



The International Support Services Group

Interim Results - 10th September 2002





David Mackay, Chief Executive



Martyn Smith, Group Finance Director



Peter Smith, Chief Executive, Menzies Aviation

Group Highlights

- Distribution delivers healthy profits with strong cash generation
- Aviation marketplace recovering - up £3.3m on H2 2001
- Aviation provides significant growth opportunities
- Key executive appointments made
- Well financed Group positioned for growth



Key Appointments in Place



Paul Dollman, Group Finance Director

Key Appointments in Place



Patrick Macdonald, Group Chief Executive - Designate

Key Financials

	H1 2002	vs. H2 2001
(continuing)		
Turnover (£)	599.0m	+15.3m
Headline PBT (£)	10.6m	+4.1m
Headline EPS (pence)	11.5p	+5.8p
Dividend (pence)	5.5p	maintained

The Strategy

- Group focused on two core divisions
- Full commitment to our cash generating Distribution business
- Selective acquisition and organic growth of Aviation
- Distribution supports Aviation expansion





Financial Review

Martyn Smith, Group Finance Director



Headline Results

(£m)	H1 2002	H1 2001	H2 2001
Turnover - continuing	<u>599.0</u>	<u>561.6</u>	<u>583.7</u>
Continuing	11.9	13.1	8.0
Discontinued	-	(0.4)	(3.5)
Operating Profit	<u>11.9</u>	<u>12.7</u>	<u>4.5</u>
Interest	(1.3)	(1.1)	(1.5)
Headline PBT	<u>10.6</u>	<u>11.6</u>	<u>3.0</u>



Distribution

(£m)	H1 2002	H1 2001	H2 2001
Turnover	487.6	438.6	462.3
Operating Profit	14.1	13.0	13.1
Operating Margin	2.9%	3.0%	2.8%





Aviation - Turnover Causal Track

£m

H1 2001 Turnover

123.0

- Latin America	(4.0)
- USA/Canada	(3.8)
- Europe	3.4
- Execair/Connect	0.9
- Asia Pacific	0.9
- Other	<u>1.0</u>

H2 2001 Turnover

121.4



Aviation - Turnover Causal Track

£m

H1 2001 Turnover

123.0

- Latin America	(4.0)
- USA/Canada	(3.8)
- Europe	3.4
- Execair/Connect	0.9
- Asia Pacific	0.9
- Other	1.0

H2 2001 Turnover

121.4

- Exited businesses	(6.9)
- Europe	(4.0)
- USA/Canada	(0.6)
- Latin America	2.0
- Asia Pacific	0.5
- Other	(1.0)

H1 2002 Turnover

111.4



Aviation - Operating Profit Causal Track

		£m
H1 2001 Operating Profit		1.3
- Americas	(3.1)	
- Bad debts	(2.5)	
- Italy	(0.6)	
- Asia Pacific	0.9	
- Execair/Connect	0.4	
- Other	<u>(0.3)</u>	
H2 2001 Operating Loss		(3.9)



Aviation - Operating Profit Causal Track

		£m
H1 2001 Operating Profit		1.3
- Americas	(3.1)	
- Bad debts	(2.5)	
- Italy	(0.6)	
- Asia Pacific	0.9	
- Execair/Connect	0.4	
- Other	<u>(0.3)</u>	
H2 2001 Operating Loss		(3.9)
- Italy	(1.4)	
- Bad debts	2.5	
- Exited businesses / overhead savings	1.8	
- Americas	<u>0.4</u>	
H1 2002 Operating Loss		(0.6)



Aviation

(£m)	H1 2002	H1 2001	H2 2001
Turnover	111.4	123.0	121.4
Operating (Loss)/Profit	(0.6)	1.3	(3.9)
Operating Margin	(0.5)%	1.1%	(3.2)%



Segmental Operating Profit

(£m)	H1 2002	H1 2001	H2 2001
Distribution	14.1	13.0	13.1
Aviation	(0.6)	1.3	(3.9)
	<u>13.5</u>	<u>14.3</u>	<u>9.2</u>
Central Services	(3.3)	(3.7)	(3.7)
Pension credit	1.7	2.5	2.5
Continuing	<u>11.9</u>	<u>13.1</u>	<u>8.0</u>



Exceptional Costs

(£m)		H1 2002
Operating Exceptionals		
Aviation - Italy rationalisation		(0.7)
Non-Operating Exceptionals		
Net loss on exit from businesses		
- Korea	(1.0)	
- Germany	(1.0)	
- Mecnix	<u>(0.2)</u>	(2.2)
		<u>(2.9)</u>



