



*The International Support Services Group*

## *Preliminary Results Presentation*

*18 March 2003*



## The Team



David Mackay, Chief Executive



Patrick Macdonald, Chief Executive Designate



Paul Dollman, Group Finance Director



Iain Callaghan, Managing Director, Menzies Distribution



Peter Smith, Chief Executive, Menzies Aviation

## Key Financials

(£m)	12 months to Dec 2002	vs. 12 months to Dec 2001	
		Overall	Continuing
Turnover	1,196.5	-56.9	+51.2
Headline PBT	25.9	+11.3	+7.4
Headline EPS	32.9p	+18.7p	+13.7p
Dividend	18.1p	maintained	

## Highlights

- Group on track – strong performance
- Aviation delivers turnaround
- Distribution completes cracking year

**Benefits of strategic re-structure now visible**





## Financial Review

**Paul Dollman, Group Finance Director**



# Headline Results

(£m)	12 months to Dec 2002	12 months to Dec 2001
Turnover		
- continuing	1,196.5	1,145.3
- discontinued	-	108.1
	<u>1,196.5</u>	<u>1,253.4</u>
Operating Profit		
- continuing	29.0	21.1
- discontinued	-	(3.9)
	<u>29.0</u>	<u>17.2</u>
Interest	(3.1)	(2.6)
Headline PBT	<u>25.9</u>	<u>14.6</u>



# Distribution

(£m)	12 months to Dec 2002	12 months to Dec 2001
Turnover	959.6	900.9
Operating Profit	28.7	26.1
Operating Margin	3.0%	2.9%
Net Assets	30.2	31.5



# Aviation

(£m)	12 months to Dec 2002	12 months to Dec 2001
Turnover	236.9	244.4
Operating Profit	3.7	(2.6)
Operating Margin	1.6%	(1.1)%
Net Assets	137.0	123.2



# Aviation – Profit Turnaround

	(£m)
Operating loss for the 12 months to December 2001	(2.6)
Acquisitions	0.8
Removal of loss-makers	3.2
UK	1.3
Rest of Europe	1.7
Asia Pacific	0.9
Latin America	(0.8)
North America	(2.2)
Central / regional overheads	1.4
Operating profit for the 12 months to December 2002	<u>3.7</u>



# Segmental Operating Profit

(£m)	12 months to Dec 2002		12 months to Dec 2001	
Distribution	28.7		26.1	
Aviation	3.7		(2.6)	
Central Services	(7.0)		(7.4)	
Pension credit	3.6		5.0	
<b>Continuing</b>	<b>29.0</b>		<b>21.1</b>	
Discontinued	-		(3.9)	
<b>Operating Profit</b>	<b>29.0</b>		<b>17.2</b>	
Interest	(3.1)		(2.6)	
<b>Headline PBT</b>	<b>25.9</b>		<b>14.6</b>	
Tax	(5.6)	21.6%	(5.3)	36.3%
	<b>20.3</b>		<b>9.3</b>	



# Taxation

	2002 %
Tax due at UK rate	30.0
Non tax-deductible items	3.6
Unrelieved overseas losses	6.2
Overseas rate impact	1.5
Utilisation of tax losses	(5.0)
Adjustments in respect of prior periods	(14.7)
Headline tax rate	<u>21.6</u>



# EPS & Dividends

(pence)	12 months to Dec 2002	12 months to Dec 2001
<u>EPS</u>		
Continuing Headline	32.9	19.2
Headline	32.9	14.2
Overall	18.2	(37.5)
<u>Dividends</u>		
	18.1	18.1



# Balance Sheet

(£m)	Dec 2002	Dec 2001
Fixed assets (incl. goodwill & inv's)	<u>196.4</u>	<u>195.8</u>
Stocks	10.8	11.2
Debtors	96.7	92.6
Creditors < 1 year	<u>(152.9)</u>	<u>(155.7)</u>
	(45.4)	(51.9)
Pension prepayment (net of def. tax)	34.0	31.5
Creditors > 1 year	(11.3)	(12.2)
	<u>173.7</u>	<u>163.2</u>
Equity funds	94.0	95.0
Preference shares		
- June 2003	20.0	20.0
- other	1.4	1.4
Minority interest	0.1	-
Net debt	58.2	46.8
Capital Employed	<u>173.7</u>	<u>163.2</u>



# Pension

	SSAP 24		FRS 17	
	Dec 2001	Dec 2002	Dec 2001	Dec 2002
Calculated surplus/(deficit)	61.8	15.3	10.1	(44.8)
		Est 2003		Est 2003
Profit & loss credit/(charge)	3.6	(1.2)	(0.8)	(3.4)



# Foreign Exchange

- Transaction exposure actively managed
- P&L translation - minimal exposure to US\$
  - Asia Pacific profits offset by current USA trading, Americas regional overheads & interest on US\$ borrowings
- Overseas net assets 82% hedged at year end

- Rates:

