

CHAIRMAN'S STATEMENT

TO

2001 ANNUAL GENERAL MEETING

Overall, the Group is performing satisfactorily given the prevailing global economic climate. We continue to make good progress in improving the efficiency and effectiveness of our core distribution and aviation handling businesses in markets which are experiencing some weakness. A rigorous review of costs is underway, with a particular focus on overheads both at the corporate level and within the operating divisions.

Menzies Distribution sales in the first three months of this financial year have benefited from recent price increases on the relatively low margin newspaper side. These are the first such increases for some years, and have been helpful in a relatively flat magazine market.

We have just opened the first of three new major distribution branches in Scotland as part of a £15 million investment programme. They will replace eight Scottish branches and reflect our continuing drive for further cost-effective added value and efficiency in this business.

Menzies Aviation Group is implementing the rationalisation of its cargo operations at Heathrow announced in July, reducing excess capacity acquired with Ogden, in a climate of softening volumes in global cargo. Close attention is being given to the three problem areas acquired through Ogden – losses at Amsterdam have been considerably reduced; Germany is being rationalised – the operation at Berlin Tegel is being closed; and in Hong Kong we have a strong commitment to win further new business. Other stations continue to perform well, particularly in the Czech Republic, Italy and Macau. The Group has recently made a relatively small acquisition in Spain, and is also developing new licences for operations at four stations in India.

Early Learning Centre is trading well in a competitive market, with like-for-like store sales up 5% and continued improvement in gross margins.

In the current uncertain economic climate, the Ogden acquisition has provided an invaluable platform for further development on a broad base of related activities and geographic areas. The re-balancing of the Group is now virtually complete. We are confirmed in our belief that our strategy will secure and deliver growth in value for our shareholders.

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