Taxation

(%)		H1 2002
UK Rate		30.0
Non-deductibles	3.0	
Unrelieved overseas losses	<u>6.0</u>	9.0
Adjustments relating to prior years		(8.0)
Headline Rate		<u>31.0</u>



EPS & Dividends

(pence)	H1 2002	H1 2001	H2 2001
<u>EPS</u>			
Continuing Headline	11.5	13.5	5.7
Headline	11.5	12.9	1.3
Overall	3.1	(0.5)	(37.0)
<u>Dividends</u>			
Interim	5.5	5.5	n/a



Pension

- Main pension provision is the UK defined benefit scheme
 - mature
 - 90% currently invested in equities, policy is to reduce
- Overseas Group companies operate defined contribution or state sponsored schemes
- Accounting in line with SSAP 24 and have adopted transitional arrangements of FRS 17



Balance Sheet

(£m)	June 2002	Dec 2001
Fixed assets (incl. goodwill & inv's)	<u>188.4</u>	<u>195.8</u>
Stocks	9.7	11.2
Debtors	85.6	92.6
Creditors <1 year	<u>(135.7)</u>	<u>(155.7)</u>
	(40.4)	(51.9)
Pension prepayment	32.7	31.5
Creditors >1 year	(9.0)	(12.2)
	<u>171.7</u>	<u>163.2</u>
Equity funds	92.8	95.0
Preference shares		
- June 2003	20.0	20.0
- perpetuity	1.4	1.4
Net debt	57.5	46.8
Capital Employed	<u>171.7</u>	<u>163.2</u>



Foreign Exchange

- Transaction exposure actively managed
- Translation - P&L minimal exposure to US\$
 - Asia Pacific profits offset by current USA trading, Americas regional overheads & interest on US\$ borrowings
- Overseas net assets 55% hedged at Interim
 - since increased to 80%

- Rates:

	H1	H1	H2
(£/US\$)	2002	2001	2001
Average	1.44	1.44	1.45
Spot	1.52	1.42	1.45

- Interim net debt reduced by £1.7m translation gain



Free Cash Flow

(£m)	H1 2002	Continuing H1 2001
Headline Operating Profit	11.9	13.1
Adjust for:		
- Depreciation	6.8	6.6
- Other non-cash items	(3.8)	(6.8)
Dividends from JVs & Associates	2.6	2.3
Working capital movement	(5.4)	(2.8)
Exceptionals	(4.0)	(5.1)
Cash Flow from Operating Activities	<u>8.1</u>	<u>7.3</u>
Tax	(2.8)	(4.0)
Net capex	(5.4)	(14.9)
Preference dividends & interest	(2.1)	(2.2)
Free Cash Flow	<u>(2.2)</u>	<u>(13.8)</u>



Cash Flow

(£m)	H1 2002	H1 2001
Free Cash Flow		
- Continuing	(2.2)	(13.8)
- Discontinued	-	(45.8)
	<u>(2.2)</u>	<u>(59.6)</u>
Dividends	(6.8)	(3.0)
Acquisitions	(8.9)	(9.5)
Disposals	5.4	-
Shares	0.1	0.1
Overall Cash Flow	<u>(12.4)</u>	<u>(72.0)</u>
Net (Debt)/Cash at start of period	(46.8)	20.3
Currency translation	1.7	(2.2)
Net (Debt) at end of period	<u>(57.5)</u>	<u>(53.9)</u>





Financial Review

Martyn Smith, Group Finance Director





Business Overview

David Mackay, Chief Executive



Distribution - The Strategy

- Grow market share
- Add value to both publisher and retailer clients
- Continue to influence industry developments
- Ongoing development of technology
- Expand ancillary products and services

Distribution Highlights

- UK's leader in newspaper and magazine distribution
- Excellent first half result
- Turners acquisition above expectations
- Branch rationalisation delivering benefits



