | **40.3** | 32.1 | **488.4** | 415.5 |

## 3. Net operating costs

| | 2008 £m | 2007 £m |
|---|---|---|
| Goods for resale and consumables | **1,187.2** | 1,129.9 |
| Other operating charges | **81.9** | 67.1 |
| Employment costs (Note 4) | **344.7** | 288.4 |
| Intangible assets amortisation (Note 11) | **3.0** | 1.6 |
| Depreciation (Note 12) | **23.6** | 21.0 |
| Exceptional items (Note 5) | **7.3** | (0.1) |
| | **1,647.7** | 1,507.9 |
| Other operating charges include: | | |
| Operating leases and hire charges – plant and machinery | **13.5** | 10.2 |
| Rent of properties | **31.4** | 26.2 |
| Loss/(gain) on disposal of property, plant and equipment | **0.1** | (0.2) |

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

| | 2008 £m | 2007 £m |
|---|---|---|
| Audit services | | |
| Audit of Parent Company and consolidated accounts | **0.2** | 0.2 |
| Audit of the Company's subsidiaries pursuant to legislation | **0.6** | 0.4 |
| Non-audit services | | |
| Other services | **0.1** | 0.2 |

## 4. Employees

| | 2008 £m | 2007 £m |
|---|---|---|
| Wages and salaries | **306.0** | 255.3 |
| Share-based payments | **0.4** | 0.4 |
| Social security costs | **28.9** | 24.7 |
| | **335.3** | 280.4 |
| Pension charge | **9.4** | 8.0 |
| | **344.7** | 288.4 |

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

| | 2008 number | 2007 number |
|---|---|---|
| Distribution | **3,476** | 3,763 |
| Aviation | **13,676** | 11,661 |
| Corporate | **21** | 24 |
| | **17,173** | 15,448 |

The numbers above include 10,140 full-time equivalent persons employed outside the UK (2007: 8,615).

**Pension schemes**
With regard to the principal Group-funded defined benefit scheme in the UK (the Menzies Pension Fund), to which the employees contribute, the charge to the income statement is assessed in accordance with independent actuarial advice from Hymans Robertson LLP (the Actuary), using the projected unit method. Certain Group subsidiaries operate overseas and participate in a number of pension schemes, which are largely of a defined contribution nature. The income statement charge for defined contribution schemes represents the contributions made.

The pension charge to the income statement is analysed as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Menzies Pension Fund | **2.3** | 3.6 |
| Other schemes | **7.1** | 4.4 |
| | **9.4** | 8.0 |

**Financial assumptions**

The Actuary undertook a valuation of the Menzies Pension Fund as at 31 December 2008 (2007: 31 December) under IAS 19.

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

| | 2008 % | 2007 % |
|---|---|---|
| Rate of increase in salaries | **3.60** | 3.90 |
| Rate of increase in pensions (prior to 1 April 2006) | **3.35** | 3.55 |
| Rate of increase in pensions (after 1 April 2006) | **2.50** | 2.50 |
| Price inflation | **3.10** | 3.40 |
| Discount rate | **6.40** | 5.90 |

Assumptions regarding future mortality experience are set based on advice from the Actuary in accordance with published statistics and experience in the business.

The average life expectancy in years of a pensioner retiring at 65 on the balance sheet date is:

| | 2008 | 2007 |
|---|---|---|
| Male | **18.4** | 18.3 |
| Female | **21.2** | 21.1 |

The average life expectancy in years of a pensioner retiring at 65, 20 years after the balance sheet date is:

| | 2008 | 2007 |
|---|---|---|
| Male | **19.2** | 19.2 |
| Female | **22.0** | 22.0 |

**Fair value of assets (and expected return on assets)**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Long-term rate of return % | Value at December £m | Long-term rate of return % | Value at December £m |
| Equities | **7.3** | **110.5** | 7.5 | 165.0 |
| Bonds | **6.1** | **44.3** | 5.2 | 46.0 |
| Property | **6.3** | **26.8** | 6.5 | 38.9 |
| Other | **2.0** | **0.8** | 5.2 | 0.3 |
| Total value of assets | | **182.4** | | 250.2 |
| Defined benefit obligation | | **(218.0)** | | (240.7) |
| Recognised in balance sheet | | **(35.6)** | | 9.5 |
| Related deferred tax asset/(liability) (Note 19) | | **10.0** | | (2.7) |
| Net pension (liabilities)/assets | | **(25.6)** | | 6.8 |

**Sensitivity analysis**

A reduction in the discount rate will increase the assessed value of the defined benefit obligation and a rise in the discount rate will decrease the assessed value of the defined benefit obligation. The overall effect of a change in the discount rate for the Fund of 0.1% would be an increase/decrease to the defined benefit obligation of around 1.7%/£3.7m.

## 4. Employees continued

The effect of changing the assumption regarding life expectancy by one year longer than the disclosed table would be to increase the assessed value of the defined benefit obligation by around 3%/£6.5m.

| Components of pension expense | 2008 £m | 2007 £m |
|---|---|---|
| **Amounts charged to operating profit** | | |
| Current service cost | **2.3** | 3.6 |
| Past service cost | **–** | – |
| Total amount charged to the income statement | **2.3** | 3.6 |
| **Amounts included in finance costs** | | |
| Expected return on pension scheme assets | **15.8** | 15.1 |
| Interest on pension liabilities | **(13.5)** | (11.7) |
| Net financial return | **2.3** | 3.4 |
| **Pension expense** | **–** | 0.2 |
| **Amounts recognised in the statement of recognised income and expense** | | |
| Loss on assets | **(78.1)** | (2.7) |
| Gain/(loss) on defined benefit obligation | **29.4** | (0.5) |
| **Actuarial loss** | **(48.7)** | (3.2) |
| **Change in scheme assets during the year** | | |
| Fair value of assets at start of year | **250.2** | 237.2 |
| Expected return on assets | **15.8** | 15.1 |
| Company contributions | **3.6** | 7.7 |
| Employee contributions | **1.4** | 1.6 |
| Benefits and expenses paid | **(10.5)** | (8.7) |
| Loss on assets | **(78.1)** | (2.7) |
| **Fair value of assets at end of year** | **182.4** | 250.2 |

The actual return on scheme assets was a loss of £62.3m (2007: a gain of £12.4m).

| Change in defined benefit obligation during the year | 2008 £m | 2007 £m |
|---|---|---|
| Defined benefit obligation at start of year | **240.7** | 231.8 |
| Current service cost | **2.3** | 3.6 |
| Past service cost | **–** | – |
| Interest cost | **13.5** | 11.7 |
| Employee contributions | **1.4** | 1.6 |
| Benefits and expenses paid | **(10.5)** | (8.5) |
| (Gain)/loss on defined benefit obligation | **(29.4)** | 0.5 |
| **Defined benefit obligation at end of year** | **218.0** | 240.7 |

**History of experience gains and losses**

| | **% of scheme assets/ obligations** | **2008 £m** | % of scheme assets/ obligations | 2007 £m | % of scheme assets/ obligations | 2006 £m | % of scheme assets/ obligations | 2005 £m |
|---|---|---|---|---|---|---|---|---|
| (Loss)/gain on scheme assets | **42.8%** | **(78.1)** | 1.0% | (2.7) | 5.0% | 12.0 | 9.5% | 19.8 |
| Actuarial gain/(loss) on defined benefit obligation | **13.5%** | **29.4** | 0.2% | (0.5) | 5.0% | 11.4 | 12.2% | (29.4) |

## 5(a) Exceptional items

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Gain on disposal of interest in joint venture | (i) | **8.2** | – |
| Impairment provisions | (ii) | **(3.8)** | – |
| Onerous lease provisions | (iii) | **(5.0)** | – |
| Rationalisation costs | (iv) | **(6.7)** | – |
| Net gain on exchange of businesses | (v) | **–** | 2.5 |
| Dilapidations settlement on onerous lease | (vi) | **–** | (2.4) |
| | | **(7.3)** | 0.1 |

(i) During the year the Group disposed of the 50% interest in the joint venture in Peru, Talma Menzies SRL, for a consideration of £10.3m.

(ii) Following a deterioration in the North American cargo handling market, the acquired goodwill in respect of Aeroground Inc has been tested for impairment in accordance with IAS 36 and a goodwill charge of £3.0m (approximately one-third of the original amount capitalised) has been recognised. This goodwill impairment resulted from poor post-acquisition performance exacerbated by recent global market conditions. The recoverable amount of the cash-generating unit was measured based on a value in use calculation and a discount rate of 8%.

The Group's investment in associate company Worldwide Magazine Distribution Ltd has also been reviewed for impairment in accordance with IAS 36 and restated to reflect current trading performance. As a result, an impairment charge of £0.8m has been recognised.

(iii) This provision is in respect of future obligations on five leasehold properties, which have become empty during the year.

(iv) Costs of rationalising excess capacity comprising asset write-downs and staff redundancy costs in the Aviation business.

(v) During 2007, the Group completed joint venture agreements with Eason & Son Ltd combining newspaper and magazine distribution businesses in Northern Ireland and the Republic of Ireland. The fair value of the Group's shareholding in the combined ventures was considered to be £3.1m. As the transferred businesses had no carrying value in the Group's balance sheet there was effectively no cost of disposal to offset against the interests received. As a result, a non-cash gain of £3.1m was created, offset by required transaction costs of £0.6m.

(vi) During 2007, the Group was served with a schedule of dilapidations in respect of a sublet property, where the remaining lease term was 65 years. As part of the negotiated settlement, the Group's remaining obligations under this onerous lease were renounced on 8 January 2008.

