

# John Menzies plc

## The logistics support services Group

**PRESS RELEASE**  
17th July 2001

108 Princes Street  
EDINBURGH

### **Preliminary Results for the year ended 5th May 2001**

Headline profit before tax	£51.6m	up £19.9m
Headline earnings per share	62.8p	up 24.9p
Total dividend	18.1p	up 5.8%
Continuing operations		
Turnover	£1,189.6m	up 9.0%
Operating profits	£30.4m	up 8.2%
Discontinued operations		
Operating profit	£21.2m	up £15.0m
FRS3 profit before tax	£15.1m	vs £33.3m
FRS3 earnings per share	2.7p	vs 48.0p

#### **Highlights:**

- Menzies Aviation Group transformed into a global ground handling business
- £73.8m acquisition of Ogden Ground Services successfully integrated
- Another good performance from Menzies Distribution
- Early Learning Centre now in profit
- Profitable and well managed exit from THE Games

#### **David Mackay, Chief Executive, said:**

“Both of our core businesses are major players in their markets.

“Menzies Distribution had a good year in difficult market conditions and considerable industry turmoil. The Frontline renewal has further strengthened our contract security, with the majority of our key suppliers having periods remaining in contract of between two and six years.

The purchase of Ogden Ground Services in November 2000 was a significant step forward in our strategy for developing our aviation business. With the integration process successfully completed, we are seeking further opportunities to expand in this growing market.

After another year of very good results and further repositioning we ended the financial year with a strong balance sheet which allows substantial scope for future growth. From these strong foundations I am confident that we shall successfully implement our strategy and deliver results.”

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## CHAIRMAN'S STATEMENT

This has been a year of further strong progress in the transformation of Menzies into a leading logistics support services group focused on adding value for customers and shareholders. Both of our core businesses are major players in their markets.

Menzies Distribution is a leading operator in UK news and magazine distribution, with a record of adding value as shown by its recent industry gold award as a "company whose professionalism and ingenuity has made a positive contribution in 2000".

The news industry has faced up to a potential upheaval during the year. Proposals were made for a national distribution system for magazines, which Menzies believed would be detrimental to most of those involved, and which has been followed by the forthcoming sale by WH Smith of its news distribution business. Menzies Distribution responded vigorously to these proposals, and is playing its full part in discussions which should lead to balanced improvements in the structure of the industry whilst maintaining the continuing strength and efficiency which are required. We strongly believe that the future of this market depends on maintaining the independence from each other of the publishing, wholesaling and retailing sectors. We remain committed to this structure.

Menzies Aviation Group is now one of the world's leading ground handling companies operating in a market which is both international and expanding. The purchase of Ogden Ground Services in November 2000, and its successful integration within the Group, is a significant step forward in our strategy for developing this business. We are seeking further opportunities to expand in this growing market.

Early Learning Centre is now our only non-core business, and its welcome return to profit, with sales growth well above market trends, is a credit to its management. Its brand and the quality of its toys, many of which are its own designs, are also recognised internationally, as evidenced by distribution agreements now covering the USA and Australasia. It remains our intention to dispose of this business when we can achieve an acceptable price.

We have achieved further progress in rationalising the activities of the Group during the year with the sale of THE in August 2000 and the closure of THE Games in February 2001. Both these businesses were non core and were highly seasonal, operating in increasingly competitive market segments and involving significant stock risks.

The profits of our continuing operations showed steady progress. Headline Profits rose by £19.9m to £51.6m, with the Group's results for the year benefiting significantly from the one-off profit level achieved by THE Games. This business has been managed successfully to a planned closure, producing excellent profits which we do not believe could have been achieved had it continued trading.

The Directors are recommending an increased final dividend of 12.6p, making a total dividend for the year of 18.1p, an overall rise of 5.8%.

It is my intention to stand down as Chairman at the AGM in September 2002, when I shall have held that position for 5 years. I am particularly pleased that William Thomson has accepted the Board's invitation to succeed me, and he will become Deputy Chairman with immediate effect. William, as Chairman of E G Thomson Shipping Ltd, is extremely experienced in International Distribution and Logistics.

We were delighted that David Coltman accepted our invitation to join the Board in February. His wide experience of the aviation industry is already proving very valuable.

I would like to pay tribute to the executive team, and also to all members of staff throughout the Group, who have worked so conscientiously over the last 12 months to achieve our goals.

The past year has seen the most significant change in the structure of the Group since we set out to reposition ourselves from a mixed retail/wholesale business to a focused logistics support services group. We have achieved much, and, with our shape and direction clearly set, I have great confidence in our future.

Gavin Reed  
Chairman

## **CHIEF EXECUTIVE'S REVIEW**

In another active and challenging year I am pleased to report that we have made further strong progress in focusing Menzies as a logistics support services group and in reducing our exposure to seasonal and volatile earning streams.

Highlights include:

- Another good performance from Menzies Distribution in a period of considerable industry turmoil.
- The acquisition and successful integration of Ogden Ground Services.
- Menzies Aviation Group transformed into a global ground handling business.
- Profitable and well managed exit from THE Games.
- Early Learning Centre now in profit.

### **Results**

Turnover from continuing operations increased by 9.0% to £1,189.6m. Menzies Distribution turnover was 1.2% higher at £866.8m mainly due to the introduction of an extended range, including phone-cards. Menzies Aviation Group turnover rose over 100% in the year to £157.8m, with Ogden Ground Services (Ogden) generating £61.0m during the five months following the acquisition. Sales at Early Learning Centre increased 4.2% during the year to £165.0m. Turnover from discontinued operations was £162.2m lower at £141.8m with higher sales at THE Games being more than offset by the disposals of THE in the current year and SUOS last year.

Operating profits from continuing operations before goodwill amortisation increased by 8.2% to £30.4m. Menzies Distribution operating profits were lower, mainly due to the 53<sup>rd</sup> week last year and minimal cover price growth, together with fuel cost pressures. Operating profit at Menzies Aviation Group almost doubled, largely as a result of the initial contribution from Ogden. Early Learning Centre moved into profitability as it continued its turnaround. Discontinued activities contributed £21.2m primarily on the highly profitable exit from THE Games.