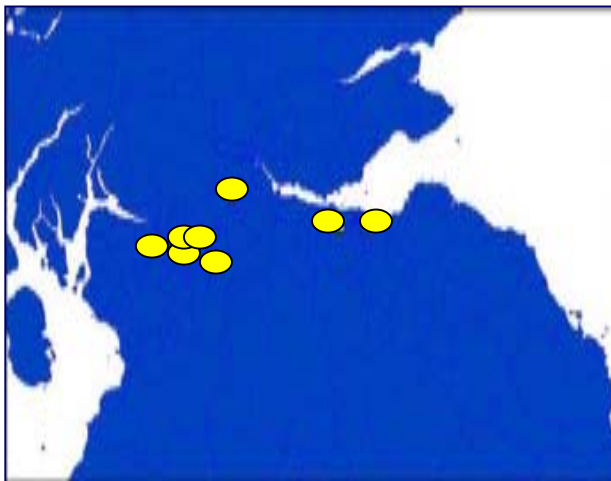
Volumes Benefit From Industry Pricing

- Price war drives short term volume increase
- Menzies margin protected

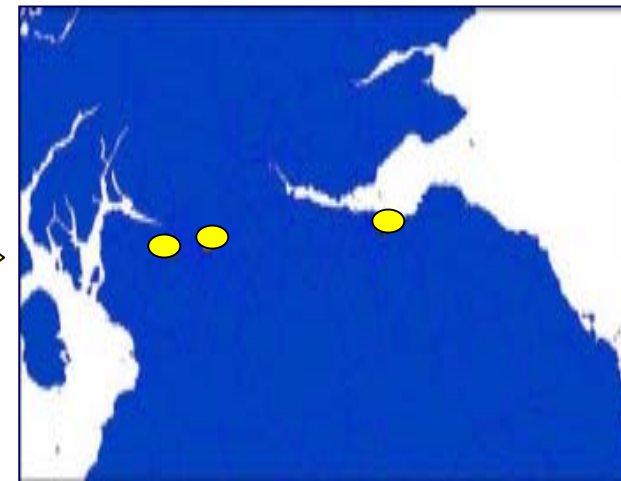
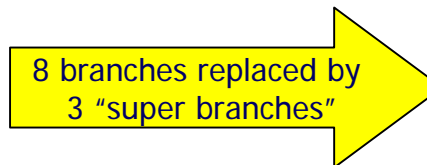


Branch Rationalisation Delivering Benefits

- Central Scotland rationalisation completed on time and on budget
- “Super Branches” delivering efficiencies
- East London opening Spring 2004
- High level of customer satisfaction



Central Scotland Distribution Centres
January 2000



Central Scotland Distribution Centres
September 2002

Industry Issues

- OFT Investigation
 - Full submission made
 - Active co-operation with the process
 - Findings expected in Q4 - 2002

Opportunities

- Marketing services - driving sales
- Cover price increases
- New magazine launches
- Sunday Star - launches in mid-September
- Ancillary products - pushing more oil down the pipeline
 - Stickers, Disposable cameras, Batteries, Phone cards





Business Overview

David Mackay, Chief Executive



Aviation - The Strategy

Acquisitive and organic growth - achieved by:

- Targeting imperfect markets
- Utilising existing partnerships to develop new business
- Participating in liberalising markets
- Rapid roll out of high margin support services businesses
- Leveraging technology



A Global Operation

- Three core business areas:



Cargo Handling

Passenger and Ramp

Support Services

- 7,000+ employees
- 81 locations in 21 countries
- 300+ airlines customers

See appendix I for detailed information

Prague - A Microcosm of MAG

- Full service provision
- Modern facilities
- Good quality labour available at attractive rates
- Imperfect market
 - Only two other handlers
- Strong growth projections
- Strategically located in the centre of Europe