## 5(b) Intangible amortisation

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Goodwill impairment | (i) | **(1.8)** | (1.8) |
| Contract amortisation | (ii) | **(2.5)** | (1.0) |
| | | **(4.3)** | (2.8) |

(i) As permitted under the transitional requirements of IFRS 1, the acquisition accounting of business combinations completed prior to the transition date has not been restated. As a result, assets which were previously capitalised as goodwill have not been reclassified as other intangible assets. Accordingly, these financial statements include an impairment charge of £1.8m (2007: £1.8m) reflecting the remaining life of the current licence at Menzies Macau Aviation Services Ltd.

(ii) This charge relates to contracts capitalised as intangible assets on the acquisition of businesses.

The taxation effect of the exceptional items is a net credit of £1.1m (2007: £0.5m).

## 6. Directors

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 46 to 55.

## 7. Finance costs

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Finance income** | | |
| Bank deposits | **2.3** | 2.2 |
| Expected return on pension scheme assets (Note 4) | **15.8** | 15.1 |
| | **18.1** | 17.3 |
| **Finance charges** | | |
| Bank loans and overdrafts | **(9.9)** | (8.2) |
| Preference dividends | **(0.1)** | (0.1) |
| Interest on pension liabilities (Note 4) | **(13.5)** | (11.7) |
| Foreign currency loss | **(7.7)** | (2.1) |
| | **(31.2)** | (22.1) |
| Net finance costs | **(13.1)** | (4.8) |

During the year, the Group executed cross-currency basis swaps which reduced its interest cost by £1.0m (2007: £0.6m). The foreign currency loss incurred of £7.7m (2007: £2.1m) is exactly matched by tax relief of £7.7m (2007: £2.1m). The tax relief comprises £2.2m (2007: £0.6m) at the standard rate of corporation tax in the UK of 28.5% (2007: 30%) and a non-taxable exchange gain of £5.5m (2007: £1.5m).

## 8. Taxation

### (a) Analysis of charge in year

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profits for the year | **0.8** | 0.9 |
| Overseas tax | **4.8** | 3.5 |
| Adjustments to prior years' liabilities | **–** | (2.0) |
| Total current tax | **5.6** | 2.4 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **4.5** | 0.2 |
| Adjustments to prior years' liabilities | **–** | 1.0 |
| | **4.5** | 1.2 |
| Retirement benefit obligations | **1.0** | 2.1 |
| Total deferred tax | **5.5** | 3.3 |
| Tax on profit on ordinary activities | **11.1** | 5.7 |

### (b) Current and deferred tax related to items accounted for directly in equity

| | **2008 £m** | 2007 £m |
|---|---|---|
| Deferred tax on actuarial loss on retirement benefit obligations | **(13.6)** | (1.0) |
| Current tax on net exchange adjustments | **(0.7)** | (0.7) |
| Tax credit reported in equity | **(14.3)** | (1.7) |

**(c) Reconciliation between tax charge and the product of accounting profit multiplied by the Group's domestic tax rate for the years ended 31 December 2008 and 29 December 2007 is as follows:**

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| Profit before tax | | **9.9** | 31.8 |
| Profit before tax multiplied by standard rate of corporation tax in the UK (28.5%) (2007: 30%) | | **2.8** | 9.5 |
| Non-deductible expenses (principally goodwill impairment and intangible amortisation) | | **2.8** | 0.3 |
| Depreciation on non-qualifying assets | | **0.4** | 0.4 |
| Unrelieved overseas losses | | **3.8** | 1.9 |
| Profits covered by losses forward | | **(0.6)** | (2.2) |
| Higher tax rates on overseas earnings | | **0.8** | 0.6 |
| Deferred tax on undistributed reserves of associate | | **0.1** | (0.2) |
| Joint venture and associate post-tax result (included in profit before tax) | | **(1.0)** | (1.0) |
| Non-taxable exchange gain | | **(5.5)** | (1.5) |
| Tax-exempt gain on disposal of interest in joint venture | | **(1.8)** | – |
| Tax-exempt gain on exchange of businesses | | **–** | (0.8) |
| Adjustments to prior years' liabilities | | **–** | (1.0) |
| Increase in deferred tax liability due to the abolition of industrial buildings allowances | (i) | **5.4** | – |
| Write-off of overseas deferred tax assets | (ii) | **3.9** | – |
| Reduction in UK tax rate | | **–** | (0.3) |
| At the effective corporation tax rate of 112.1% (2007: 17.9%) | | **11.1** | 5.7 |

(i) The phased abolition of industrial buildings allowances by the end of March 2011 was enacted in the Finance Act 2008, which received Royal Assent in July. As a consequence, there is a one-off increase in the Group's deferred tax liability of £5.4m.

(ii) In prior years the Group recognised deferred tax assets in relation to losses carried forward by, and other temporary differences available to, subsidiaries operating mainly in the Netherlands and the USA. Current trading conditions in these territories are such that it is no longer possible to say with a degree of certainty that, in the short term, future taxable profits will be available against which the carry forward tax losses, and other temporary differences, can be utilised. As a consequence, the Group has written off £3.9m of deferred tax assets.

**(d) Factors that may affect future tax charges**

The Group has estimated tax losses carried forward, which arose in subsidiary companies operating in the undernoted jurisdictions, that are available for offset against future profits of those subsidiaries. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries where it is not probable that future taxable profits will be available against which such assets could be utilised.

| | Losses £m | Expiry |
|---|---|---|
| USA | 34.2 | Carry forward indefinitely |
| Netherlands | 21.1 | Not earlier than 1 January 2012 |
| Germany | 25.8 | Carry forward indefinitely |
| Australia | 0.7 | Carry forward indefinitely |
| South Africa | 2.8 | Carry forward indefinitely |
| Hungary | 1.1 | Carry forward indefinitely |
| Norway | 1.8 | Carry forward indefinitely |
| Sweden | 0.7 | Carry forward indefinitely |

The Group has capital losses in the UK of approximately £15.9m that are available for offset against future taxable gains arising in the UK. No deferred tax asset has been recognised in respect of these losses.

A deferred tax liability of £0.6m (2007: £0.5m) has been recognised on the unremitted earnings of an associate.

## 9. Dividends

| | 2008 £m | 2007 £m |
|---|---|---|
| Dividends on equity shares: | | |
| Ordinary – Final paid in respect of 2007, 18.4p per share | **11.0** | – |
| – Final paid in respect of 2006, 14.4p per share | **–** | 8.7 |
| – Interim paid in respect of 2008, 7.56p (2007: 7.2p) per share | **4.5** | 4.1 |
| | **15.5** | 12.8 |

Dividends of £0.1m (2007: £0.1m) were waived by employee share trusts (Note 21) during the year.

## 10. Earnings per share

| | Basic | | Underlying* | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Operating profit | **19.4** | 33.2 | **19.4** | 33.2 |
| Share of post-tax results of joint ventures and associates | **3.6** | 3.4 | **3.6** | 3.4 |
| add back: exceptional items (Note 5(a)) | **–** | – | **7.3** | (0.1) |
| intangible amortisation (Note 5(b)) | **–** | – | **4.3** | 2.8 |
| share of tax on joint ventures and associates | **–** | – | **1.5** | 1.4 |
| Net finance costs (Note 7) | **(13.1)** | (4.8) | **(5.4)** | (2.7) |
| Profit before taxation | **9.9** | 31.8 | **30.7** | 38.0 |
| Taxation | **(11.1)** | (5.7) | **(11.1)** | (5.7) |
| Exceptional tax | **–** | – | **(1.0)** | (4.0) |
| Minority interests | **–** | (0.1) | **–** | (0.1) |
| Earnings for the year | **(1.2)** | 26.0 | **18.6** | 28.2 |
| **Basic** | | | | |
| Earnings per ordinary share (pence) | **(2.0)** | 44.2 | | |
| Diluted earnings per ordinary share (pence) | **(2.0)** | 44.0 | | |
| **Underlying*** | | | | |
| Earnings per ordinary share (pence) | | | **31.3** | 47.9 |
| Diluted earnings per ordinary share (pence) | | | **31.3** | 47.7 |
| **Number of ordinary shares in issue (millions)** | | | | |
| Weighted average | **59.445** | 58.871 | | |
| Diluted weighted average | **59.499** | 59.137 | | |

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts (Note 21). The diluted weighted average is calculated by adjusting for all outstanding share options which are potentially dilutive, i.e. where the exercise price is less than the average market price of the shares during the year.

*Underlying earnings are presented as an additional performance measure. They are stated before exceptional items, intangible amortisation and share of tax on joint ventures and associates.

