

Menzies Group

INTERIM REPORT 2001

John Menzies plc

108 Princes Street, Edinburgh, EH2 3AA, Scotland, UK

Company No. 34970

T: +44 131 225 8555 F: +44 131 226 3752

www.menziesgroup.com



International Support Services Group



A leading provider of added value distribution and marketing services to the newspaper and magazine supply chain in the UK



One of the world's leading suppliers of ground handling services to the aviation industry providing passenger, ramp and cargo services at many of the world's busiest airports

Robust performance from Menzies Distribution

Vigorous action taken at Menzies Aviation to combat difficult market conditions

Early Learning Centre sale completes Group restructuring

Acquisition of Turners News immediately earnings enhancing

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Contents	
Highlights	1
Chief Executive's Review	2
Group Profit and Loss Account	6
Group Balance Sheet	7
Group Cash Flow Statement	8
Notes on Accounts	9
Principal Business Addresses	12
Financial Calendar	12

Chief Executive's Review

Our restructuring is complete. Menzies Group now comprises two focused and complementary businesses – Menzies Distribution and Menzies Aviation. Both occupy prominent positions in their respective markets.

Menzies Distribution continues to perform strongly, with the results being under-pinned by welcome increases in newspaper prices. The business has proved robust and resilient during this period of economic downturn, emphasising its counter-cyclical qualities. Future performance will be strengthened by the recent acquisition of Turners, the largest of the UK's independent news distributors.

Menzies Aviation Group has made substantial progress in tackling the loss making elements acquired last year as part of the Ogden Ground Services deal. Vigorous action has also been taken in response to difficult market conditions and the Division should gain from improvements in global trading conditions.

Now that restructuring is complete we have minimal exposure to seasonal earnings and the Group's year-end will be changed to December. Consequently, we will report an audited eight month period to 29th December 2001, on 19th March 2002. Additionally, as of 1st January 2002 the Group will be listed in the FTSE Support Services sector.

Interim Results - Summary

Turnover from continuing operations increased by 23% to £583.0m. Distribution turnover was 6% higher at £454.2m mainly due to newspaper price increases and additional magazine market share. Aviation turnover grew by 172% to £128.8m, largely as a result of last year's Ogden acquisition.

Sales from discontinued operations, at £55.4m, were attributable to Early Learning Centre; the comparative period also included turnover for THE and THE Games.

Operating profits from continuing operations reduced by 31% to £9.9m. Menzies Distribution profits were in line with last year as cover price growth replaced the benefit of the high level of Pokémon stickers sold last year. Aviation made an operating loss as a result of the world-wide economic slowdown and current instability within the aviation sector. Their result includes provisions of some £2.5m for potential bad debts.

The loss of £5.7m from discontinued activities reflects the timing of Early Learning Centre's losses to the date of sale. These losses had a marked seasonal element and the transaction was structured so that the Group was re-imbursed in cash for them. The comparative period profit benefited from the inclusion of discontinued peak trading profits at THE Games.

Interest associated with the funding of the Ogden acquisition accounted for most of the £2.2m increase in interest costs.

Headline profit before tax consequently reduced by £13.4m to £2.7m and Headline earnings per share by 18.5p to 0.5p. The Headline earnings per share relating to continuing operations was 7.7p, a reduction of 9.9p.

Our results were affected by a number of exceptional items. Operating exceptionals totalled £4.4m. These were principally costs incurred in rationalising excess cargo capacity at Heathrow and reducing Menzies Aviation's cost base. The sale of Early Learning Centre resulted in a non-operating exceptional loss of £12.7m, including £8.5m of goodwill previously written off.

Group loss before tax and after goodwill amortisation and exceptional items was £16.1m (2000: £8.2m loss). Earnings per share, post goodwill amortisation and exceptional items and after tax, were a loss of 31.6p (2000: loss of 19.0p).

Given the present economic climate, the Board is pleased to declare an interim dividend unchanged at 5.5p.

Cash Flow

Operating cash flow from continuing activities (including dividends received from associates) was £7.3m. Trading inflows were largely offset by the cash effect of operating exceptionals and the impact of working capital movements.

Discontinued activities generated a net operating outflow of £9.1m (2000: inflow of £10.7m). £5.7m related to seasonal losses prior to sale of the Early Learning Centre and the remainder largely to final debtor receipts and creditor payments in respect of THE Games.