(£/US\$)	Dec 2002	Dec 2001
Average	1.50	1.43
Spot	1.60	1.45

- Year end net debt reduced by £3.7m translation gain



# Free Cash Flow

(£m)	12 months to Dec 2002	Continuing 12 months to Dec 2001
Headline Operating Profit	29.0	21.1
Adjust for:		
- Depreciation	14.0	13.3
- Other non-cash items	(9.9)	(11.3)
Dividends from JVs & Associates	4.6	4.7
Working capital movement	(5.3)	18.2
Exceptionals	(4.9)	(11.8)
Cash Flow from Operating Activities	27.5	34.2
Tax	(3.7)	(6.5)
Net capex	(12.5)	(28.7)
Preference dividends & interest	(5.3)	(5.7)
Free Cash Flow	6.0	(6.7)



# Cash Flow

(£m)	12 months to Dec 2002	12 months to Dec 2001
Free Cash Flow		
- Continuing	6.0	(6.7)
- Discontinued	-	(55.0)
	<u>6.0</u>	<u>(61.7)</u>
Equity dividends	(9.9)	(10.1)
Acquisitions	(22.1)	(16.7)
Disposals	5.8	21.0
ELC loan notes	3.3	-
Shares	1.8	0.1
Overall Cash Flow	<u>(15.1)</u>	<u>(67.4)</u>
Net (Debt)/Cash at start of period	(46.8)	20.3
Currency translation	3.7	0.3
Net Debt at end of period	<u>(58.2)</u>	<u>(46.8)</u>





With a commitment to a high quality service provision and a constant drive for efficiencies Menzies Distribution is a leading player in the Newspaper and Magazine supply chain

## Highlights

- Strong overall performance
- Excellent cash generation
- Enhanced service standard delivered by consolidated branch network
- Continued investment programme
- Turners acquisition exceeds best expectations

**Profit growth in a challenging marketplace**



## Magazines, Newspapers & Periodicals

- Vibrant magazine market shows 4.5% lfl growth
- Strong performance from Celebrity titles
- Newspaper result benefits from tabloid price war
- Continued cover price growth
- 18 new partwork launches in January 2003

**Vibrant magazine market and counter-cyclical**



## Challenges & Opportunities

- OFT Enquiry – comfortable with proposals
- Expansion – contract renewal process / other growth prospects
- Further efficiencies from Branch rationalisation (East London)
- New product initiatives

**Highly motivated team**





Through a selective programme of organic and acquisitive growth Menzies Aviation has become a leading global player in the ground handling aviation sector

## Overview

- Rigorous and rapid management action
- Continued growth via organic start ups and strategic acquisitions
- Successful implementation of HERMES cargo management system
  - International roll out during 2003
- Innovative entry into UK ground handling market
- Further expansion of Connect and Execair

**Profit turnaround delivered despite turbulent marketplace**



## United Kingdom

- Low Cost Carriers
  - New ground handling solution successfully launched in December 2002
- Connect
  - Two contract awards by BAA - total revenues in excess of £30m
- Heathrow cargo in line with market levels
  - £3m HERMES investment delivering benefits

**Innovative approach winning business**



## Rest of Europe

- Strong profitable presence in Prague and Bucharest
- Amsterdam now in profit
- Acquisition of Fr8 performing well
- Timely disposal of Italian associate
- Spanish liberalisation offers opportunities

**European portfolio performs well**



## Asia Pacific

- Macau again produces a first class performance
- Acquisition accelerates Australian expansion
- Fledgling entry into China