## 11. Intangible assets

| | Goodwill £m | Contracts £m | Computer software £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 29 December 2007 | 44.1 | 34.2 | 4.8 | 83.1 |
| Acquisitions (Note 25) | 2.3 | 9.6 | – | 11.9 |
| Additions | – | 1.0 | 1.4 | 2.4 |
| Currency translation | 13.6 | 7.1 | – | 20.7 |
| At 31 December 2008 | 60.0 | 51.9 | 6.2 | 118.1 |
| **Amortisation** | | | | |
| At 29 December 2007 | 0.1 | 1.4 | 3.0 | 4.5 |
| Amortisation charge | – | 2.5 | 0.5 | 3.0 |
| Impairment provision (Note 5(a)) | 3.0 | – | – | 3.0 |
| Currency translation | 5.0 | 0.5 | – | 5.5 |
| At 31 December 2008 | 8.1 | 4.4 | 3.5 | 16.0 |
| **Net book value** | | | | |
| At 31 December 2008 | **51.9** | **47.5** | **2.7** | **102.1** |
| At 29 December 2007 | 44.0 | 32.8 | 1.8 | 78.6 |

| | Goodwill £m | Contracts £m | Computer software £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 December 2006 | 37.5 | 20.1 | 4.4 | 62.0 |
| Acquisitions | 5.8 | 8.2 | – | 14.0 |
| Exchange of businesses (Note 5(a)) | – | 3.1 | – | 3.1 |
| Additions | – | 2.6 | 0.4 | 3.0 |
| Currency translation | 0.8 | 0.2 | – | 1.0 |
| At 29 December 2007 | 44.1 | 34.2 | 4.8 | 83.1 |
| **Amortisation** | | | | |
| At 30 December 2006 | 0.2 | 0.4 | 2.4 | 3.0 |
| Amortisation charge | – | 1.0 | 0.6 | 1.6 |
| Currency translation | (0.1) | – | – | (0.1) |
| At 29 December 2007 | 0.1 | 1.4 | 3.0 | 4.5 |
| **Net book value** | | | | |
| At 29 December 2007 | 44.0 | 32.8 | 1.8 | 78.6 |
| At 30 December 2006 | 37.3 | 19.7 | 2.0 | 59.0 |

## 11. Intangible assets continued

**Impairment test for goodwill and contracts**

Goodwill

Goodwill is no longer amortised but is tested for impairment. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash-generating units (CGUs) are determined from value in use calculations. These calculations use future cash flow projections based on financial forecasts approved by management. The key assumptions for these forecasts are those regarding revenue growth, net margin and the level of working capital required to support trading, which management estimates based on past experience and expectations of future changes in the market.

To prepare value in use calculations, the future cash flow forecasts, which include management improvement actions, are extrapolated over a 10-year period at estimated average long-term growth rates for each market (ranging from 0% to 5.8%) using the best available market information (such as Boeing's 2008 Aviation Industry Review), and discounted back to present value. The discount rate assumptions use an estimate of the Group's weighted average cost of capital calculated at 5.3% plus an adjustment for the uncertainty risk attributable to individual CGUs. The post-tax discount rate used is 8%. The Group have considered a range of sensitivities in line with Group accounting policy.

Impairment tests were performed for all CGUs during the year ended 31 December 2008.

Contracts

Contract amortisation is business-stream dependent. At Distribution, contracts capitalised are not amortised due to the very long-term nature of the business in the UK. These contracts are, however, tested annually for impairment using similar criteria to the goodwill test. At Aviation, contracts are amortised on a straight-line basis over 10 years as this period is the minimum time frame management considers when assessing businesses for acquisition.

## 12. Property, plant and equipment

| | Group | | | | | Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Freehold property £m | Long leasehold property £m | Short leasehold property £m | Plant and equipment £m | Total £m | Freehold property £m | Long leasehold property £m | Short leasehold property £m | Plant and equipment £m | Total £m |
| **Cost** | | | | | | | | | | |
| At 29 December 2007 | 42.9 | 1.7 | 38.5 | 171.2 | 254.3 | 40.8 | 0.6 | – | 1.2 | 42.6 |
| Acquisitions (Note 25) | – | – | – | 0.6 | 0.6 | – | – | – | – | – |
| Additions | 0.3 | 0.3 | 1.0 | 38.7 | 40.3 | – | – | – | – | – |
| Transfers | – | – | 0.7 | (0.7) | – | – | – | – | – | – |
| Disposals | (0.2) | (1.0) | (0.3) | (32.4) | (33.9) | – | (0.6) | – | – | (0.6) |
| Currency translation | 0.1 | 0.1 | 2.9 | 19.7 | 22.8 | – | – | – | – | – |
| At 31 December 2008 | 43.1 | 1.1 | 42.8 | 197.1 | 284.1 | 40.8 | – | – | 1.2 | 42.0 |
| **Depreciation** | | | | | | | | | | |
| At 29 December 2007 | 7.1 | 0.3 | 15.4 | 84.6 | 107.4 | 3.3 | 0.2 | – | 0.9 | 4.4 |
| Charge for the year | 0.9 | 0.2 | 1.9 | 20.6 | 23.6 | 0.9 | – | – | – | 0.9 |
| Disposals | – | (0.5) | (0.3) | (23.9) | (24.7) | – | (0.2) | – | 0.1 | (0.1) |
| Currency translation | – | – | 0.6 | 7.8 | 8.4 | – | – | – | – | – |
| At 31 December 2008 | 8.0 | – | 17.6 | 89.1 | 114.7 | 4.2 | – | – | 1.0 | 5.2 |
| **Net book value** | | | | | | | | | | |
| At 31 December 2008 | **35.1** | **1.1** | **25.2** | **108.0** | **169.4** | **36.6** | **–** | **–** | **0.2** | **36.8** |
| At 29 December 2007 | 35.8 | 1.4 | 23.1 | 86.6 | 146.9 | 37.5 | 0.4 | – | 0.3 | 38.2 |

| | Group | | | | | Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Freehold property £m | Long leasehold property £m | Short leasehold property £m | Plant and equipment £m | Total £m | Freehold property £m | Long leasehold property £m | Short leasehold property £m | Plant and equipment £m | Total £m |
| **Cost** | | | | | | | | | | |
| At 30 December 2006 | 42.8 | 1.5 | 36.8 | 141.8 | 222.9 | 40.8 | 0.6 | 0.3 | 1.7 | 43.4 |
| Acquisitions | – | – | 0.1 | 2.7 | 2.8 | – | – | – | – | – |
| Additions | 0.2 | 0.1 | 1.0 | 30.8 | 32.1 | – | – | – | 0.2 | 0.2 |
| Disposals | (0.1) | – | (0.6) | (7.6) | (8.3) | – | – | (0.3) | (0.7) | (1.0) |
| Currency translation | – | 0.1 | 1.2 | 3.5 | 4.8 | – | – | – | – | – |
| At 29 December 2007 | 42.9 | 1.7 | 38.5 | 171.2 | 254.3 | 40.8 | 0.6 | – | 1.2 | 42.6 |
| **Depreciation** | | | | | | | | | | |
| At 30 December 2006 | 6.2 | 0.2 | 13.5 | 69.7 | 89.6 | 2.4 | 0.2 | 0.3 | 1.5 | 4.4 |
| Charge for the year | 0.9 | 0.1 | 2.0 | 18.0 | 21.0 | 0.9 | – | – | 0.1 | 1.0 |
| Disposals | – | – | (0.4) | (4.6) | (5.0) | – | – | (0.3) | (0.7) | (1.0) |
| Currency translation | – | – | 0.3 | 1.5 | 1.8 | – | – | – | – | – |
| At 29 December 2007 | 7.1 | 0.3 | 15.4 | 84.6 | 107.4 | 3.3 | 0.2 | – | 0.9 | 4.4 |
| **Net book value** | | | | | | | | | | |
| At 29 December 2007 | 35.8 | 1.4 | 23.1 | 86.6 | 146.9 | 37.5 | 0.4 | – | 0.3 | 38.2 |
| At 30 December 2006 | 36.6 | 1.3 | 23.3 | 72.1 | 133.3 | 38.4 | 0.4 | – | 0.2 | 39.0 |

## 13. Investments

| | | | | | | Group | Company |
|---|---|---|---|---|---|---|---|
| | Shares in joint ventures £m | Loans to joint ventures £m | Shares in associates £m | Loans to associates £m | Other £m | Total £m | Subsidiaries £m |
| **Cost excluding goodwill** | | | | | | | |
| At 29 December 2007 | 8.5 | 7.3 | 9.4 | 0.1 | 0.3 | 25.6 | 236.7 |
| New investments/transfers | 12.7 | (4.3) | 0.3 | – | – | 8.7 | 54.3 |
| Share of profits after tax | 2.6 | – | 2.9 | – | – | 5.5 | – |
| Dividends received | (0.2) | – | (3.1) | – | – | (3.3) | – |
| Impairment provision (Note 5(a)) | – | – | (0.8) | – | – | (0.8) | – |
| Reclassified as held for sale | – | – | (2.7) | – | – | (2.7) | – |
| Disposals | (2.0) | (0.5) | – | (0.1) | – | (2.6) | – |
| Currency translation | 3.2 | (0.1) | 3.2 | – | – | 6.3 | 2.4 |
| At 31 December 2008 | 24.8 | 2.4 | 9.2 | – | 0.3 | 36.7 | 293.4 |
| **Goodwill** | | | | | | | |
| At 29 December 2007 | – | – | 9.2 | – | – | 9.2 | – |
| Impairment provision (Note 5(b)) | – | – | (1.8) | – | – | (1.8) | – |
| Currency translation | – | – | 3.0 | – | – | 3.0 | – |
| At 31 December 2008 | – | – | 10.4 | – | – | 10.4 | – |
| At 31 December 2008 | **24.8** | **2.4** | **19.6** | **–** | **0.3** | **47.1** | **293.4** |
| At 29 December 2007 | 8.5 | 7.3 | 18.6 | 0.1 | 0.3 | 34.8 | 236.7 |

## 13. Investments continued

The Group's share of the results, assets and liabilities of joint ventures and associates are:

| | Country of Incorporation | % Interest held | Revenue £m | Profit after tax £m | Assets £m | Liabilities £m |
|---|---|---|---|---|---|---|
| **Joint ventures** | | | | | | |
| Talma Menzies SRL | Peru | – | 3.0 | 0.4 | – | – |
| Freshport BV | Netherlands | 50 | 0.7 | 0.1 | 0.5 | (0.1) |
| EM News Distribution (NI) Ltd | UK | 50 | 54.9 | 0.6 | 6.9 | (5.8) |
| EM News Distribution (Ireland) Limited | Ireland | 50 | 28.1 | (0.5) | 4.3 | (4.8) |
| Menzies Bobba Ground Handling Services Private Ltd | India | 51 | 0.9 | 0.5 | 7.6 | (0.8) |
| Menzies Aviation Bobba (Bangalore) Private Ltd | India | 49 | 1.6 | 1.0 | 15.5 | (1.8) |
| Hyderabad Menzies Air Cargo Private Ltd | India | 49 | 2.0 | 0.5 | 4.2 | (0.8) |
| **Associates** | | | | | | |
| Menzies Macau Airport Services Ltd | Macau | 29 | 6.9 | 2.5 | 4.8 | (1.1) |
| Worldwide Magazine Distribution Ltd | UK | 31.67 | 2.6 | – | – | – |
| Swissport Menzies Handling Ute | Spain | 39 | 17.0 | 0.4 | 18.8 | (13.4) |
| | | | 117.7 | 5.5 | 62.6 | (28.6) |

Although Menzies Bobba Ground Handling Services Private Ltd, Menzies Aviation Bobba (Bangalore) Private Ltd and Hyderabad Menzies Air Cargo Private Ltd are 51% and 49% owned, they are treated as joint ventures in the Group accounts because the parties to each of the ventures work together with equal powers to control the entities. Each venturer in the respective entity retains the power of veto, and overall key strategic, operational and financial decisions require the consent of both parties.