Net capital expenditure amounted to £16.3m, £7.9m higher than the comparative period. The increase primarily reflects further investment in Menzies Distribution's new branch structure and also first-time spend on some of the Ogden operations. £1.4m was spent on acquisitions and further investment in associates, as the Group continued to invest in the aviation services sector.

Proceeds from the sale of Early Learning Centre, net of disposal costs incurred in the period, were £21.4m. An additional £3.3m of loan notes receivable fall due in 2006, or earlier on the occurrence of certain events.

Net debt at 3rd November was £35.7m. This compares with net debt at 5th May 2001 of £24.2m.

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David Mackay,
Chief Executive



Cambuslang "super" branch opened on time and on budget





Menzies Distribution

	2001	2000
	£m	£m
Turnover	454.2	428.4
Operating profit	13.0	13.0

Menzies Distribution has had a good six months, with newspaper cover price increases being a key feature – a welcome change. Newspaper sales revenues were up by 4.8%, magazines by 3.4% and phone-cards by £7.3m. Operating profit was in line with last year as the benefit of price increases was offset by the impact of low margin phone-cards and a reduction in high margin sticker sales.

In early December we completed the purchase of the Sheffield and Guildford news wholesaling operations of Turners News for a consideration of £6.3m. The acquisition contributes approximately £45m of additional annual sales and is immediately earnings enhancing.

During September the Division opened the first of four new regional branches at Cambuslang, on time and on budget. Two of the three remaining new branches will become operational during 2002. At that point, our programme to consolidate ten branches into four major units will be almost complete, delivering enhanced customer service and greater operational efficiencies.

Menzies Aviation Group

	2001	2000
	£m	£m
Turnover	128.8	47.4
Operating (loss)/profit	(2.5)	2.0

Menzies Aviation Group operates across a broad geographic spread through three divisions. This diversity is a real strength in periods of uncertainty and economic downturn.

Many of the Ogden operations have performed well. Good progress has been made in addressing problem areas identified pre-acquisition. We continue to develop the business in Amsterdam: whilst full year losses are anticipated, these will be significantly reduced from pre-acquisition levels. In Germany, we continue to explore a number of strategies and expect to report positive progress by the year end. Hong Kong is now close to operating on a cash neutral basis, a good result in the light of continued severe competitive pressures in this key regional market.

Our joint ventures in Macau, Rome and Peru all continue to generate strong operating profits, as do Connect (the inter-terminal transfer service at Heathrow) and Execair (our executive business aviation handler) which is likely to benefit from an expected surge in private aircraft usage. We continue to invest in these businesses and have added to Execair's portfolio with a new station in Prague and an acquisition in Dublin.

However, MAG's overall operating result suffered as our UK cargo activities were impacted by global economic conditions (in particular reduced imports from the Far East). Reduction of excess cargo capacity at Heathrow, partly inherited from Ogden, but mainly reflecting the global economy, is well advanced. By the end of 2001, capacity will have been reduced by some 25% with a related reduction in headcount and costs. The result also includes ongoing losses from our start-up operation at the new international airport at Incheon in South Korea; we continue to pursue opportunities to make this station profitable.

Our activities in the Americas were inevitably affected by the tragic events in the USA. Our results include prudent provisions of some £2.5m in respect of amounts due from certain aviation customers. Looking ahead, we anticipate significant insurance premium increases in respect of war and terrorism risks – increases which will inevitably have to be passed on down the supply chain.

Management were already responding to the economic environment prior to events in the USA. In addition to capacity reduction at Heathrow, operational capital expenditure has been limited to essential items and discretionary revenue expenditure has been curtailed. By the spring of next year we anticipate that the Division's global workforce will have been reduced by some 18%. Although painful, these actions are necessary and Menzies Aviation is poised to benefit rapidly from an expected upturn in activity levels in due course.

Discontinued Business

The Group has now completed its programme of strategic repositioning with the sale of Early Learning Centre. The business was sold for a total consideration of £29.6m, including a payment of £9.0m in respect of seasonal losses and working capital to the point of sale. This transaction substantially reduces our exposure to fixed property rents and to the seasonal build up of inventory.