Interest cost reduced by £2.6m to zero, on timing as higher profits and proceeds from the sale of SUOS offset the acquisition of Ogden later in the year.

Headline profit before tax consequently rose by £19.9m to £51.6m and Headline earnings per share increased by 24.9p to 62.8p.

Reflecting the strategic changes underway within the Group, results were affected by a number of exceptional items. Operating exceptionals totalled a cost of £9.5m including integration and rationalisation costs at Ogden, fees in respect of a potential acquisition and a provision made in respect of an investment in an internet magazine subscription business. Non operating exceptional costs totalled £25.3m, being mainly the previously announced disposal of THE which included £12.5m of goodwill previously written off. Exceptional items are covered in greater detail in the Financial Review.

Group profit before tax and after goodwill amortisation and exceptional items was £15.1m (2000 : £33.3m). Earnings per share, post goodwill amortisation and exceptional items but after tax, were 2.7p (2000 : 48.0p).

## Menzies Distribution

	2001 £m	2000 £m	Change £m	Change Adjusted for 53 <sup>rd</sup> Week £m
Turnover	866.8	856.7	10.1	28.4
Operating Profit	26.3	30.0	(3.7)	(2.4)

Menzies Distribution had a good year in difficult market conditions and considerable industry turmoil. Sales, at £866.8m, grew by 3% after adjusting for the 53<sup>rd</sup> week last year. Magazines were up by 1%, newspapers down by 1% and there was a first time sales contribution of £18.8m from low margin phone-cards. Despite management's continued success in squeezing costs, operating profit at £26.3m fell 8% (again, adjusted for the 53<sup>rd</sup> week last year) due to minimal cover price growth, changing product mix, increased pagination and above inflation cost increases, especially fuel. An additional factor was £0.4m of costs incurred as a result of the attempted imposition of national distribution. As in previous years, the Division continued to generate significant cash.

The announcement by WH Smith and others of their intention to appoint a single wholesaler for their UK magazine supply (national distribution) created serious division amongst publishers, wholesalers and retailers alike. These proposals had potentially wide-ranging implications on the contract renewals secured two years ago and on future strategy for the Division. However, an agreed industry solution is now being developed which should secure the best of the existing distribution network, which is envied the world over, and also creates a stable platform to focus on positive future enhancements. We await with interest the final outcome of WH Smith's announced sale of its newspaper and magazine distribution operations and we are well placed to take advantage of any favourable factors emerging from this further period of industry uncertainty.

Contracts with Frontline and its sister company Seymour, the magazine sales and trade marketing company, were renewed for a period of 6 years. The renewal has further strengthened the Division's contract position, with the majority of its key suppliers having periods remaining in contract of between two and six years. This provides a strong foundation for the future strength of the business. In addition, the recent cover price increases by the Guardian and the Daily Mail (their first increases for eight and nearly six years respectively) are very welcome and should encourage other newspaper publishers to follow suit.

Plans to reconfigure Menzies Distribution's Central Scotland and East London branch networks are well advanced with the first new depot due to come on stream during September 2001. When completed, some £15m capital expenditure will have been invested and ten existing locations will have merged into four modern, consolidated depots which will deliver enhanced customer service and operational efficiencies.

## Menzies Aviation Group

	2001 £m	2000 £m	Change £m
Turnover	157.8	76.8	81.0
Operating profit	4.3	2.2	2.1

Last year I reported that Menzies Aviation Group (MAG) had been very successful in developing the business and had become a significant supplier of ground handling and associated services throughout the UK. The acquisition of Ogden Ground Services for £73.8m in November 2000 transformed MAG into a major player in the international ground handling market.

Ogden is an international business providing ground handling services at 64 locations in 20 countries to over 300 regional, domestic and international airlines, directly employing around 4,600 staff and with a further 2,600 staff within joint ventures and associates. Services provided include passenger and ramp handling at over 55 airports and air cargo ground handling at over 20 airports, including 16 at which it provides cargo terminal operations and / or warehousing facilities.

A global product able to service airlines in a substantial number of markets is necessary to maintain competitive effectiveness. Ogden, combined with our existing business, is strongly positioned to respond to the individual needs of airlines and to offer services on a cross regional basis to global airlines and alliances. The acquisition also enables MAG to further capitalise on the opportunities arising from ongoing deregulation of aviation markets and to take advantage of the continued trend towards out-sourcing within the airline industry.

MAG turnover increased by more than 100% to £157.8m from a combination of organic growth, acquisition and business start-ups. There was similar growth in operating profit mainly due to the initial 5 month contribution of the Ogden acquisition.

The integration of Ogden is substantially complete and has been accomplished as planned. Good progress has also been made in implementing the rationalisation plans made pre-acquisition. A new management structure is in place with senior regional executives covering each of Europe, Asia Pacific and the Americas. We are currently rolling-out the MAG brand to many of the Ogden businesses. Whilst the core of the Ogden business is passenger and ramp handling, we are already seeing opportunities to extend the full Menzies service offer over our now far wider geographical presence.

Ogden results are in line with our expectations and considerable progress has also been achieved in tackling the four specific problem areas identified pre-acquisition where appropriate action has been taken or is underway.

In Amsterdam, new management have successfully implemented the turnaround, whilst Ogden UK is in the process of being fully integrated into Menzies World Cargo. Whilst it is proving difficult to break the strength in the market of existing local providers at Hong Kong, we have enhanced service and demonstrated capability to win contracts. In Germany, new management has been appointed and are currently implementing a business recovery plan as

part of a wider review of our German strategy. A number of our German stations are quite small and we are already exiting Tegel, Berlin.

### **Passenger and Ramp Handling Services**

Prior to the Ogden acquisition, our passenger and ramp business presence was limited to Manchester, Stansted and Heathrow, where we acquired a 49% stake in GlobeGround's Heathrow activities in September 2000. The Ogden acquisition now provides MAG critical mass and broad geographic reach in an industry which is consolidating into fewer, global providers. In addition, MAG won a licence and commenced operations at the new Incheon Airport in Korea, a territory which should have an exciting and promising future.