**Held for sale**
The Group's 40% interest in Menzies Chengdu Aviation Services Limited, a company incorporated in China, has been reclassified as held for sale. The investment is valued at cost of £2.7m.

**Company**
During the year, as part of an internal Group reorganisation, John Menzies plc subscribed a further £54.3m in the share capital of subsidiaries.

## 14. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Trade receivables | **111.7** | 101.1 | **–** | – |
| Less: provision for doubtful debts | **(1.8)** | (1.0) | **–** | – |
| Trade receivables – net | **109.9** | 100.1 | **–** | – |
| Other receivables | **21.7** | 17.1 | **4.2** | 5.2 |
| Prepayments | **25.8** | 25.0 | **1.3** | 0.8 |
| Amounts owed by Group companies | **–** | – | **164.1** | 95.7 |
| | **157.4** | 142.2 | **169.6** | 101.7 |

The average credit period on sale of goods is 24.1 days. No interest is charged on any receivables balance.

### Ageing of past due but not impaired receivables

| | Group | |
|---|---|---|
| | **2008 £m** | 2007 £m |
| 0 – 30 days | **86.8** | 78.4 |
| 30 – 60 days | **19.3** | 19.2 |
| 60 – 90 days | **2.5** | 1.9 |
| Over 90 days | **1.3** | 0.6 |
| | **109.9** | 100.1 |

### Movement in the provision for doubtful debts

| | Group £m |
|---|---|
| Balance at the beginning of the year | 1.0 |
| Amounts provided during the year | 1.6 |
| Amounts utilised during the year | (0.8) |
| Balance at the end of the year | 1.8 |

### Ageing of past due and impaired receivables

| | Group | |
|---|---|---|
| | **2008 £m** | 2007 £m |
| 30 – 60 days | **0.1** | – |
| 60 – 90 days | **0.1** | – |
| Over 90 days | **1.6** | 1.0 |
| | **1.8** | 1.0 |

The other classes within trade and other receivables do not include impaired assets.

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

## 15. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| **Due within one year** | | | | |
| Trade payables | **119.7** | 115.7 | **–** | – |
| Other payables | **66.2** | 66.3 | **11.1** | 14.1 |
| Other taxes and social security costs | **9.9** | 6.9 | **–** | 0.2 |
| Amounts owed to Group companies | **–** | – | **202.7** | 148.8 |
| | **195.8** | 188.9 | **213.8** | 163.1 |
| **Due after more than one year** | | | | |
| Other payables | **0.2** | 0.5 | **–** | – |

The Directors consider that the carrying value of trade and other payables approximates to their fair value.

## 16. Financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| **Maturity profile** | | | | |
| Borrowings due within one year: | | | | |
| Bank loans and overdrafts | **58.4** | 7.6 | **57.7** | 6.8 |
| Finance lease creditor | **0.1** | 0.1 | **–** | – |
| Unsecured loan stock | **0.1** | 0.1 | **–** | – |
| | **58.6** | 7.8 | **57.7** | 6.8 |
| Net derivative liabilities | **16.7** | 2.3 | **16.7** | 2.3 |
| Total borrowings due within one year | **75.3** | 10.1 | **74.4** | 9.1 |
| Borrowings due after one year: | | | | |
| Loans repayable between one and two years | **1.6** | 52.3 | **1.6** | 52.3 |
| Loans repayable between two and five years | **103.3** | 48.1 | **103.3** | 48.1 |
| Loans repayable after five years | **19.5** | 21.7 | **19.5** | 21.7 |
| Preference shares | **1.4** | 1.4 | **1.4** | 1.4 |
| Finance lease creditor | **0.2** | 0.5 | **–** | 0.5 |
| | **126.0** | 124.0 | **125.8** | 124.0 |
| Net derivative liabilities | **0.9** | 0.1 | **0.9** | 0.1 |
| Total borrowings due after one year | **126.9** | 124.1 | **126.7** | 124.1 |
| Total borrowings | **202.2** | 134.2 | **201.1** | 133.2 |
| Less: Cash at bank and in hand and short-term deposits | **19.6** | 22.9 | **2.6** | 1.9 |
| Net debt | **182.6** | 111.3 | **198.5** | 131.3 |

Other than trade receivables and payables, there are no financial assets or liabilities excluded from the above analysis.

No financial assets or liabilities were held or issued for trading purposes.

The Company has issued 1,394,587 cumulative preference shares of £1 each. These shares are not redeemable and pay an interest coupon of 9% semi-annually.

**Borrowing facilities**

At 31 December 2008, the Group had undrawn committed facilities of £22.6m (2007: £29.7m) with the following expiry profile:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Less than one year | 19.8 | 20.0 |
| Between one and two years | – | 2.2 |
| Between two and five years | 2.8 | 7.5 |
| | 22.6 | 29.7 |

The Group had no undrawn uncommitted facilities (2007: £nil).

### Fair values

Set out below is an analysis of the fair and book value of the Group's financial instruments as at 31 December 2008.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| **Primary financial instruments held or issued to finance the Group's operations** | | | | |
| Short-term borrowings | **75.4** | **75.5** | 11.4 | 11.4 |
| Medium-term borrowings | **105.8** | **106.8** | 100.4 | 100.5 |
| Long-term borrowings | **21.0** | **23.6** | 22.4 | 23.0 |
| | **202.2** | **205.9** | 134.2 | 134.9 |
| Cash and deposits | **19.6** | **19.6** | 22.9 | 22.9 |

The fair value of the fixed rate term borrowing is calculated as the present value of all future cash flows discounted at prevailing market rates.

### Derivative financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| **Assets** | | | | |
| Forward foreign exchange contracts (current) | **0.4** | 0.6 | **0.4** | 0.6 |
| **Liabilities** | | | | |
| Forward foreign exchange contracts (current) | **(17.1)** | (2.9) | **(17.1)** | (2.9) |
| Forward foreign exchange contracts (non-current) | **(0.9)** | (0.1) | **(0.9)** | (0.1) |
| | **(17.6)** | (2.4) | **(17.6)** | (2.4) |

The fair values of the derivative financial instruments were determined by reference to quoted market prices. The derivative financial instruments are classified as current or non-current based on the remaining maturity of the related hedged item.

### Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts are:

| | | Group | | Company | | Sterling equivalents | |
|---|---|---|---|---|---|---|---|
| | | **2008 million** | 2007 million | **2008 million** | 2007 million | **2008 £m** | 2007 £m |
| Euro | EUR | **24.5** | 29.1 | **24.5** | 29.1 | **23.7** | 21.5 |
| US dollar | USD | **56.0** | 44.4 | **56.0** | 44.4 | **38.9** | 22.3 |
| Czech koruna | CZK | **319.2** | 319.2 | **319.2** | 319.2 | **11.5** | 7.8 |
| Australian dollar | AUD | **24.5** | 17.1 | **24.5** | 17.1 | **11.9** | 7.0 |
| New Zealand dollar | NZD | **8.1** | 2.9 | **8.1** | 2.9 | **3.3** | 1.0 |
| Swedish krona | SEK | **49.1** | 33.9 | **49.1** | 33.9 | **4.3** | 2.6 |
| Norwegian krone | NOK | **17.5** | – | **17.5** | – | **1.7** | – |
| Hungarian forint | HUF | **325.0** | – | **325.0** | – | **1.2** | – |
| Indian rupee | INR | **1,289.7** | 412.0 | **1,289.7** | 412.0 | **18.4** | 5.1 |

The fair value of provisions, preference shares and other financial liabilities are not considered to be materially different from their book value.