Outlook

The outlook for the Group remains positive. Once again, the results demonstrate the strength and qualities of our Distribution business, namely robust profits and excellent cash generation, which can be maintained during a period of economic uncertainty. It is these qualities which provide a solid foundation and which underpin all the Group's activities.

We have taken swift action throughout the Group to minimise costs and are well advanced in addressing key strategic, but previously under-performing locations taken on as part of the Ogden transaction.

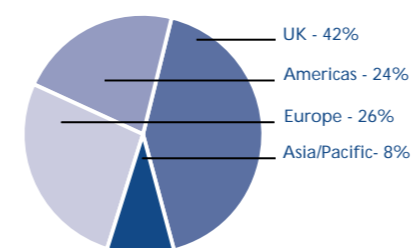
We are alert to emerging opportunities when global trading conditions improve.

The current challenging circumstances and changes in world markets will present interesting opportunities. The Group is well positioned to identify and exploit these opportunities and, in particular, is well placed to take advantage of a consolidating market for aviation services.

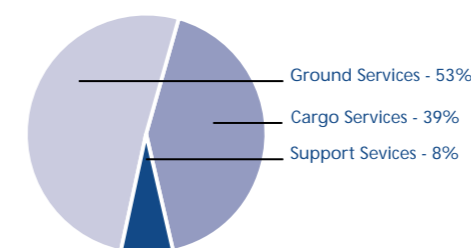
We remain confident, therefore, that the Group will continue to be self challenging and will deliver strong growth.

David Mackay
Chief Executive

Geographical Balance



Sector Spread



Source: MAG 6 months turnover to 3rd November 2001

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Execair acquires Parc Aviation Handling for £0.6m

Execair expansion continues with the opening of its 10th location

Group Profit and Loss Account

	Notes	Half year to 3rd Nov 2001			Half year to 4th Nov 2000			Full year to 5th May 2001		
		Before exceptional items £m	Exceptional items (Note 3) £m	Total £m	Before exceptional items £m	Exceptional items (Note 3) £m	Total £m	Before exceptional items £m	Exceptional items (Note 3) £m	Total £m
Turnover										
(including share of joint ventures and associates)										
Continuing operations	2	583.0	-	583.0	475.8	-	475.8	1,024.6	-	1,024.6
Discontinued operations	2	55.4	-	55.4	165.1	-	165.1	306.8	-	306.8
		638.4	-	638.4	640.9	-	640.9	1,331.4	-	1,331.4
Less: share of joint ventures and associates	2	(40.6)	-	(40.6)	(10.0)	-	(10.0)	(43.3)	-	(43.3)
Group turnover		597.8	-	597.8	630.9	-	630.9	1,288.1	-	1,288.1
Group operating profit/(loss)										
Continuing operations	2	6.1	(4.4)	1.7	13.9	-	13.9	24.5	(9.5)	15.0
Discontinued operations	2	(5.7)	-	(5.7)	1.1	-	1.1	22.9	-	22.9
Share of operating profit in										
Joint ventures	2	0.1	-	0.1	-	-	-	0.2	-	0.2
Associates	2	2.0	-	2.0	-	-	-	2.3	-	2.3
Total operating profit/(loss)		2.5	(4.4)	(1.9)	15.0	-	15.0	49.9	(9.5)	40.4
Exceptional items										
Gain on disposal of fixed assets	3	-	-	-	-	2.5	2.5	-	2.5	2.5
Loss on disposal of businesses	3	-	(12.7)	(12.7)	-	(26.4)	(26.4)	-	(27.8)	(27.8)
Profit/(loss) on ordinary activities before interest		2.5	(17.1)	(14.6)	15.0	(23.9)	(8.9)	49.9	(34.8)	15.1
Net interest (payable)/receivable		(1.5)	-	(1.5)	0.7	-	0.7	-	-	-
Profit/(loss) on ordinary activities before taxation		1.0	(17.1)	(16.1)	15.7	(23.9)	(8.2)	49.9	(34.8)	15.1
Taxation	4	(1.6)	0.3	(1.3)	(4.4)	3.1	(1.3)	(14.5)	3.0	(11.5)
(Loss)/profit after taxation		(0.6)	(16.8)	(17.4)	11.3	(20.8)	(9.5)	35.4	(31.8)	3.6
Minority interests		0.1	0.6	0.7	(0.2)	-	(0.2)	(0.3)	-	(0.3)
(Loss)/profit for the financial period		(0.5)	(16.2)	(16.7)	11.1	(20.8)	(9.7)	35.1	(31.8)	3.3
Dividends (including non-equity)	7	(4.0)	-	(4.0)	(3.9)	-	(3.9)	(12.0)	-	(12.0)
Retained (loss)/profit for the financial period		(4.5)	(16.2)	(20.7)	7.2	(20.8)	(13.6)	23.1	(31.8)	(8.7)
Earnings per ordinary share										
Headline	5	0.5p			19.0p			62.8p		
FRS3	5			(31.6)p			(19.0)p			2.7p
Headline/FRS3 diluted	5	0.5p		(31.6)p	19.0p		(19.0)p	62.8p		2.7p