Passenger and Ramp

- 500,000 passengers per annum
- 7,500 turnarounds per annum

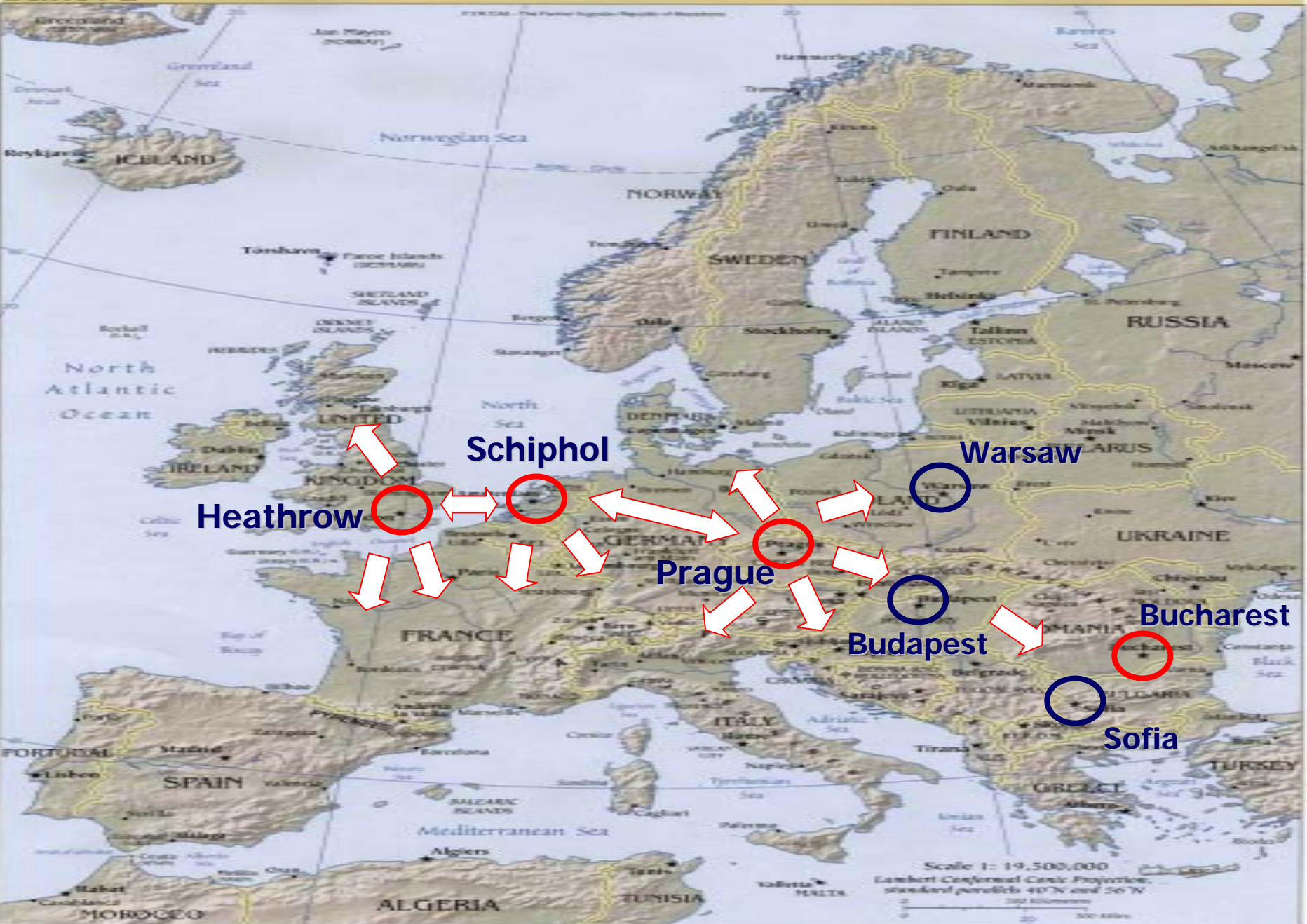
Cargo Handling

- 16,000 tonnes per annum

Support Services

- Execair facility in place

EUROPE



Heathrow

Schiphol

Prague

Warsaw

Budapest

Bucharest

Sofia

Scale 1: 19,500,000
Lambert Conformal Conic Projection
standard parallels 40°N and 56°W
0 100 200 kilometers
0 100 200 miles

Cargo Handling

- Asia Pacific performing well
- Underlying Heathrow volumes recovering - well positioned for upturn
- £3m investment in leading edge IT system ("Hermes") leveraging benefits
 - win/win for MAG and Airlines
 - Lufthansa - key customer satisfaction



Passenger and Ramp Services

- Recovery in most regions
- IAHA and IATA
- Surge in low cost carriers provides opportunities
- Innovative ground handling methods being developed



Support Services

- Execair
 - Benefiting from fast growth in private aviation market
 - 3 new locations opened so far in 2002
 - Portfolio grown to 13 locations
 - Target of 25 by end of 2003
- Connect-2-Work
 - New £17m 5 year BAA contract awarded
 - IT initiatives secure business
- MC Services
 - Out-sourced baggage claims
 - Winning new business



Acquisitions

- Fr8 (acquired September 2002)
 - Largest independent cargo handler in Netherlands
 - Significant European airfreight gateway
 - Combined annual tonnage of c370,000 tonnes
- Wyng (acquired May 2002)
 - UK based cargo processing business
 - Highly complementary to Menzies World Cargo
 - Key customer relationship with Emirates Airlines

More to come !!