## 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 receivables and trade payables) at 31 December 2008 is shown below.

| | | | **2008** | | | 2007 |
|---|---|---|---|---|---|---|
| Currency | **Floating rate financial assets £m** | **Fixed rate financial assets £m** | **Total financial assets £m** | Floating rate financial assets £m | Fixed rate financial assets £m | Total financial assets £m |
| Sterling | **3.9** | **–** | **3.9** | 6.0 | – | 6.0 |
| Euro | **3.3** | **–** | **3.3** | 3.3 | – | 3.3 |
| US dollar | **3.2** | **–** | **3.2** | 4.1 | – | 4.1 |
| Hong Kong dollar | **0.5** | **–** | **0.5** | 0.6 | – | 0.6 |
| Australian dollar | **1.7** | **–** | **1.7** | 4.2 | – | 4.2 |
| New Zealand dollar | **0.3** | **–** | **0.3** | 1.0 | – | 1.0 |
| Norwegian krone | **0.5** | **–** | **0.5** | 1.8 | – | 1.8 |
| Indian rupee | **0.3** | **–** | **0.3** | 0.4 | – | 0.4 |
| South African rand | **2.0** | **–** | **2.0** | – | – | – |
| Swedish krona | **1.9** | **–** | **1.9** | 0.6 | – | 0.6 |
| Other | **2.0** | **–** | **2.0** | 0.9 | – | 0.9 |
| | **19.6** | **–** | **19.6** | 22.9 | – | 22.9 |

The floating rate financial assets of £19.6m (2007: £22.9m) are at interest rates linked to Base rates and LIBID.

| | | | **2008** | | | 2007 |
|---|---|---|---|---|---|---|
| Currency | **Floating rate financial liabilities £m** | **Fixed rate financial liabilities £m** | **Total financial liabilities £m** | Floating rate financial liabilities £m | Fixed rate financial liabilities £m | Total financial liabilities £m |
| Sterling | **131.4** | **30.2** | **161.6** | 39.4 | 31.9 | 71.3 |
| Euro | **4.4** | **–** | **4.4** | 4.4 | – | 4.4 |
| US dollar | **18.6** | **–** | **18.6** | 18.6 | 35.6 | 54.2 |
| Other | **–** | **–** | **–** | 1.9 | – | 1.9 |
| Net derivative liabilities | **17.6** | **–** | **17.6** | 2.4 | – | 2.4 |
| | **172.0** | **30.2** | **202.2** | 66.7 | 67.5 | 134.2 |

Floating rate financial liabilities of £172.0m (2007: £66.7m) comprise bank loans, overdrafts, unsecured loan stock, cross-currency basis swaps and forward contracts. Interest on these liabilities is determined by reference to short-term rates linked to Base rates and LIBOR.

Sterling fixed rate financial liabilities comprise a loan repayable between 2009 and 2020 of £28.7m (2007: £30.0m) on which interest is at a fixed rate of 6.23% (2007: 6.23%), preference shares of £1.4m (2007: £1.4m) and finance lease creditors of £0.1m (2007: £0.5m). The loan has a weighted average maturity of six years (2007: seven years).

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**Financial risk factors**

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from net investments in foreign operations, recognised assets and liabilities and future commercial transactions.

The Group's treasury policy is to hedge significant forecast transaction exposures for a maximum of 18 months forward and to hedge the majority of currency denominated assets. The Group primarily uses forward contracts denominated in the relevant foreign currencies to hedge these exposures.

At 31 December 2008, if the UK pound had weakened/strengthened by 10% against the US dollar with all other variables held constant, reserves for the year would have been £5.1m/£4.2m (2007: £6.2m/£5.1m) higher/lower, mainly as a result of foreign exchange gains/losses on translation of forward contracts.

At 31 December 2008, if the UK pound had weakened/strengthened by 10% against the Euro with all other variables held constant, reserves for the year would have been £2.6m/£2.1m (2007: £2.4m/£2.0m) higher/lower, mainly as a result of foreign exchange gains/losses on translation of forward contracts.

(ii) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to minimise exposures by ensuring an appropriate balance of long-term fixed and short-term floating rates.

At 31 December 2008, 22.0% (2007: 50.3%) of the Group's borrowings were fixed, the reduction reflecting the downward movement in interest rates during the year.

At 31 December 2008, if interest rates on UK pound-denominated borrowings had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been £0.6m (2007: £0.3m) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group considers its exposure to credit risk at 31 December to be as follows:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Bank deposits | **19.6** | 22.9 |
| Trade receivables | **109.9** | 100.1 |
| | **129.5** | 123.0 |

For banks and financial institutions, the Group's policy is to transact with independently rated parties with a minimum rating of 'A'. If there is no independent rating, the Group assesses the credit quality of the counterparty taking into account its financial position, past experience and other factors.

Further details on the Group's policy relating to trade receivables can be found in Note 14 to the financial statements.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows.

## 16. Financial instruments continued

The following is an analysis of the Group's financial liabilities and derivative financial liabilities into relevant maturity based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

| 2008 | Due within 1 year | Due between 1 and 2 years | Due between 2 and 5 years | Due over 5 years |
|---|---|---|---|---|
| Borrowings | (58.5) | (1.6) | (103.3) | (20.9) |
| Finance leases | (0.1) | – | – | (0.2) |
| Trade and other payables | (119.7) | (0.2) | – | – |
| Derivatives and other financial liabilities: | | | | |
| Net settled derivative contracts – receipts | 0.4 | – | – | – |
| – payments | (17.1) | (0.9) | – | – |
| Total | (195.0) | (2.7) | (103.3) | (21.1) |

| 2007 | Due within 1 year | Due between 1 and 2 years | Due between 2 and 5 years | Due over 5 years |
|---|---|---|---|---|
| Borrowings | (7.7) | (52.3) | (48.1) | (23.1) |
| Finance leases | – | – | – | (0.6) |
| Trade and other payables | (115.7) | (0.5) | – | – |
| Derivatives and other financial liabilities: | | | | |
| Net settled derivative contracts – receipts | 0.6 | – | – | – |
| – payments | (2.9) | (0.1) | – | – |
| Total | (125.7) | (52.9) | (48.1) | (23.7) |

## 17. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Property | | Other | | Property | |
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Within one year | **21.4** | 16.6 | **9.4** | 6.9 | **0.8** | 0.8 |
| Within two to five years | **51.0** | 50.5 | **18.7** | 8.5 | **2.5** | 2.7 |
| After five years | **31.0** | 56.7 | **–** | 0.7 | **1.4** | 2.0 |
| | **103.4** | 123.8 | **28.1** | 16.1 | **4.7** | 5.5 |

## 18. Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Contracted but not provided – property, plant and equipment | **4.7** | 6.5 | **–** | – |

## 19. Provisions

| Deferred tax | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Accelerated capital allowances and other temporary differences | **5.0** | 4.1 | **–** | – |
| Retirement benefit obligations | **10.0** | – | **10.0** | – |
| | **15.0** | 4.1 | **10.0** | – |
| **Liabilities** | | | | |
| Accelerated capital allowances and other temporary differences | **7.7** | 2.9 | **5.2** | 1.1 |
| Retirement benefit obligations | **–** | 2.7 | **–** | 2.7 |
| | **7.7** | 5.6 | **5.2** | 3.8 |
| Net deferred tax (assets)/liabilities | **(7.3)** | 1.5 | **(4.8)** | 3.8 |
| Movement in year: | | | | |
| Income statement – retirement benefit obligations | **1.0** | 2.1 | **1.0** | 0.7 |
| – other | **4.5** | 1.0 | **4.0** | 0.4 |
| – exchange adjustments | **(0.7)** | – | **–** | – |
| Statement of recognised income and expense | **(13.6)** | (1.0) | **(13.6)** | (1.0) |
| Transfer to subsidiary | **–** | – | **–** | 1.3 |
| | **(8.8)** | 2.1 | **(8.6)** | 1.4 |

| Other – property and restructuring-related | 2008 £m | 2007 £m |
|---|---|---|
| At beginning of year | **5.1** | 7.0 |
| Provided during year | **5.4** | 1.5 |
| Utilised during year | **(1.9)** | (3.4) |
| At end of year | **8.6** | 5.1 |

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

**Contingent liabilities**

There are contingent liabilities, including those in respect of disposed and acquired businesses, which are not expected to give rise to any significant loss to the Group.

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

## 20. Share capital

| | 2008 £m | 2007 £m |
|---|---|---|
| **Authorised** | | |
| 73,056,248 ordinary shares of 25p each | **18.3** | 18.3 |
| **Allotted, called up and fully paid** | | |
| Opening – 59,980,222 ordinary shares of 25p each | **15.0** | 14.8 |
| Allotted under share option schemes* | **0.1** | 0.2 |
| Closing – 60,207,940 ordinary shares of 25p each | **15.1** | 15.0 |

As a result of options being exercised, 227,718 (2007: 724,685) ordinary shares having a nominal value of £0.1m (2007: £0.2m) were issued during the year at a share premium of £0.7m (2007: £2.5m).

*Included in this total are 7,500 (2007: 269,089) ordinary shares of 25p each allotted to Directors under the Executive Share Option Scheme and nil (2007: 78) ordinary shares of 25p each allotted to the Directors under the Savings-Related Share Option Scheme with a total nominal value of £1,875 (2007: £67,292).

**Potential issue of ordinary shares**

Certain senior executives hold options to subscribe for shares in the Company under the executive share option scheme approved by the shareholders, details of which are shown below. Options on 213,462 shares were exercised in 2008 and no options lapsed.

| Date of grant | Exercise price (pence) | Exercise period | 2008 Number | 2007 Number |
|---|---|---|---|---|
| Apr-98 | 492 | 2001-2008 | **–** | 12,500 |
| Feb-99 | 348 | 2002-2009 | **5,000** | 5,000 |
| Jan-00 | 391 | 2003-2010 | **5,000** | 5,000 |
| Nov-02 | 329 | 2005-2012 | **196,048** | 196,048 |
| May-03 | 312 | 2006-2013 | **–** | 200,962 |
| May-04 | 418 | 2007-2014 | **101,776** | 101,776 |
| | | | **307,824** | 521,286 |

Employees, including senior executives, also hold options to subscribe for shares in the Company under the Savings-Related Share Option Scheme approved by the shareholders, details of which are shown below. Options on 14,256 shares were exercised in 2008 and 409,892 options lapsed.

| Year of grant | Exercise price (pence) | Exercise period | 2008 Number | 2007 Number |
|---|---|---|---|---|
| 2004 | 388 | 2007-2008 | **–** | 22,857 |
| 2005 | 467 | 2008-2009 | **56,805** | 217,916 |
| 2006 | 348 | 2009-2010 | **293,073** | 392,850 |
| 2007 | 452 | 2010-2011 | **248,141** | 372,787 |
| 2008 | 285 | 2011-2012 | **487,454** | – |
| | | | **1,085,473** | 1,006,410 |

**Company share option schemes**

The Company operates the following share-based payment arrangements:

(a) Executive Share Option Scheme (ESOS)

Options under the ESOS may be granted to Executive Directors and senior employees of the Group on an annual basis and mature only after three years upon which they become exercisable. The exercise period is usually seven years from maturity and special rules apply to employees who leave the employment of the Group due to ill health, retirement or redundancy. Options are granted with a fixed exercise price equal to the market price of shares under option at the date of grant.