Group Balance Sheet

	Interim		Full Year
	As at 3rd Nov 2001 £m	As at 4th Nov 2000 £m	As at 5th May 2001 £m
Fixed assets			
Intangible assets	17.8	17.0	17.3
Tangible fixed assets	111.3	100.1	124.4
Investments	53.4	3.3	55.7
	182.5	120.4	197.4
Current assets			
Stocks	7.2	61.1	30.3
Debtors	139.0	154.9	145.0
Cash at bank and in hand	47.6	118.2	58.8
Creditors: amounts falling due within one year	(154.2)	(217.4)	(193.2)
Net current assets	39.6	116.8	40.9
Total assets less current liabilities	222.1	237.2	238.3
Creditors: amounts falling due after more than one year	(70.5)	(79.3)	(74.8)
Provision for liabilities and charges	(22.5)	(22.5)	(20.7)
Net assets	129.1	135.4	142.8
Capital and reserves			
Equity share capital	14.1	14.1	14.1
Non-equity share capital	21.4	21.4	21.4
Called up share capital	35.5	35.5	35.5
Reserves	88.1	93.9	101.1
Shareholders' funds	123.6	129.4	136.6
Minority interests	5.5	6.0	6.2
	129.1	135.4	142.8

Group Cash Flow Statement

	Interim		Full Year
	Half year to 3rd Nov 2001 £m	Half year to 4th Nov 2000 £m	Year to 5th May 2001 £m
Net cash inflow from continuing operations	4.5	7.7	26.0
Net cash (outflow)/inflow from discontinued operations	(9.1)	10.7	24.6
Net cash (outflow)/inflow from operating activities	(4.6)	18.4	50.6
Dividends from joint ventures and associates	2.8	–	2.1
Net cash outflow from returns on investments and servicing of finance	(2.3)	(0.2)	(1.0)
Taxation (paid)/received	(4.0)	0.9	(3.4)
Net cash outflow from capital expenditure and financial investment	(16.3)	(8.4)	(21.0)
Free cash flow	(24.4)	10.7	27.3
Net cash (outflow)/inflow from acquisitions and disposals			
Investments in joint ventures and associates	(0.3)	(6.5)	(51.8)
Acquisitions	(1.1)	(2.5)	(34.9)
Disposals	21.4	2.1	0.8
Equity dividends paid	(7.1)	(6.8)	(9.8)
Management of liquid resources	(7.6)	20.1	(3.3)
Net cash inflow from financing	5.5	40.4	41.0
(Decrease)/increase in cash in the period	(13.6)	57.5	(30.7)

	Interim						Full Year		
	Contin-uing £m	Discont-inued £m	Half year to 3rd Nov 2001 £m	Contin-uing £m	Discont-inued £m	Half year to 4th Nov 2000 £m	Contin-uing £m	Discont-inued £m	Year to 5th May 2001 £m
Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities									
Operating profit/(loss)	3.8	(5.7)	(1.9)	13.9	1.1	15.0	17.5	22.9	40.4
Depreciation	6.7	2.1	8.8	4.4	2.6	7.0	10.7	5.4	16.1
Accelerated depreciation – exceptional operating expense	1.8	–	1.8	–	–	–	–	–	–
Goodwill amortised	0.5	–	0.5	0.4	–	0.4	0.8	–	0.8
Share of operating profit in associates	(2.0)	–	(2.0)	–	–	–	(2.3)	–	(2.3)
Share of operating profit in joint ventures	(0.1)	–	(0.1)	–	–	–	(0.2)	–	(0.2)
Other items not involving the movement of cash	0.5	–	0.5	0.4	–	0.4	0.4	–	0.4
Decrease/(increase) in stock	0.4	(2.5)	(2.1)	(1.3)	(12.5)	(13.8)	(1.6)	18.8	17.2
Decrease/(increase) in debtors	1.9	2.1	4.0	(2.8)	(21.1)	(23.9)	(3.9)	9.8	5.9
(Decrease)/increase in creditors	(9.0)	(5.1)	(14.1)	(7.3)	40.6	33.3	4.6	(32.3)	(27.7)
	4.5	(9.1)	(4.6)	7.7	10.7	18.4	26.0	24.6	50.6