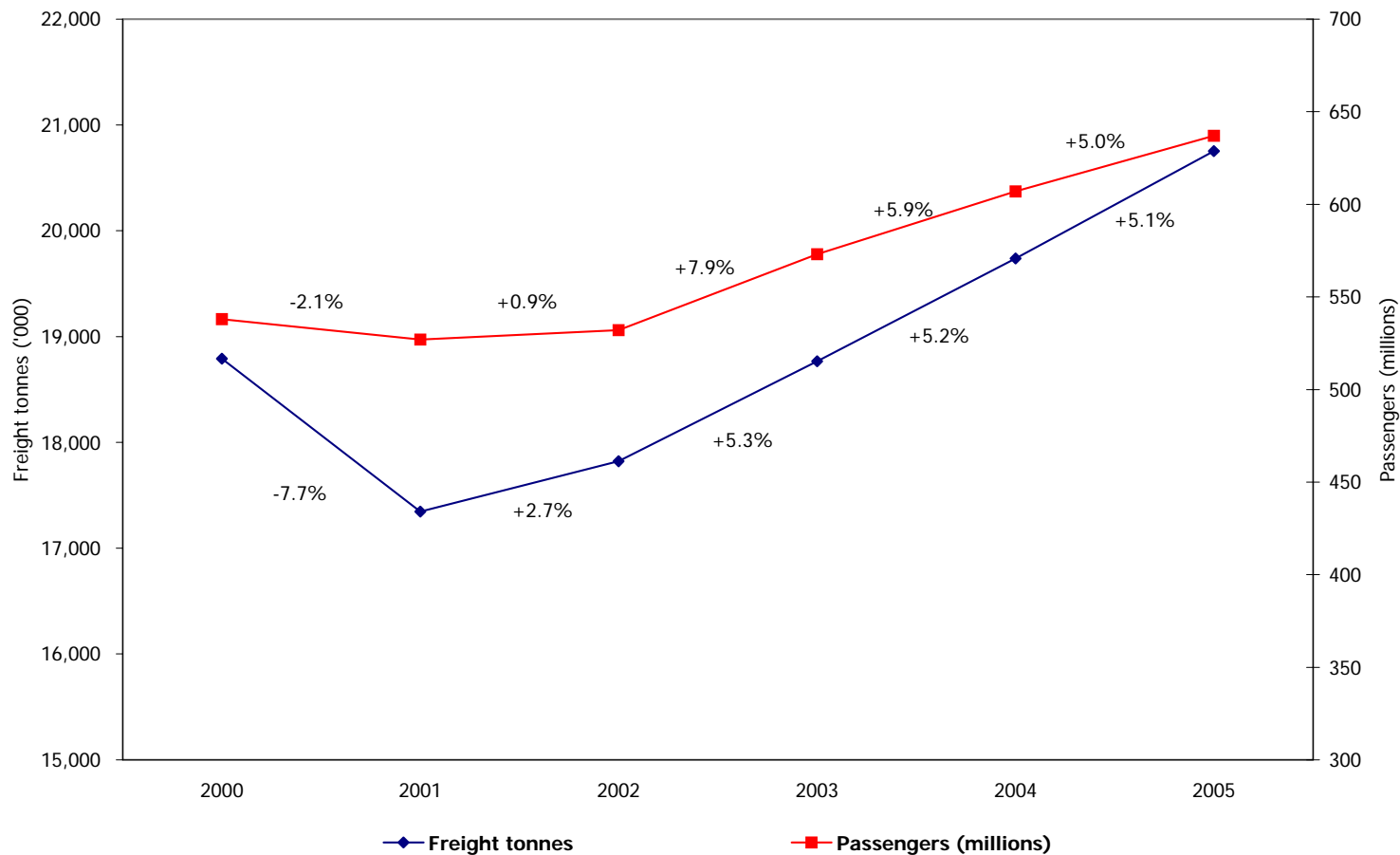


Marketplace - The Recovery Continues

- Passenger traffic ratios recovering
- Routes being re-instated
- Cargo volumes returning
- Second half of the year will benefit

Recovery Underway

International Forecast Growth Rates - Passenger & Freight (Post 11 September)



Source : IATA Passenger & Freight Forecasts - January 2002



The Way Forward

- Optimised cost base to benefit from economic upturn
- Continue to seek profitable expansion opportunities
- Develop existing services to changing customer needs
- Leverage technology (Hermes, mywaybill.com, Connect)
- Benefit from continuing out-sourcing trend





Conclusion



Conclusion

- Distribution delivers healthy profits with strong cash generation
- Aviation marketplace recovering
- Aviation provides significant growth opportunities
- Key executive appointments made
- Well financed Group positioned for growth