Options granted under the ESOS adopted in September 2000, are subject to performance conditions and lapse if these are not achieved. The performance hurdles require that for each annual grant, three-year growth targets set by the Board are achieved. Growth is typically measured by growth in underlying earnings per share (EPS) as compared to RPI plus between 3% and 8% per annum over three years, adjusted to normalise pension and tax charges.

### (b) Savings-Related Share Option Scheme

The Company operates a savings-related share option scheme which is open to all eligible UK employees. Typically, all employees are eligible to participate including full and part-time employees. Annual grants of options are made in September or October each year and become exercisable after three years. Employees enter into a savings contract with the Yorkshire Building Society, who administer the scheme. The options are granted at a 20% discount of the share price at the date of grant and lapse if not exercised within six months of maturity. Special provisions apply to employees who leave their employment due to ill health, redundancy or retirement.

### (c) Performance Share Plan (PSP)

Under the PSP, the Board can grant Executive Directors and senior employees of the Group selected by the Remuneration Committee an award of conditional shares. The shares will vest at the end of three years if Total Shareholder Return (TSR) reaches targets set by the Board. If percentage growth in the Company's TSR for the three financial years is greater than the TSR for the FTSE250 Index by 30% or more, then the percentage of the award vesting is 100%. If the growth is greater than the TSR for the FTSE250 Index but less than 30% greater, then the percentage of the award vesting will be calculated on a straight-line basis. If growth is equal to or less than TSR for the FTSE250 Index, then the percentage of the award vesting is nil. There will be no retesting of performance targets.

Awards may be made by the Board at any time but no award will be made more than 10 years after the adoption of the PSP. At the end of each three-year performance period, the Remuneration Committee will notify each participant of the extent to which the performance targets have been met and the number of shares that will vest. Shares will be met from existing issued shares held under employee benefit trusts. Participants will also be paid an amount equal to the net dividends on those shares which actually vest which would have been paid during the performance period.

The conditional shares are not transferrable and lapse immediately if the participant leaves the employment of the Group, although special rules apply in the case of particular circumstances such as death, ill-health, redundancy or other circumstances at the discretion of the Remuneration Committee. No participant may be made an award of more than 100,000 shares in any year between both the PSP and the DPSP schemes. Share awards are valued using scenario-modelling.

### (d) Long-Term Incentive Scheme (LTIS)

The terms under which share awards are made under the LTIS to senior employees are the same as for the PSP, other than as follows. The shares will vest at the end of three years if underlying EPS reaches targets set by the Board. If the percentage real EPS growth in the Company's underlying EPS for three financial years is greater than RPI + 8% pa or more, then the percentage of the award vesting is 100%. If the EPS growth is greater than the RPI by between 3% and 8% pa, then the percentage of the award vesting will be calculated on a straight-line basis. If EPS growth is RPI + 3% pa or less, then the percentage of the award vesting is nil. There will be no retesting of performance targets.

### (e) Bonus Co-investment Plan (Plan)

The Plan offers Executive Directors and other senior executives selected by the Board the opportunity to invest part of their annual cash bonus for a financial year in the Company's shares, entitling them, provided certain performance targets are met, to a grant of additional matching shares in the ratio of up to 2:1 of the gross deferred bonus. The maximum amount of the annual cash bonus which may be eligible for matching is 50%. The net of tax amount is applied in the purchase of shares.

The first bonus award which qualified for investment in shares under the Plan was the award for the financial year ended December 2004 and the last qualifying bonus award will be for the financial year which commences 10 years after the adoption of the Plan.

Performance targets are based on real growth in earnings measured over three financial years. If the percentage growth in the Company's EPS is RPI + 8% or more, then the number of matching shares that will vest is two. For EPS growth of between RPI + 3% pa and RPI + 8% pa, the number of matching shares vesting will be calculated on a straight-line basis. No matching shares will vest for EPS percentage growth of RPI + 3% pa or less.

Similar provisions apply in respect of dividends, transferability of rights and leavers.

## 20. Share capital continued

### (f) Shadow Option Scheme

The Company also operated a cash-settled Shadow Option Scheme for certain senior executives up to 31 December 2004. Grants were made on a discretionary basis normally once a year. The Shadow Option price was the market price at the date of grant and the shadow options mature after three years. The period for exercising was restricted to six months after the date of maturity, after which the shadow options lapse. Discretionary provisions were applied to leavers. The final maturity under the scheme happened during 2007 and there are no outstanding awards under the scheme. There will be no further awards under the scheme.

The performance targets applied were also based on three-year real earnings growth. The 2004 shadow options were exercisable in 2007 if the percentage EPS growth exceeded RPI + 3%-8% pa, with any gain capped at 300p per shadow option.

### (g) Divisional Performance Share Plan (DPSP)

The DPSP was approved at the AGM in May 2007 and was introduced to more closely align Divisional Directors and senior employees with the achievement of target divisional financial results (DFR). The DFR for Distribution is based on operating profits, cost savings and income from new revenue streams whilst for Aviation it is based on operating profits. The maximum award which can be made to an individual is 100,000 shares per year.

Shares will vest at the end of three-year financial periods. A nil award will be achieved where the DFR is at or below the Threshold Performance Target and 100% will vest where the DFR is equal to or greater than the Stretch Performance Target, with a result between Threshold and Stretch being made on a straight-line basis. Actual performance targets will be disclosed in the Directors' Remuneration Report in the year following the expiry of the performance period.

The first award under the plan was made following its adoption in May 2007 and the plan will run for 10 years.

**Fair values of share options**

Options are valued using the Black-Scholes option-pricing model. No performance conditions are included in the fair value calculations.

The fair value per option granted after November 2002 and the assumptions used in the calculation are as follows:

| | Executive Share Option Scheme | | Savings-Related Option Scheme | | | |
|---|---|---|---|---|---|---|
| Grant date | May 2004 | Nov 2002 | Sep 2008 | Oct 2007 | Oct 2006 | Oct 2005 |
| Share price at grant date (pence) | 418 | 329 | 361.75 | 547.5 | 450 | 555.5 |
| Exercise price (pence) | 418 | 329 | 285 | 452 | 348 | 467 |
| Number of employees | 2 | 1 | 740 | 506 | 452 | 122 |
| Shares under option | 101,776 | 196,048 | 487,454 | 248,141 | 293,073 | 56,805 |
| Vesting period (years) | 3 | 3 | 3 | 3 | 3 | 3 |
| Expected volatility | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Option life (years) | 10 | 10 | 3.5 | 3.5 | 3.5 | 3.5 |
| Expected life (years) | 4 | 4 | 3.5 | 3.5 | 3.5 | 3.5 |
| Risk-free rate | 5.1% | 4.5% | 4.6% | 4.6% | 4.5% | 4.5% |
| Expected dividends expressed as a dividend yield* | 4.0% | 5.2% | 4.0% | 4.0% | 3.8% | 3.8% |
| Fair value per option (pence) | 76 | 50 | 77 | 116 | 104 | 132 |
| IFRS 2 charge per option** | 70 | 50 | 47 | 71 | 63 | 81 |

The expected volatility is based on the historical volatility over the last three years. The expected life is the average expected period to vesting. The risk free rate of return is the zero coupon UK government bonds of a term consistent with the assumed award life.

* Based on the daily 12-month trailing dividend yield averaged over the 12 months prior to valuation date.

** The difference between the fair value and IFRS 2 charge per option is due to adjustments for forfeiture risk.

| Grant date | Long-Term Incentive Scheme Mar 2006 | Long-Term Incentive Scheme Apr 2005 | Performance Share Plan May 2008 | Performance Share Plan May 2007 | Performance Share Plan Mar 2006 | Bonus Co-Investment Plan Mar 2008 | Bonus Co-Investment Plan Mar 2007 | Bonus Co-Investment Plan Mar 2006 | DPSP May 2008 | DPSP May 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 541.5 | 582 | 487 | 576 | 530 | 534 | 515 | 530 | 487 | 576 |
| Number of employees | 19 | 20 | 3 | 1 | 4 | 15 | 3 | 3 | 2 | 2 |
| Shares awarded | 96,334 | 94,978 | 140,000 | 35,000 | 105,000 | 101,384 | 26,890 | 19,916 | 70,000 | 70,000 |
| Contractual life (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Expected departure* | 27% | 27% | 0% | 0% | 0% | 14% | 14% | 14% | 0% | 0% |
| Expected outcome of meeting performance criteria | 52% | 52% | 41% | 41% | 41% | 52% | 52% | 52% | 41% | 41% |
| Fair value per share (pence) | 541.5 | 582 | 199 | 235 | 217 | 194 | 230 | 530 | 195 | 231 |
| IFRS 2 charge per share award** | 205 | 219 | 199 | 235 | 217 | 194 | 230 | 237 | 195 | 231 |

* Risk of forfeiture.
** Adjusted for forfeiture risk.