Notes on Accounts

1. Preparation of the interim results

This interim statement in respect of the 26 weeks to 3rd November 2001 has been prepared on the basis of accounting policies consistent with those set out in the Group Accounts for the 52 weeks ended 5th May 2001.

The interim results were approved by the Board on 18th December 2001 and are unaudited. The results for the 52 weeks to 5th May 2001 are an abridged version of the Group Accounts, which carried an unqualified Auditors' Report and which have been filed with the Registrar of Companies.

2. Segmental analysis

	Turnover			Operating profit/(loss)		
	Interim	Full Year	Interim	Full Year		
	Half year to 3rd Nov 2001 £m	Half year to 4th Nov 2000 £m	Year to 5th May 2001 £m	Half year to 3rd Nov 2001 £m	Half year to 4th Nov 2000 £m	Year to 5th May 2001 £m
Distribution Services	454.2	428.4	866.8	13.0	13.0	26.3
Aviation Services	128.8	47.4	157.8	(2.5)	2.0	4.3
	583.0	475.8	1,024.6	10.5	15.0	30.6
Central services	–	–	–	(3.1)	(3.2)	(6.9)
Pension credit	–	–	–	2.5	2.5	5.0
Continuing operations	583.0	475.8	1,024.6	9.9	14.3	28.7
Goodwill amortisation	–	–	–	(1.7)	(0.4)	(1.7)
Discontinued operations	55.4	165.1	306.8	(5.7)	1.1	22.9
	638.4	640.9	1,331.4	2.5	15.0	49.9

Joint Ventures and Associates included above

Distribution Services						
Joint ventures	4.3	0.7	8.3	–	–	(0.1)
Associates	7.2	7.2	14.3	0.2	–	–
Aviation Services						
Joint ventures	2.6	–	2.3	0.4	–	0.5
Associates	26.5	2.1	18.4	2.7	–	3.0
	40.6	10.0	43.3	3.3	–	3.4
Goodwill amortisation	–	–	–	(1.2)	–	(0.9)
	40.6	10.0	43.3	2.1	–	2.5

Goodwill amortisation is all attributable to Aviation Services.

Discontinued operations comprise Early Learning Centre (sold in September 2001), THE Games (exited in February 2001) and THE (sold in August 2000).

3. Exceptional items

2001: Operating exceptionals of £4.4m were mainly in respect of costs of reducing Aviation Services excess capacity.

On 28th September 2001 ELC was sold for £29.6m, which included £9.0m repayment of Group funding. The disposal generated a loss of £4.2m before writing off goodwill of £8.5m previously charged to reserves.

Comparatives: A full analysis of the exceptional items in respect of the half year to 4th November 2000 and the year to 5th May 2001 can be found in note 3 of the 2000/01 Interim Report and note 5 of the 2001 Group Accounts, respectively.

4. Taxation

Taxation has been estimated at a headline UK tax rate of 26% (2000: 27%). The overall effective rate is impacted by unrelieved overseas losses and goodwill.

Notes on Accounts (continued)

5. Earnings per share

	Headline			Post exceptional items		
	Interim		Full Year	Interim		Full Year
	Half year to 3rd Nov 2001 £m	Half year to 4th Nov 2000 £m	Year to 5th May 2001 £m	Half year to 3rd Nov 2001 £m	Half year to 4th Nov 2000 £m	Year to 5th May 2001 £m
Operating profit	2.5	15.0	49.9	2.5	15.0	49.9
add back: goodwill amortisation	1.7	0.4	1.7	-	-	-
Exceptional items	-	-	-	(17.1)	(23.9)	(34.8)
Interest	(1.5)	0.7	-	(1.5)	0.7	-
Profit/(loss) before taxation	2.7	16.1	51.6	(16.1)	(8.2)	15.1
Taxation	(1.6)	(4.4)	(14.5)	(1.3)	(1.3)	(11.5)
Minority interests	0.1	(0.2)	(0.3)	0.7	(0.2)	(0.3)
Preference dividends	(0.9)	(0.9)	(1.8)	(0.9)	(0.9)	(1.8)
Earnings for the period	0.3	10.6	35.0	(17.6)	(10.6)	1.5