### **Cargo**

MAG, through Menzies World Cargo, is the biggest independent cargo handler in the UK. The Ogden acquisition has added a wider international capability to our cargo offer and the potential for significant further expansion. An additional acquisition was the purchase of 80% of Manchester Cargo Centre for £1.1m in November 2000.

Results were inevitably impacted by the global decline in cargo volumes in the latter part of the year, particularly at Heathrow, and we continue to experience a general softening in air cargo. Plans are in hand to rationalise our Heathrow capacity after the inclusion of the two Ogden terminals into our portfolio as well as to harmonise work forces and deal with the prevailing market conditions.

AMI, MAG's consolidation and express business, had a good year, with its investment in e-based booking control and tracking systems having the potential to extend our core cargo operation into a wider logistics management and fulfilment role.

### **Aviation Support Services**

A key element in our strategy is to build value-adding businesses which are complementary to core ground handling and which also have the potential to be rolled out via our world-wide network. The principal operating businesses now include:

- Mecanix, an airport vehicle repair and maintenance facility at Heathrow, which has won major contracts for the servicing of the Heathrow fleets of Gate Gourmet and Alpha Airports in its first year.
- Connect, which has just successfully completed the second year of its contract with BAA plc for the provision of baggage and passenger transfer services at Heathrow and which surpassed a number of contractual targets.
- Execair, the business aviation handler, which opened new locations at Inverness, East Midlands, Cardiff and Charleroi in Belgium and has doubled the number of locations served since acquisition.
- The newly acquired MC Services, which provides a claims handling service to airlines. This business has also developed a presence in both the USA and Australia and is now pursuing further international opportunities.

## Early Learning Centre

	2001 £m	2000 £m	Change £m
Turnover	165.0	158.3	6.7
Operating profit (loss)	1.7	(2.0)	3.7

Early Learning Centre (ELC) returned to profitability with sales up by 4.2% to £165.0m. In a difficult retail environment this growth reflects the success of ELC's multi-channel approach. Sales increased at Debenhams and Sainsbury concessions and through mail order. The performance of the internet operation, which broke even, was particularly pleasing. Operating profit was £1.7m versus a loss of £2.0m last year. Key to this result and to ongoing margin and profit improvement is the continued shift towards Far East sourcing of product.

The autumn / winter season saw ELC's sixth successive season of market share growth, partly driven by an increase in the number of Debenhams concessions from 22 to 48.

The turnaround at ELC is well underway and we will dispose of this non-core business when we achieve an acceptable price.

## Discontinued Businesses

	2001 £m	2000 £m	Change £m
Turnover			
THE Games	118.0	96.1	21.9
THE	23.8	128.6	(104.8)
SUOS	-	79.3	(79.3)
	<u>141.8</u>	<u>304.0</u>	<u>(162.2)</u>
Operating profit (loss)			
THE Games	22.6	4.9	17.7
THE	(1.4)	(4.2)	2.8
SUOS	-	5.5	(5.5)
	<u>21.2</u>	<u>6.2</u>	<u>15.0</u>

THE Games performance during the year significantly exceeded expectations. This was due to the outstanding success of Pokemon together with a very well planned and executed closure. Despite the excellent result, I have no doubt that the decision to exit this business

was correct. THE Games was always a highly seasonal and volatile business and this, together with a relatively short product life cycle, exposed the Group to significant profit variations and working capital risks.

As reported at the Interims and in line with our strategy of de-risking and re-focusing the Group, THE was sold in August. The operating loss for the three months prior to disposal of £1.4m compares to a full year loss in the prior year of £4.2m.

## **People**

Once again I have been hugely encouraged and impressed by the commitment of our employees at every level throughout the Group. I thank them for their hard work and loyalty. Their continued support is key to achieving our strategic objectives.

## **Outlook**

We are now close to delivering our strategic vision of having two very focused and complementary businesses in Distribution and Aviation Services. The Ogden acquisition has propelled Menzies Aviation Group into a major international aviation support services business and provides an excellent platform for ongoing organic growth and development of our service over a wide geographical spread. The Board continues to expect that, before taking account of goodwill amortisation and non-recurring costs, the inclusion of Ogden's results will enhance the Group's earnings per share in the year ending 4<sup>th</sup> May, 2002.

The current weakness in the aviation sector caused by the softening of global economic conditions means that we are running at less than optimal utilisation, particularly within our Heathrow cargo operations, where too much capacity is chasing too little demand. We believe this to be a temporary phenomenon but are taking appropriate action. We confidently expect volumes to revert to the previous long-term growth trends.

It goes without saying that the ongoing strength of Menzies Distribution, and in particular its ability to generate cash consistently, remains fundamental to the Group's growth strategy.

After a year of record results, we ended the financial year with a strong balance sheet which allows significant scope for future growth. The international airport services industry continues to undergo major consolidation and we are also exploring various opportunities within this dynamic sector. As ever, both the challenges and opportunities ahead are substantial, but it is encouraging that opportunities continue to develop, especially at a time of flat prospects in many sectors.

Our challenge is to seize this momentum and to achieve the full potential of MAG within the Menzies Group. I believe that we have a first class team in place and from these strong foundations I am confident that our strategy will secure and deliver the future.

David Mackay  
Chief Executive

## **FINANCIAL REVIEW**

### **Introduction**

The financial performance of the Group continues to show good progress. Free cash flow of £27.6m (2000: £20.7m) and a strong balance sheet leaves the Group well positioned to take up further opportunities, particularly in the Aviation Services sector.

### **Accounting Developments**

During the year the Accounting Standards Board has issued FRS 17 – Retirement Benefits, FRS 18 – Accounting Policies and FRS 19 – Deferred Tax.

Given the substantial surplus in the Group's pension scheme, implementation of FRS 17 will have an effect on Group reporting as it changes the basis of calculation, presentation and disclosure of pension costs. This standard will become fully effective 22<sup>nd</sup> June 2003.