Appendix

(I) Aviation operational information



Cargo Handling

Lima

Heathrow

Manchester

Activities

Edinburgh

Melbourne

- Receiving and break-up/break-down/storage
- Ramp transfer to and from aircraft
- Load planning

Southampton

Macau

- Real time track and trace facilities
- Electronic communication with / updates to airlines and forwarders
- Customs services

Amsterdam

Glasgow

- Door to door services
- Out-sourced manpower
- AMI - capacity brokerage

Birmingham

Prague

Sydney

USA - (West Coast)

East Midlands

Aberdeen



Passenger and Ramp Services

	Spain	Activities	St Maarten
	Peru		Mexico
	Venezuela	<ul style="list-style-type: none">• Ticketing• Check-in• VIP/CIP Lounges• Load control• Aircraft loading and unloading• Cabin cleaning• Toilet and water services• Aircraft ground power and start-up• De-icing	Hong Kong
	Brazil		Netherlands
	Macau		Italy
	Canada		Romania
	New Zealand		Australia
	Czech Republic		Philippines
	USA - (West Coast)		Dominican Republic



Support Services

Activities

Cardiff

Birmingham

Inverness

Glasgow

Prague

Sao Paulo

Bournemouth

Heathrow

Shannon

East Midlands

Edinburgh

Dublin

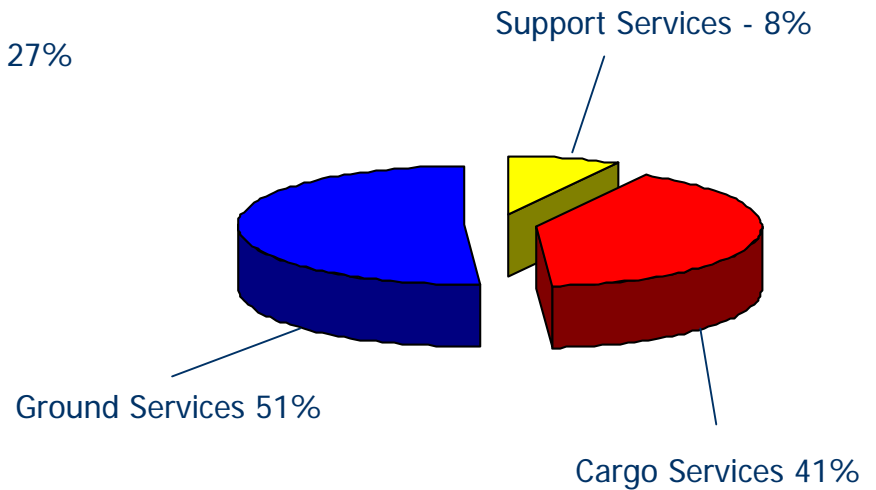
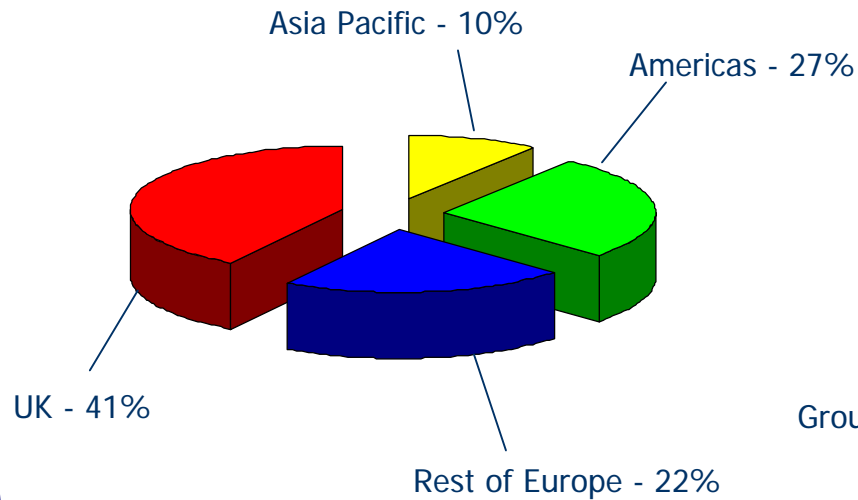
St Maarten

- Passenger and baggage transfer
- Inter-terminal bussing
- Out-sourced passenger complaints
- General out-sourced activities
- Executive Aviation (FBO's)
 - Ground handling and fuelling
 - Private lounge facilities
 - Executive transfer services



Geographical Balance

Sector Spread



Source : 6 months turnover to 29 June 2002