Headline

Earnings per ordinary share (pence)	0.5	19.0	62.8
Diluted earnings per ordinary share (pence)	0.5	19.0	62.8

FRS3

Earnings per ordinary share (pence)	(31.6)	(19.0)	2.7
Diluted earnings per ordinary share (pence)	(31.6)	(19.0)	2.7

Number of ordinary shares in issue (millions)

Weighted average	55.759	55.689	55.705
Diluted weighted average	55.788	55.711	55.745

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

6. Reconciliation of movements in shareholders' funds

	Interim		Full Year
	As at 3rd Nov 2001 £m	As at 4th Nov 2000 £m	As at 5th May 2001 £m
	(Loss)/profit for the financial period	(16.7)	(9.7)
Goodwill previously written off to reserves	8.5	12.5	12.5
Dividends: ordinary shares	(3.1)	(3.0)	(10.2)
preference shares	(0.9)	(0.9)	(1.8)
New share capital issued	-	0.1	0.2
Currency translation	(0.8)	-	2.2
Net (decrease)/increase in shareholders' funds	(13.0)	(1.0)	6.2
Shareholders' funds at beginning of period	136.6	130.4	130.4
Shareholders' funds at end of period	123.6	129.4	136.6

7. Interim dividend

Payment of the interim dividend of 5.5p per Ordinary share (2000: 5.5p) will be made on 8th April 2002 to shareholders on the register at the close of business on 15th March 2002.

8. Analysis of net debt

	As at 3rd Nov 2001 £m	As at 5th May 2001 £m	Interim cash flows £m
Cash at bank and in hand	16.6	35.4	(18.8)
Bank overdrafts	(0.4)	(5.6)	5.2
	16.2	29.8	(13.6)
Short term deposits	31.0	23.4	7.6
Bank loans due within one year	(16.2)	(6.5)	(9.7)
Current portion of finance leases	(0.1)	(0.3)	0.2
Loan stock due within one year	(0.1)	(0.1)	-
Debt due after one year	(66.5)	(70.5)	4.0
	(35.7)	(24.2)	(11.5)

9. Acquisitions

On 25th July 2001 the Group acquired a 70% interest in Main Gestion de Aeropuertos SA, Spain, for £0.6m. Further performance related payments of £0.2m may become payable between the date of acquisition and August 2002.

On 10th October 2001 the Group acquired Parc Aviation Handling Limited, Dublin, for £0.5m.

10. Contingent liabilities

Nintendo and certain of its present and previous European Distributors are currently under investigation by the European Commission for alleged restriction of cross-border trading in Nintendo products, with a formal Statement of Objections having been issued on 26th April 2000. The Group was the exclusive distributor of such product in the UK and the Republic of Ireland at the relevant time. It remains the opinion of the directors that it is too early at this stage to form a clear view on the extent of any liability which may result from this action.

Principal Business Addresses

John Menzies plc
108 Princes Street, Edinburgh, EH2 3AA
Tel: +44 (0) 131 225 8555 Fax: +44 (0) 131 226 3752
E-mail: cosec@menziesgroup.com
Web: www.menziesgroup.com

Menzies Distribution
2 Lochside Avenue, Edinburgh Park, Edinburgh, EH12 9DJ
Tel: +44 (0) 131 467 8070 Fax: +44 (0) 131 469 4797

Menzies Aviation Group
Brambletye House, 29 Brighton Road, Crawley, West Sussex, RH10 6AE
Tel: +44 (0) 1293 583 300 Fax: +44 (0) 1293 526 478
Web: www.menziesaviation.com

Financial Calendar

December 2001
Financial Year End

March 2002
Final Results Announcement

May 2002
Annual General Meeting

June 2002
Final Dividend paid

September 2002
Interim Results Announcement

November 2002
Interim Dividend paid