The Group already complies with FRS 18.

FRS 19, effective 23<sup>rd</sup> January 2002, is not expected to have a significant impact as the Group does not have substantial capital expenditures giving rise to deferred tax items.

### **Acquisitions**

The Group has continued to invest by acquisition in Aviation Services.

On 18<sup>th</sup> May 2000 MC Services, an aviation related claims handling business, was acquired for £1.8m.

A 49% interest in GlobeGround (UK) was acquired on 29<sup>th</sup> September 2000 for £2.8m together with £1.3m of loan notes and, on 3<sup>rd</sup> November 2000, 80% of Manchester Cargo Centre for £1.1m.

On 20<sup>th</sup> November 2000 the Group completed the acquisition of Ogden Ground Services, a subsidiary of Ogden Corporation of the USA. Outlay, excluding fees and deferred consideration of £2.0m, was £69.3m, which included £7.9m of acquired cash balances. On the same date the 25% minority interest in Czech Ogden Air Handling SRO was purchased for £3.2m.

On 16<sup>th</sup> February 2001 a call option with Ogden Corporation was exercised to acquire their 49% interest in Aeroporti di Roma Handling SpA for £7.2m.

### **Discontinued operations**

In the year the Group has exited both THE and THE Games, both being non-core, highly seasonal and with considerable marketing and currency risks. These businesses, together with SUOS in the comparative period, are consequently treated as discontinued.

### **Share of Operating Profit of Associates and Joint Ventures**

In 2001 the share of operating profit after goodwill of associates and joint ventures was £2.5m. This year's operating profit primarily resulted from strong performances by associates in Macau and Rome (ADRH), both interests being newly acquired as part of Ogden. It is expected that the results of ADRH will be impacted as ground handling is liberalised in Rome within the next financial year.

### Exceptional Items

These largely result from the Group's actions to achieve its strategy of focusing on Distribution and Aviation Services activities.

Exceptional operating expenses of £9.5m comprise: the cost of integrating Ogden of £3.6m; £2.4m of transaction costs for an abortive acquisition in the Aviation Services sector; and a fixed asset provision of £3.5m in respect of an internet magazine subscription service investment.

Non-operating exceptional costs of £25.3m comprise: a gain of £2.5m realised on a fixed asset investment in a subsidiary sold in an earlier year; the sale of THE on 11<sup>th</sup> August 2000 at a loss of £26.4m, after writing off goodwill of £12.5m previously charged to reserves; and redundancy and other closure costs on the expiry of THE Games' Nintendo distribution contract amounting to £1.4m.

### Goodwill

Capitalised goodwill at 5<sup>th</sup> May 2001 amounted to £61.0m and is being amortised over 20 years. The goodwill arising on the acquisition of Ogden Ground Services remains provisional pending finalisation of the completion accounts process.

### Cash Flow

	2001		2000	
	£m	£m	£m	£m
Headline EBITDA		67.7		49.4
Working capital		(4.6)		(4.5)
Operating exceptionals		(9.5)		(11.0)
Non cash items		<u>(3.0)</u>		<u>(0.1)</u>
Operating cash flow		50.6		33.8
Purchase of fixed assets	(23.0)		(19.0)	
Sale of fixed assets	<u>2.1</u>		<u>7.6</u>	
Net capital expenditure		(20.9)		(11.4)
Dividends from associates and joint ventures less net financing cost		1.3		(1.5)
Tax paid		<u>(3.4)</u>		<u>(0.2)</u>
Free cash flow		27.6		20.7
Dividends paid		(10.0)		(8.9)
Acquisitions		(86.7)		(16.6)

Disposals	0.8	48.0
Shares issued and share trusts	0.1	0.2
Total movement	<u>(68.2)</u>	<u>43.4</u>
Opening net cash	44.0	0.6
Closing net (debt)/cash	<u>(24.2)</u>	<u>44.0</u>

EBITDA increased largely on the THE Games performance.

Working Capital movement is analysed as follows:

	2001	2000
	£m	£m
Stocks	17.2	22.1
Debtors	5.9	(22.3)
Creditors	<u>(27.7)</u>	<u>(4.3)</u>
	<u>(4.6)</u>	<u>(4.5)</u>

The increase in working capital is mainly as a result of the settlement of THE Games trade creditors following expiry of the distribution contract with Nintendo.

Purchases of fixed assets are summarised as:

	Property	Plant & Equipment	Total
	£m	£m	£m
Menzies Distribution	5.2	2.8	8.0
Menzies Aviation Group	2.3	8.0	10.3
Retail	-	3.4	3.4
Central	0.5	0.8	1.3
	<u>8.0</u>	<u>15.0</u>	<u>23.0</u>

Tax paid was only £3.4m, benefiting from tax relief on exceptional restructuring charges incurred last year. Payments are expected to increase to a more normal level during the year to April 2002, but will still benefit from relief on the current year operating exceptional charges.

Acquisition expenditure, mainly in respect of Ogden totalled £86.7m during the year.

## Balance Sheet

Shareholders' funds were £136.6m at 5<sup>th</sup> May 2001 compared with £130.4m at 6<sup>th</sup> May 2000. Principal movements were £15.8m profit in the year, after adding back goodwill already written off, and £2.1m currency revaluation of Ogden less dividends of £12.0m.

Net debt was £24.2m, compared to net cash of £44.0m, reflecting the free cash flow of £27.6m offset by dividends paid of £10.0m and the acquisition spend of £86.7m.

## Interest

The net interest charge is analysed as follows:

	2001 £m	2000 £m
Bonds	(2.6)	(2.6)
Cash / overdrafts	2.7	0.6
Joint ventures and associates	(0.1)	(0.5)
Other	-	(0.1)
Net interest charge	<u>-</u>	<u>(2.6)</u>

Interest reduced largely as a result of increased interest income from average net cash held during the year. Due to timing, the interest effect of the cash spend on acquisitions was more than offset by increased operating profits, sale proceeds of SUOS in March 2000 and reduced working capital requirements following the exits from THE and THE Games. The reduction in the interest charge from associates reflects the disposal of SUOS.