**Movement in share options**

A reconciliation of conditional share movements of executive share options, savings-related share options and shadow options is shown below:

| | Executive Share Option Scheme | | | | Savings-Related Option Scheme | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | | 2007 | |
| | **Number** | **Weighted average exercise price (pence)** | Number | Weighted average exercise price (pence) | **Number** | **Weighted average exercise price (pence)** | Number | Weighted average exercise price (pence) |
| Outstanding at start of year | **521,286** | **345** | 992,026 | 356 | **1,006,410** | **413** | 1,063,043 | 386 |
| Granted | **–** | **–** | – | – | **503,211** | **285** | 377,327 | 452 |
| Forfeited/Expired | **–** | **–** | (2,500) | 492 | **(409,892)** | **425** | (190,395) | 381 |
| Exercised | **(213,462)** | **339** | (468,240) | 368 | **(14,256)** | **389** | (243,565) | 380 |
| Outstanding at end of year | **307,824** | **360** | 521,286 | 345 | **1,085,473** | **350** | 1,006,410 | 413 |
| Exercisable | **307,824** | **360** | 521,286 | 345 | **56,805** | **467** | 22,857 | 388 |

| | Shadow Option Scheme | | | | Performance Share Plans, Long-Term Incentive Scheme and Bonus Co-investment Plan | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | | 2007 | |
| | **Number** | **Weighted average exercise price (pence)** | Number | Weighted average exercise price (pence) | **Number** | **Weighted average exercise price (pence)** | Number | Weighted average exercise price (pence) |
| Outstanding at start of year | **–** | **–** | 222,600 | 418 | **597,097** | **561** | 583,073 | 559 |
| Granted | **–** | **–** | – | – | **311,384** | **502** | 131,890 | 564 |
| Forfeited | **–** | **–** | – | – | **(248,957)** | **582** | (117,866) | 555 |
| Exercised | **–** | **–** | (222,600) | 418 | **–** | **–** | – | – |
| Outstanding at end of year | **–** | **–** | – | – | **659,524** | **555** | 597,097 | 561 |
| Exercisable | **–** | **–** | – | – | **–** | **–** | – | – |

## 20. Share capital continued

**Summary information on all outstanding options**

| | Executive Share Option Scheme | | Savings-Related Option Scheme | | PSP, LTIS and Bonus Co-investment Plan | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Range of exercise prices (pence) | **329-418** | 312-492 | **285-467** | 348-467 | **487-576** | 515-584 |
| Weighted average exercise price (pence) | **360** | 344 | **350** | 413 | **555** | 561 |
| Number of shares | **307,824** | 521,286 | **1,085,473** | 1,006,410 | **659,524** | 597,097 |
| Weighted average remaining life (years) | | | | | | |
| – expected | **0.2** | 1.2 | **2.1** | 2.1 | **2.2** | 2.2 |
| – contractual | **3.4** | 4.4 | **2.1** | 2.1 | **2.2** | 2.2 |

The weighted average share price during the year for executive share options and savings-related options exercised over the year was 323p and 389p respectively (2007: 368p and 380p respectively).

**Total IFRS 2 charge for share-based incentive schemes**

The total charge for the year relating to employee share-based plans was £0.4m (2007: £0.4m), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.3m (2007: £0.3m).

## 21. Statement of changes in shareholders' equity

| | Ordinary shares £m | Share premium account £m | Investment in own shares £m | Retained earnings £m | Capital redemption reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At 29 December 2007 | 15.0 | 15.1 | (3.4) | 60.1 | 21.6 | 108.4 |
| Loss for the year | – | – | – | (1.2) | – | (1.2) |
| Dividends | – | – | – | (15.5) | – | (15.5) |
| New share capital issued | 0.1 | 0.7 | – | – | – | 0.8 |
| Movement in own shares | – | – | 0.1 | – | – | 0.1 |
| Share-based payments | – | – | – | 0.4 | – | 0.4 |
| Actuarial loss (net of deferred tax) | – | – | – | (35.1) | – | (35.1) |
| Exchange adjustments | – | – | – | 4.7 | – | 4.7 |
| **At 31 December 2008** | **15.1** | **15.8** | **(3.3)** | **13.4** | **21.6** | **62.6** |
| At 30 December 2006 | 14.8 | 12.6 | (3.5) | 46.3 | 21.6 | 91.8 |
| Profit for the year | – | – | – | 26.0 | – | 26.0 |
| Dividends | – | – | – | (12.8) | – | (12.8) |
| New share capital issued | 0.2 | 2.5 | – | – | – | 2.7 |
| Movement in own shares | – | – | 0.1 | – | – | 0.1 |
| Share-based payments | – | – | – | 0.4 | – | 0.4 |
| Actuarial loss (net of deferred tax) | – | – | – | (2.2) | – | (2.2) |
| Exchange adjustments | – | – | – | 2.4 | – | 2.4 |
| At 29 December 2007 | 15.0 | 15.1 | (3.4) | 60.1 | 21.6 | 108.4 |

| | Ordinary shares £m | Share premium account £m | Investment in own shares £m | Retained earnings £m | Capital redemption reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| At 29 December 2007 | 15.0 | 15.1 | – | 36.2 | 21.6 | 87.9 |
| Profit for the year | – | – | – | 18.5 | – | 18.5 |
| Dividends | – | – | – | (15.5) | – | (15.5) |
| New share capital issued | 0.1 | 0.7 | – | – | – | 0.8 |
| Share-based payments | – | – | – | 0.1 | – | 0.1 |
| Actuarial loss (net of deferred tax) | – | – | – | (35.1) | – | (35.1) |
| **At 31 December 2008** | **15.1** | **15.8** | **–** | **4.2** | **21.6** | **56.7** |
| At 30 December 2006 | 14.8 | 12.6 | – | 56.8 | 21.6 | 105.8 |
| Loss for the year | – | – | – | (5.6) | – | (5.6) |
| Dividends | – | – | – | (12.8) | – | (12.8) |
| New share capital issued | 0.2 | 2.5 | – | – | – | 2.7 |
| Actuarial loss (net of deferred tax) | – | – | – | (2.2) | – | (2.2) |
| At 29 December 2007 | 15.0 | 15.1 | – | 36.2 | 21.6 | 87.9 |

The profit for the year for the Company of £18.5m (2007: loss of £5.6m) is the same under both IFRS and UK GAAP.

Other than presentational changes there is no difference in the Company balance sheet.

**Investment in own shares**

The Company's ordinary shares are held in trust for an employee share scheme. At 31 December 2008 the trusts held 1,031,387 (2007: 706,149) ordinary 25p shares with a market value of £1,101,006 (2007: £4,025,049).

## 22. Minority interests

| | **2008 £m** | 2007 £m |
|---|---|---|
| At beginning of year | **–** | 0.4 |
| Share of profit after tax | **–** | 0.1 |
| Dividend | **–** | (0.1) |
| Acquired during the year | **–** | (0.4) |
| At end of year | **–** | – |

During 2007, the Group purchased the 26% minority interest in the Big Orange Handling Company Ltd.

## 23. Cash generated from operations

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Operating profit/(loss) | **19.4** | 33.2 | **(5.4)** | (5.4) |
| Depreciation | **23.6** | 21.0 | **1.0** | 0.9 |
| Amortisation of intangible assets | **3.0** | 1.6 | **–** | – |
| Impairment provisions (Note 5(a)) | **3.8** | – | **–** | – |
| Share-based payments | **0.4** | 0.4 | **0.1** | – |
| Gain on exchange of businesses | **–** | (3.1) | **–** | – |
| Dilapidations on onerous lease | **–** | 2.4 | **–** | 2.4 |
| Cash spend on dilapidations on onerous lease | **(3.0)** | – | **(3.0)** | – |
| Onerous lease provisions | **5.0** | – | **1.2** | – |
| Cash spend on onerous leases | **(1.0)** | – | **–** | – |
| Loss/(gain) on sale of property, plant and equipment | **0.1** | (0.2) | **–** | – |
| Gain on disposal of investment | **(8.2)** | – | **–** | – |
| Pension charge | **2.3** | 3.6 | **0.2** | 0.3 |
| Pension contributions in cash | **(3.6)** | (7.7) | **(3.6)** | (7.7) |
| Rationalisation costs | **6.7** | – | **0.8** | – |
| Cash spend on rationalisation costs | **(5.3)** | (1.2) | **–** | – |
| Decrease/(increase) in inventories | **3.1** | (0.4) | **–** | – |
| (Increase)/decrease in trade and other receivables | **(9.3)** | (21.0) | **0.2** | (0.6) |
| Increase/(decrease) in trade and other payables and provisions | **2.2** | 19.9 | **(1.4)** | (0.4) |
| | **39.2** | 48.5 | **(9.9)** | (10.5) |

Cash generated from acquisitions during the year was not material.

## 24. Analysis of changes in net borrowings

| | 2007 £m | Cash flows £m | Currency translation £m | **2008 £m** |
|---|---|---|---|---|
| Cash at bank and in hand | 22.9 | (3.6) | 0.3 | **19.6** |
| Bank overdrafts | (1.9) | (0.5) | – | **(2.4)** |
| Net cash and cash equivalents | 21.0 | (4.1) | 0.3 | **17.2** |
| Bank loans due within one year | (5.7) | (45.9) | (4.4) | **(56.0)** |
| Loan stock due within one year | (0.1) | – | – | **(0.1)** |
| Preference shares | (1.4) | – | – | **(1.4)** |
| Finance leases | (0.6) | 0.3 | – | **(0.3)** |
| Debt due after one year | (122.1) | 10.0 | (12.3) | **(124.4)** |
| Net derivative liabilities | (2.4) | 6.2 | (21.4) | **(17.6)** |
| | (111.3) | (33.5) | (37.8) | **(182.6)** |

The currency translation movement results from the Group's policy of hedging its overseas net assets, which are denominated mainly in US dollar and Euro. The translation effect on net debt is more than offset by the translation effect on net assets resulting in an overall net exchange gain of £4.7m (2007: £2.4m). This net gain is recognised directly in equity (Note 21).