## Taxation

The effective Headline tax rate remained the same at 28.1%. The following table analyses this year's overall tax rate:

	%
Tax due at UK rate	30.0
Non tax-deductible items	1.2
Unrelieved overseas losses	1.4
Prior year adjustments	(4.5)
Headline tax rate	<u>28.1</u>
Exceptional items and goodwill	<u>48.1</u>
Overall tax rate	<u>76.2</u>

The unrelieved overseas losses result from certain loss-making operations within Ogden, which has also led to a shift in the geographical mix of profit towards higher-tax countries.

The overall tax rate increased substantially as most of the exceptional items were non-deductible. In particular neither the goodwill charged on the disposal of THE of £12.5m nor goodwill amortisation of £1.7m attract tax relief.

## Pensions

The results of the Group are sensitive to the results of its defined benefit pension scheme. The latest valuation update, prepared by the Group's independent actuarial consultants, was at 30th April 2001 and shows the value of the assets represented 185% of the value of the benefits that had accrued to members, yielding a surplus of £77.1m.

The effect of this surplus is to eliminate the cash cost of the UK pension scheme which would otherwise have been some £4m per year, and a £5m credit is accrued to the prepayment in the Group's balance sheet.

### **Treasury Operations**

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 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. Correspondingly, Group policy is not to enter into transactions of a speculative nature.

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

**Liquidity:** operations are financed by a mixture of shareholders' funds, long term bonds, bank borrowings and trade credit. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Surplus cash is currently held, and policy is to make major deposits only with substantial institutions with high credit ratings. In addition to its fully drawn down term loans, the Group has £40.8m of unutilised committed facilities which mature by October 2003. The £20.0m 8.58% cumulative redeemable preference shares are due for redemption in June 2003.

**Interest rate fluctuations:** the Group's policy is to arrange core debt with fixed rate borrowings. The £35.0m bonds are fixed at 7.362% and other borrowings and cash deposits are at variable rates.

**Foreign exchange exposures:** the Group's policy is to net off naturally occurring exchange exposures wherever possible and then to hedge all remaining significant actual or anticipated transactional exposures principally through forward contracts but also through options. Anticipated transactions are all in the normal course of business and there is a high probability that they will occur.

In respect of the continuing businesses, approximately 5% of Group turnover, 8% of operating profit and 45% of net assets are denominated in overseas currencies. The proportions in respect of the profit and loss account will increase next year with a full year of ownership of Ogden. The Group does not use derivatives to hedge profit and loss translation exposures. It is policy, however, to hedge material overseas net assets by means of foreign currency loans. Consequently debt taken on for the acquisition of Ogden was drawn down in US dollars and broadly provides a hedge against the investment.

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

	<u>2000/01 Average</u>	<u>Year End 5<sup>th</sup> May 2001</u>
US\$	1.451	1.439
Euro	1.599	1.611

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

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

## GROUP PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 5th May 2001 (2000: 53 weeks ended 6th May)

Notes	Before exceptional items 2001 £m	Exceptional items (Note 2) 2001 £m	Total 2001 £m	Before exceptional items 2000 £m	Exceptional items (Note 2) 2000 £m	Total 2000 £m
<b>Turnover</b>						
1						
Continuing operations	1,128.6	-	1,128.6	1,091.8	-	1,091.8
Acquisitions	61.0	-	61.0	-	-	-
Discontinued operations	141.8	-	141.8	304.0	-	304.0
	<b>1,331.4</b>	-	<b>1,331.4</b>	1,395.8	-	1,395.8
Less share of:						
Joint ventures						
- continuing	(8.3)	-	(8.3)	(7.0)	-	(7.0)
- acquisitions	(2.3)	-	(2.3)	-	-	-
Associates						
- continuing	(20.4)	-	(20.4)	(11.4)	-	(11.4)
- acquisitions	(12.3)	-	(12.3)	-	-	-
- discontinued	-	-	-	(79.3)	-	(79.3)
<b>Group turnover</b>	<b>1,288.1</b>	-	<b>1,288.1</b>	1,298.1	-	1,298.1
Net operating costs	(1,240.7)	(9.5)	(1,250.2)	(1,270.4)	(10.5)	(1,280.9)
Continuing operations	27.6	(9.5)	18.1	27.0	(7.3)	19.7
Acquisitions	(1.4)	-	(1.4)	-	-	-
Discontinued operations	21.2	-	21.2	0.7	(3.2)	(2.5)
<b>Group operating profit/(loss)</b>	<b>47.4</b>	<b>(9.5)</b>	<b>37.9</b>	27.7	(10.5)	17.2
<b>Share of operating profit/(loss) in</b>						
Joint ventures						
- continuing	(0.1)	-	(0.1)	0.9	(0.5)	0.4
- acquisitions	0.3	-	0.3	-	-	-
Associates						
- continuing	-	-	-	(0.2)	-	(0.2)
- acquisitions	2.3	-	2.3	-	-	-

- discontinued		-	-	-	5.5	-	5.5
<b>Total operating profit</b>	1	<b>49.9</b>	<b>(9.5)</b>	<b>40.4</b>	33.9	(11.0)	22.9
Gain on disposal of fixed assets	2	-	<b>2.5</b>	<b>2.5</b>	-	12.7	12.7
(Loss)/gain on disposal of businesses	2	-	<b>(27.8)</b>	<b>(27.8)</b>	-	0.3	0.3
<b>Profit/(loss) on ordinary activities before interest</b>		<b>49.9</b>	<b>(34.8)</b>	<b>15.1</b>	33.9	2.0	35.9
Net interest payable		-	-	-	(2.6)	-	(2.6)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>49.9</b>	<b>(34.8)</b>	<b>15.1</b>	31.3	2.0	33.3
Taxation		<b>(14.5)</b>	<b>3.0</b>	<b>(11.5)</b>	(8.8)	4.0	(4.8)
<b>Profit/(loss) after taxation</b>		<b>35.4</b>	<b>(31.8)</b>	<b>3.6</b>	22.5	6.0	28.5
Minority interests		<b>(0.3)</b>	-	<b>(0.3)</b>	-	-	-
<b>Profit/(loss) for the financial year</b>		<b>35.1</b>	<b>(31.8)</b>	<b>3.3</b>	22.5	6.0	28.5
Dividends (including non- equity)	6	<b>(12.0)</b>	-	<b>(12.0)</b>	(11.4)	-	(11.4)
<b>Retained profit/(loss) for the financial year</b>		<b>23.1</b>	<b>(31.8)</b>	<b>(8.7)</b>	11.1	6.0	17.1
<b>Earnings per ordinary share</b>							
Headline	3	<b>62.8p</b>			37.9p		
FRS 3	3			<b>2.7p</b>			48.0p
Headline/FRS3 diluted	3	<b>62.8p</b>		<b>2.7p</b>	37.9p		48.0p

#### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 weeks ended 5th May 2001 (2000: 53 weeks ended 6th May)

	<b>2001</b>	2000
	<b>£m</b>	£m
Profit for the financial year	<b>3.3</b>	28.5
Currency translation effect on overseas net investments	<b>2.1</b>	-

**Total recognised gains**

**5.4**

**28.5**

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## GROUP BALANCE SHEET

as at 5th May 2001 (2000: 6th May)

	Group	
	2001	2000
	£m	£m
<b>Fixed assets</b>		
Intangible assets	17.3	8.0
Tangible assets	124.4	100.6
Investments		
- joint ventures		
Goodwill	10.7	0.4
Share of gross assets	3.0	1.7
Share of gross liabilities	(2.3)	(1.7)
Shareholder loan notes	0.4	0.4
	11.8	0.8
- associates	43.9	1.8
- subsidiaries	-	-
	55.7	2.6
	197.4	111.2
<b>Current assets</b>		
Stocks	30.3	58.1
Debtors - amounts due after more than one year	45.3	40.3
- amounts due within one year	99.7	107.3
Cash at bank and in hand	58.8	80.9
	234.1	286.6
<b>Creditors: amounts falling due within one year</b>		
Bank loans and overdrafts	(12.1)	(1.1)
Other	(181.1)	(198.6)
<b>Net current assets</b>	40.9	86.9
<b>Total assets less current liabilities</b>	238.3	198.1
<b>Creditors: amounts falling due after more than one year</b>		
Loans and other borrowings	(70.5)	(35.1)
Other	(4.3)	(5.9)
<b>Provision for liabilities and charges</b>		
Deferred taxation	(11.7)	(11.2)
Other	(9.0)	(9.7)
<b>Net assets</b>	142.8	136.2
<b>Capital and reserves</b>		
Called up share capital	14.1	14.1
Share premium account	4.0	3.8
<b>Reserves</b>		
Profit and loss account	93.5	89.7
Other reserves	3.6	1.4

<b>Equity shareholders' funds</b>	<b>115.2</b>	109.0
Non-equity share capital	<b>21.4</b>	21.4
<b>Shareholders' funds</b>	<b>136.6</b>	130.4
Minority interests	<b>6.2</b>	5.8
	<b>142.8</b>	136.2

The accounts were approved by the Board of Directors on 16th July 2001 and signed on its behalf by:

**David Mackay, Chief Executive**

**Martyn Smith, Group Finance Director**

## GROUP CASH FLOW STATEMENT

for the 52 weeks ended 5th May 2001 (2000: 53 weeks ended 6th May)

	Notes	<u>2001</u>	<u>2000</u>
		<u>£m</u>	<u>£m</u>
Net cash inflow from continuing operations		<b>31.0</b>	43.2
Net cash inflow/(outflow) from discontinued operations		<b>19.6</b>	(9.4)
<b>Net cash inflow from operating activities</b>	4a	<b>50.6</b>	33.8
<b>Dividends from joint ventures and associates</b>			
- continuing		<b>2.1</b>	-
- discontinued		-	3.0
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>5.4</b>	1.9
Interest paid		<b>(4.4)</b>	(4.6)
Preference dividend paid		<b>(1.8)</b>	(1.8)
Minority interest dividends		<b>(0.2)</b>	-
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1.0)</b>	(4.5)
<b>Tax paid</b>		<b>(3.4)</b>	(0.2)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		<b>(23.0)</b>	(19.0)
Sale of tangible fixed assets		<b>2.1</b>	7.6
Employee share ownership advances		<b>(0.1)</b>	(0.1)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(21.0)</b>	(11.5)
<b>Acquisitions and disposals</b>			
Investment in joint ventures and associates		<b>(51.8)</b>	(5.7)
Disposal of associate		-	43.6
Disposal of investment		-	2.2
Purchase of subsidiaries		<b>(43.0)</b>	(12.9)
Net cash acquired with subsidiaries		<b>8.1</b>	2.0
Disposal of subsidiaries		<b>0.8</b>	2.2
<b>Net cash (outflow)/inflow from acquisitions and disposals</b>		<b>(85.9)</b>	31.4
<b>Equity dividends paid</b>		<b>(9.8)</b>	(8.9)
<b>Management of liquid resources</b>			
Increase in short term deposits		<b>(3.3)</b>	(20.1)
<b>Net cash outflow from management of liquid resources</b>		<b>(3.3)</b>	(20.1)
<b>Net cash (outflow)/inflow before financing</b>		<b>(71.7)</b>	23.0
<b>Financing</b>			
Proceeds from shares issued		<b>0.2</b>	0.3

Finance leases		<b>(0.3)</b>	(0.7)
Unsecured loans advanced		-	0.8
Loan stock redeemed		-	(0.7)
Increase in loans		<b>41.1</b>	-
<b>Net cash inflow/(outflow) from financing</b>		<u><b>41.0</b></u>	<u>(0.3)</u>
<b>(Decrease)/increase in cash in the year</b>	4b,c	<u><b>(30.7)</b></u>	<u>22.7</u>

**Note 1. SEGMENTAL ANALYSIS**

	Turnover		Profit/(Loss)		Net Assets	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
<b>By class of business</b>						
Distribution Services	<b>866.8</b>	856.7	<b>26.3</b>	30.0	<b>10.9</b>	16.2
Aviation Services	<b>157.8</b>	76.8	<b>4.3</b>	2.2	<b>138.2</b>	40.3
Logistics Support Services	<b>1,024.6</b>	933.5	<b>30.6</b>	32.2	<b>149.1</b>	56.5
Retail	<b>165.0</b>	158.3	<b>1.7</b>	(2.0)	<b>26.8</b>	26.9
	<b>1,189.6</b>	1,091.8	<b>32.3</b>	30.2	<b>175.9</b>	83.4
Corporate and central services	-	-	<b>(6.9)</b>	(7.1)	-	-
Pension credit/prepayment	-	-	<b>5.0</b>	5.0	<b>41.7</b>	36.7
Continuing operations	<b>1,189.6</b>	1,091.8	<b>30.4</b>	28.1	<b>217.6</b>	120.1
Goodwill amortisation	-	-	<b>(1.7)</b>	(0.4)	-	-
Discontinued operations	<b>141.8</b>	304.0	<b>21.2</b>	6.2	<b>(5.5)</b>	6.6
	<b>1,331.4</b>	1,395.8	<b>49.9</b>	33.9	<b>212.1</b>	126.7
Reconciliation of net assets:						
Net (debt)/cash					<b>(24.2)</b>	44.0
Unallocated net liabilities					<b>(45.1)</b>	(34.5)
Net assets					<b>142.8</b>	136.2
<b>By geographical origin</b>						
United Kingdom	<b>1,128.8</b>	1,090.0	<b>27.3</b>	28.0	<b>119.4</b>	118.4
Continental Europe	<b>20.2</b>	-	<b>(0.4)</b>	-	<b>19.6</b>	-
Americas	<b>30.5</b>	-	<b>2.5</b>	-	<b>55.4</b>	-
Rest of World	<b>10.1</b>	1.8	<b>(0.7)</b>	(0.3)	<b>23.2</b>	1.7
Continuing operations	<b>1,189.6</b>	1,091.8	<b>28.7</b>	27.7	<b>217.6</b>	120.1
Discontinued operations – United Kingdom	<b>141.8</b>	224.7	<b>21.2</b>	0.7	<b>(5.5)</b>	6.6
Discontinued operations – Continental Europe	-	79.3	-	5.5	-	-
	<b>1,331.4</b>	1,395.8	<b>49.9</b>	33.9	<b>212.1</b>	126.7
<b>Joint Ventures and Associates included above</b>						
Distribution Services						
Joint ventures	<b>8.3</b>	-	<b>(0.1)</b>	-	<b>0.8</b>	0.8
Associates	<b>14.3</b>	9.2	-	-	<b>0.8</b>	0.8
Aviation Services						
Joint ventures	<b>2.3</b>	7.0	<b>0.5</b>	0.9	<b>11.0</b>	-
Associates	<b>18.4</b>	2.2	<b>3.0</b>	(0.2)	<b>43.1</b>	1.0
Logistics Support Services	<b>43.3</b>	18.4	<b>3.4</b>	0.7	<b>55.7</b>	2.6
Goodwill amortisation	-	-	<b>(0.9)</b>	-	-	-
Discontinued associate	-	79.3	-	5.5	-	-
	<b>43.3</b>	97.7	<b>2.5</b>	6.2	<b>55.7</b>	2.6
<b>By geographical origin</b>						
United Kingdom	<b>28.7</b>	18.4	<b>(0.1)</b>	0.7	<b>7.3</b>	2.6
Continental Europe	<b>8.5</b>	-	<b>0.9</b>	-	<b>7.7</b>	-

Americas	<b>2.3</b>	-	<b>0.3</b>	-	<b>10.7</b>	-
Rest of World	<b>3.8</b>	-	<b>1.4</b>	-	<b>30.0</b>	-
Continuing	<b>43.3</b>	18.4	<b>2.5</b>	0.7	<b>55.7</b>	2.6
Discontinued associate						
Continental Europe	-	79.3	-	5.5	-	-
	<b>43.3</b>	97.7	<b>2.5</b>	6.2	<b>55.7</b>	2.6

Turnover by geographical origin and geographical destination do not materially differ.

Goodwill amortisation is attributable to Aviation Services.

Discontinued operations comprise THE (sold in August 2000), THE Games (closed in 2001) and SUOS BV (associate sold in March 2000).

## Note 2. EXCEPTIONAL ITEMS

	Notes	2001 £m	2000 £m
<b>Exceptional operating expenses:</b>			
Aviation Services	a	(6.0)	(0.5)
Distribution Services	b	(3.5)	(4.9)
Retail restructuring		-	(2.4)
Discontinued fixed asset impairment		-	(3.2)
<b>Total exceptional operating expenses</b>		<b>(9.5)</b>	<b>(11.0)</b>
<b>Non-operating exceptional items:</b>			
Net profit on disposal of fixed assets	c	2.5	12.7
Net (loss)/profit on disposals of businesses	d	(27.8)	0.3
<b>Total non-operating exceptional items</b>		<b>(25.3)</b>	<b>13.0</b>
<b>Total exceptional items</b>		<b>(34.8)</b>	<b>2.0</b>

- a      2001: Cost of integrating Ogden Ground Services - £3.6m and abortive transaction costs - £2.4m.  
2000: Group share of London Cargo Centre restructuring costs in 2000 was £0.5m.
- b      2001: Provision in respect of an investment in an internet magazine subscription service - £3.5m.  
2000: The £4.9m cost of restructuring Distribution Services operations primarily related to asset write downs, property costs and related staff costs.
- c      2001: Gain of £2.5m realised on a fixed asset investment in a subsidiary sold in an earlier year.  
2000: Gain of £3.7m arising on the sale of the freehold interest in Hanover Buildings, Edinburgh in September 1999.  
  