## 25. Acquisitions

During the year, the Group acquired 100% of the share capital or trading assets of the following businesses:

**Aviation**

| | Airline Cargo Resources | MMA Consolidators Pty Ltd | Novia Sverige AB | OCS Baggage Services | |
|---|---|---|---|---|---|
| Country of operation | South Africa £m | South Africa £m | Sweden £m | UK £m | Total £m |
| Purchase consideration: | | | | | |
| Cash paid | 0.5 | 1.2 | 6.4 | 0.3 | 8.4 |
| Acquisition costs | 0.1 | 0.1 | 0.2 | – | 0.4 |
| Deferred consideration | 0.3 | 1.2 | – | – | 1.5 |
| Total purchase consideration | 0.9 | 2.5 | 6.6 | 0.3 | 10.3 |
| Fair value of net assets acquired | 0.9 | 0.2 | 6.6 | 0.3 | 8.0 |
| Goodwill | – | 2.3 | – | – | 2.3 |

The assets and liabilities arising from the acquisitions are as follows:

| | £m | £m | £m | £m | £m |
|---|---|---|---|---|---|
| Non-current assets: | | | | | |
| Intangible assets (contracts) – fair value | 0.9 | – | 7.0 | 0.3 | 8.2 |
| Property, plant and equipment | – | 0.1 | 0.4 | – | 0.5 |
| Current assets | – | 1.7 | 2.6 | – | 4.3 |
| Cash | – | 0.6 | – | – | 0.6 |
| Current liabilities | – | (2.2) | (3.4) | – | (5.6) |
| Net assets acquired | 0.9 | 0.2 | 6.6 | 0.3 | 8.0 |

**Distribution**

| | The Network (Field Marketing & Promotions) Company Ltd |
|---|---|
| Country of operation | UK £m |
| Purchase consideration: | |
| Cash paid | 1.4 |
| Acquisition costs | 0.1 |
| Total purchase consideration | 1.5 |
| Fair value of net assets acquired | 1.5 |
| Goodwill | – |

The assets and liabilities arising from the acquisitions are as follows:

| | £m |
|---|---|
| Non-current assets: | |
| Intangible assets (contracts) – fair value | 1.4 |
| Property, plant and equipment | 0.1 |
| Current assets | 1.5 |
| Cash | 0.6 |
| Current liabilities | (1.8) |
| Non-current liabilities | (0.3) |
| Net assets acquired | 1.5 |

A further performance-related payment of up to £1.6m may become payable in respect of The Network (Field Marketing & Promotions) Company Ltd up to May 2011.

The acquired businesses contributed revenues of £33.6m and operating profit of £1.7m from the date of acquisition. If the businesses had been acquired on 1 January 2008, revenues contributed would have been £50.7m and operating profit contributed would have been £2.3m.

## 26. Disposals

During the year, the Group disposed of its 50% interest in the joint venture in Peru, Talma Menzies SRL, for a consideration of £10.3m (Note 5(a)). The Group also sold its 100% interest in Menzies Aviation (Hong Kong) Ltd for a consideration equal to net book value.

## 27. Related party transactions

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

| Related party | Group share holding % | Sales to related party £m | Purchases from related party £m | Amounts owed to related party at 31 December 2008 £m | Amounts owed by related party at 31 December 2008 £m |
|---|---|---|---|---|---|
| Freshport BV | 50 | 0.4 | – | – | – |
| Swissport Menzies Handling Ute | 39 | 0.7 | – | – | 0.8 |
| Menzies Bobba Ground Handling Services Private Ltd | 51 | 0.5 | – | – | – |
| Hyderabad Menzies Air Cargo Private Ltd | 49 | 0.2 | – | – | 0.2 |
| EM News Distribution (NI) Ltd | 50 | 0.8 | – | 2.5 | – |
| EM News Distribution (Ireland) Ltd | 50 | 0.7 | – | – | 2.7 |

Certain activities, including treasury, taxation, insurance, pension and legal matters are provided by the Parent Company to subsidiary companies and are recharged on a cost-plus basis.

The amounts owed to/(due by) the Parent Company from dealings with subsidiary companies is disclosed in Notes 14 and 15.

## 28. Subsidiary companies

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

# Five year summary

| | 2008 £m | 2007 £m | 2006 £m | IFRS 2005 £m | UK GAAP 2004 £m |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Distribution | **1,166.2** | 1,147.3 | 1,132.0 | 1,093.5 | 1,086.6 |
| Aviation | **500.9** | 393.8 | 318.4 | 268.6 | 244.0 |
| | **1,667.1** | 1,541.1 | 1,450.4 | 1,362.1 | 1,330.6 |
| **Operating profit** | | | | | |
| Distribution | **23.9** | 23.4 | 23.7 | 30.7 | 30.5 |
| Aviation | **14.1** | 20.6 | 16.6 | 13.3 | 10.3 |
| | **38.0** | 44.0 | 40.3 | 44.0 | 40.8 |
| Corporate | **(1.5)** | (3.0) | (3.4) | (3.7) | (4.3) |
| **Underlying operating profit** | **36.5** | 41.0 | 36.9 | 40.3 | 36.5 |
| Exceptional items | **(7.3)** | 0.1 | 3.0 | – | 7.6 |
| Intangible amortisation | **(4.3)** | (2.8) | (2.2) | (2.1) | (3.6) |
| Share of interest and tax on joint ventures and associates | **(1.9)** | (1.7) | (1.0) | (0.6) | – |
| **Profit before interest** | **23.0** | 36.6 | 36.7 | 37.6 | 40.5 |
| Net finance costs | **(5.4)** | (2.7) | (1.1) | (0.9) | (2.9) |
| Foreign currency loss | **(7.7)** | (2.1) | – | – | – |
| **Profit before taxation** | **9.9** | 31.8 | 35.6 | 36.7 | 37.6 |
| **Per ordinary share** | | | | | |
| Dividends | **7.56p** | 25.6p | 20.5p | 19.5p | 18.5p |
| Underlying earnings | **31.3p** | 47.9p | 46.9p | 51.9p | 44.0p |
| Basic earnings | **(2.0)p** | 44.2p | 46.4p | 48.2p | 51.0p |

# General information

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

**Share registrar and shareholder enquiries**
Any enquiries concerning your shareholding should be directed to the Company's Registrar and clearly state the shareholder's name, address and Shareholder Reference Number (SRN).
The contact details are:
Call: 0870 703 6303
Web: www.computershare.com
Email: web.queries@computershare.co.uk
Write: The John Menzies plc Registrar,
Computershare Investor Services PLC,
The Pavilions, Bridgwater Road, Bristol,
BS99 6ZZ

The Registrar should be notified in writing promptly of any change in a shareholder's address. Computershare's online Investor Centre also enables you to view your shareholding and update your address and payment instructions online. You can register at www.computershare.com/investor/uk.

In order to register, you will need your Shareholder Reference Number (SRN), which you can find on your share certificate or tax voucher.

**Share price**
The current share price of John Menzies plc ordinary shares can be seen on the Group's website, www.johnmenziesplc.com.

**Low cost dealing service**
A low cost dealing service has been arranged with Stocktrade which provides a simple way of buying or selling John Menzies shares.
Call: 0845 601 0995 (non-UK +44 131 240 0414), quote reference LOW C0014

Charges
Commission will be 0.5%, subject to a minimum of £15. Please note that UK share purchases will be subject to 0.5% stamp duty. There will also be a PTM (panel for takeovers and mergers) levy of £1 for single trades in excess of £10,000.

Settlement
When buying shares you will be required to pay for your transaction at the time of the deal by debit card and you should ensure that you have sufficient cleared funds available in your debit card account to pay for the shares in full.

**ShareGift**
If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.
Call: 020 7930 3737
Web: www.sharegift.org

**Analysis of shareholding**

| | Number of holders | % of holders | Number of shares | % of shares |
|---|---|---|---|---|
| 0-1,000 | 3,487 | 82.20 | 794,661 | 1.32 |
| 1,000 – 5,000 | 512 | 12.07 | 1,051,635 | 1.75 |
| 5,000 – 10,000 | 66 | 1.56 | 484,866 | 0.80 |
| 10,000 – 100,000 | 98 | 2.31 | 3,979,724 | 6.61 |
| Over 100,000 | 79 | 1.86 | 53,897,055 | 89.52 |
| Totals | 4,242 | 100 | 60,207,941 | 100 |

**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.

9% Preference Shares
Dividends will be paid on 1 April 2009 and 1 October 2009.

**Investor relations**
The Group accounts can be downloaded from our website. For other investor relations enquiries, please contact John Geddes at:
Call: 0131 225 8555
Fax: 0131 226 3752
Web: www.johnmenziesplc.com
Email: info@johnmenziesplc.com
Write: John Menzies plc, 108 Princes Street,
Edinburgh EH2 3AA

**Principal advisers**

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Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

Corporate Financial Advisers and Joint Brokers
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250 Bishopsgate
London EC2M 4AA

Joint Brokers
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48 St Vincent Street
Glasgow G2 5TS

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Fax: +44 (0) 20 8750 6001

**Corporate calendar**

10 March 2009
Preliminary announcement of Results

1 April 2009
Payment of dividend on 9% Cumulative Preference Shares

17 April 2009
Annual Report and Notice of AGM released

14 May 2009*
Management Statement issued

21 May 2009
Annual General Meeting

19 August 2009*
Announcement of Interim Results

1 October 2009
Payment of dividend on 9% Cumulative Preference Shares

11 November 2009*
Management Statement issued

*Provisional date

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**Registered in Scotland with company number SC34970**
**Registered office address as above**