On 31st March 2000 the Group sold its 36% interest in SUOS BV for a gain of £7.0m, after writing off goodwill of £24.8m previously charged to reserves.  
  
On 31st January 2000 the Group sold its 37% interest in Funsoft Holding GmbH for a gain of £2.0m.
- d      2001: On 11th August 2000 THE was sold at a loss of £26.4m, after writing off goodwill of £12.5m previously charged to reserves. Redundancy and other costs on the closure of THE Games amounted to £1.4m.  
  
2000: On 2nd May 2000 the Group sold a 20% interest in its UK air cargo subsidiaries to GlobeGround GmbH. The transaction yielded a gain of £0.3m after writing off goodwill of £1.7m previously charged to reserves.

### Note 3. EARNINGS PER SHARE

	Headline		Post exceptional items	
	2001	2000	2001	2000
	£m	£m	£m	£m
Operating profit	<b>49.9</b>	33.9	<b>49.9</b>	33.9
add back: goodwill amortisation	<b>1.7</b>	0.4	-	-
Interest	-	(2.6)	-	(2.6)
Exceptional items	-	-	<b>(34.8)</b>	2.0
Profit before taxation	<b>51.6</b>	31.7	<b>15.1</b>	33.3
Taxation	<b>(14.5)</b>	(8.8)	<b>(11.5)</b>	(4.8)
Minority interests	<b>(0.3)</b>	-	<b>(0.3)</b>	-
Preference dividends	<b>(1.8)</b>	(1.8)	<b>(1.8)</b>	(1.8)
Earnings for the year	<b>35.0</b>	21.1	<b>1.5</b>	26.7
<b>Headline</b>				
Earnings per ordinary share (pence)	<b>62.8</b>	37.9		
Diluted earnings per ordinary share (pence)	<b>62.8</b>	37.9		
<b>FRS3</b>				
Earnings per ordinary share (pence)			<b>2.7</b>	48.0
Diluted earnings per ordinary share (pence)			<b>2.7</b>	48.0
Number of ordinary shares in issue (millions)				
Weighted average	<b>55.705</b>	55.625		
Diluted weighted average	<b>55.745</b>	55.645		

In line with growing practice Headline earnings is now computed before deducting goodwill amortisation. The comparative figures have been restated accordingly.

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts. The diluted weighted average is calculated by adjusting for all outstanding share options, which are dilutive potential ordinary shares.

## Note 4. CASH FLOW

	Continuing £m	Discontinued £m	2001 £m	Continuing £m	Discontinued £m	2000 £m
<b>a.</b>						
<b>Reconciliation of operating profit to net cash inflow/(outflow) from operating activities</b>						
Total operating profit	19.2	21.2	40.4	19.9	3.0	22.9
Depreciation	15.7	0.4	16.1	13.2	1.9	15.1
Accelerated depreciation – exceptional operating expense	-	-	-	2.1	3.2	5.3
Goodwill amortised	0.8	-	0.8	0.4	-	0.4
Share of operating profit in joint ventures	(0.2)	-	(0.2)	(0.4)	-	(0.4)
Share of operating profit in associates	(2.3)	-	(2.3)	0.2	(5.5)	(5.3)
Other items not involving the movement of cash	0.4	-	0.4	0.3	-	0.3
Decrease in stocks	2.4	14.8	17.2	1.6	20.5	22.1
(Increase)/decrease in debtors	(2.4)	8.3	5.9	(17.2)	(5.1)	(22.3)
(Decrease)/increase in creditors	(2.6)	(25.1)	(27.7)	23.1	(27.4)	(4.3)
Net cash inflow/(outflow) from operating activities	<b>31.0</b>	<b>19.6</b>	<b>50.6</b>	43.2	(9.4)	33.8

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

	2001 £m	2000 £m
<b>b.</b>		
<b>Reconciliation of net cash flow to movement in net debt</b>		
(Decrease)/increase in cash in the year	(30.7)	22.7
Increase in short term deposits	3.3	20.1
Increase in debt and finance leases	(40.8)	(0.1)
Loan notes redeemed	-	0.7
Movement in net debt in the year	(68.2)	43.4
Net cash at beginning of year	44.0	0.6
Net (debt)/cash at end of year	(24.2)	44.0

	<b>2001</b>	2000	Cash flows
	<b>£m</b>	£m	£m
<b>c.</b>			
<b>Analysis of changes in net debt</b>			
Cash at bank and in hand	<b>35.4</b>	60.8	(25.4)
Bank overdrafts	<b>(5.6)</b>	(0.3)	(5.3)
	<b>29.8</b>	60.5	(30.7)
Short term deposits	<b>23.4</b>	20.1	3.3
Bank loans due within one year	<b>(6.5)</b>	(0.8)	(5.7)
Loan stock due within one year	<b>(0.1)</b>	(0.1)	-
Current portion of finance leases	<b>(0.3)</b>	(0.6)	0.3
Debt due after one year	<b>(70.5)</b>	(35.1)	(35.4)
	<b>(24.2)</b>	44.0	(68.2)

## **Note 5. ACCOUNTING POLICIES**

This statement has been prepared in accordance with the accounting policies used in the 2000/2001 Annual Report.

## **Note 6. DIVIDEND**

A final dividend of 12.6p per share has been recommended and, if approved, will be paid on 31st October 2001 to ordinary shareholders on the register at the close of business on 12th October 2001, with an ex-dividend date of 10th October.

The total ordinary dividend for the year of 18.1p represents an increase of 5.8% on the previous year.

## **Note 7. ACCOUNTS**

The figures used in this statement are not the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985 for the year but are taken from those accounts. The auditors' report on the statutory accounts was unqualified and did not contain a statement under Section 237 (2) or (4) of the Companies Act 1985.

## **Note 8. ANNUAL REPORT**

The Annual Report and Accounts will be posted on 8th August 2001 and the Annual General Meeting will be held at the Roxburghe Hotel, Edinburgh on 7th September 2001 at 12.15pm. Statutory Accounts for 2000 have been delivered to the Registrar of Companies, and those for 2001 will be delivered following the Company's Annual General Meeting.