**Strong performance from robust region**



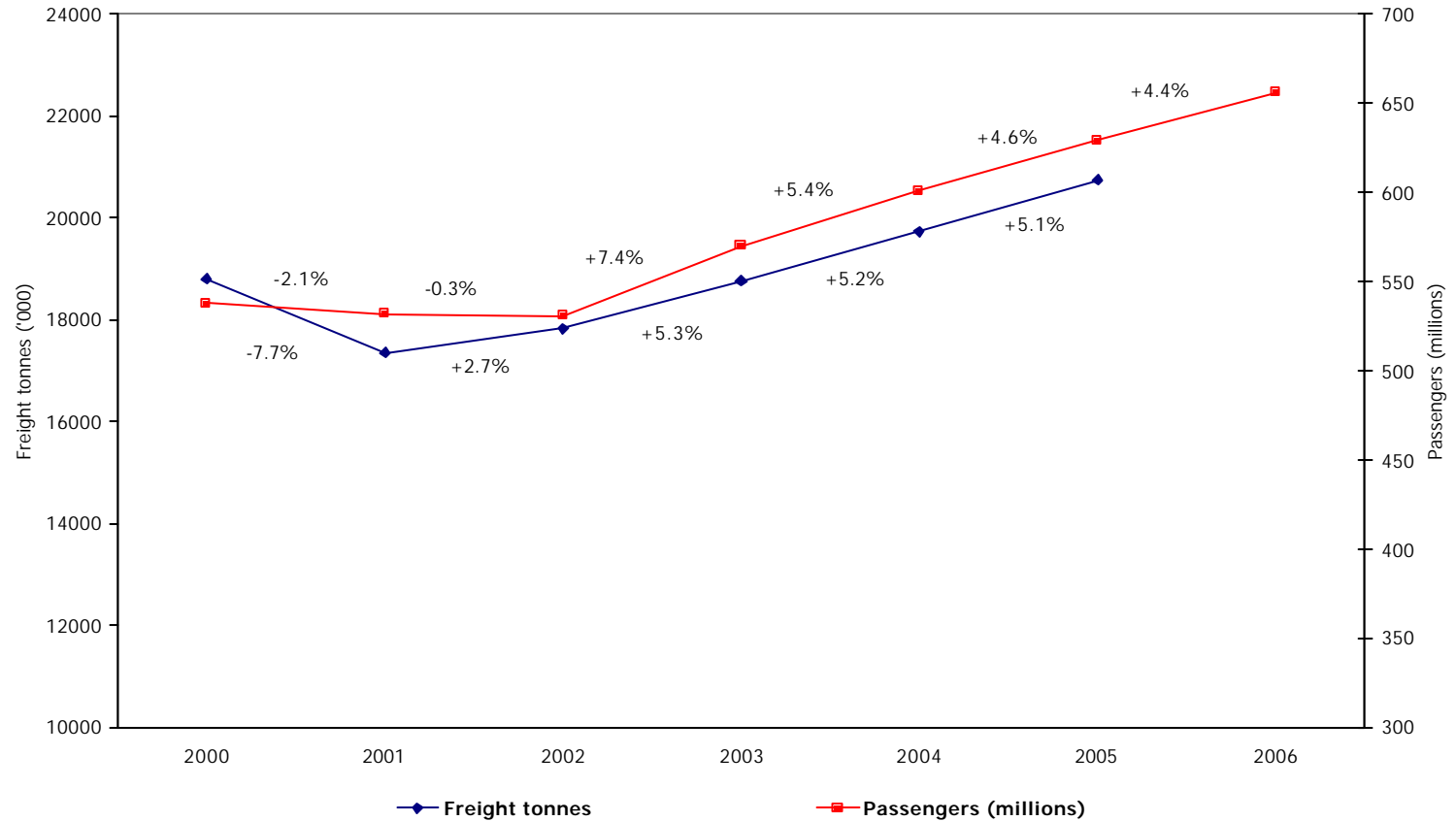
## The Americas

- Latin America / Caribbean remains profitable
- Significant contract wins in Mexico in Q4
- North American recovery slow

**USA affected by current geopolitical and economic climate**



## Resilient marketplace with long term growth



Source: IATA Passenger Forecasts September 2002  
IATA Freight Forecasts April 2002



## The Way Ahead

- Develop existing services to changing customer needs
- Innovative application of technology
- Reduced cost base will benefit from economic upturn
- Potential from continued out-sourcing trend
- Continue to seek profitable expansion opportunities

**Focus on margin improvement and growth**



## Conclusion

- Both of our divisions are leading players in their markets
- Distribution
  - Strong cash generation
  - Reliable profit stream
- Aviation
  - Profit turnaround delivered
  - Well positioned to benefit from industry recovery and change

**Look forward with confidence**





**Patrick Macdonald**

**Chief Executive Designate**





## Appendices

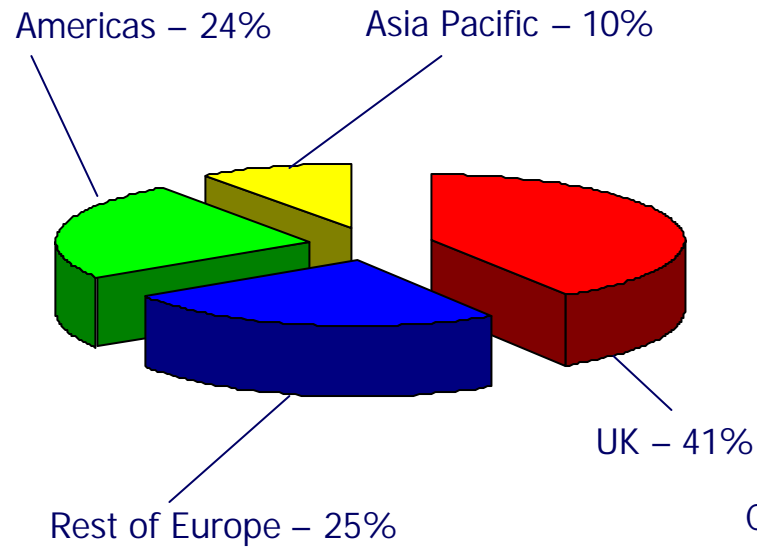
- (i) Distribution
- (ii) Aviation



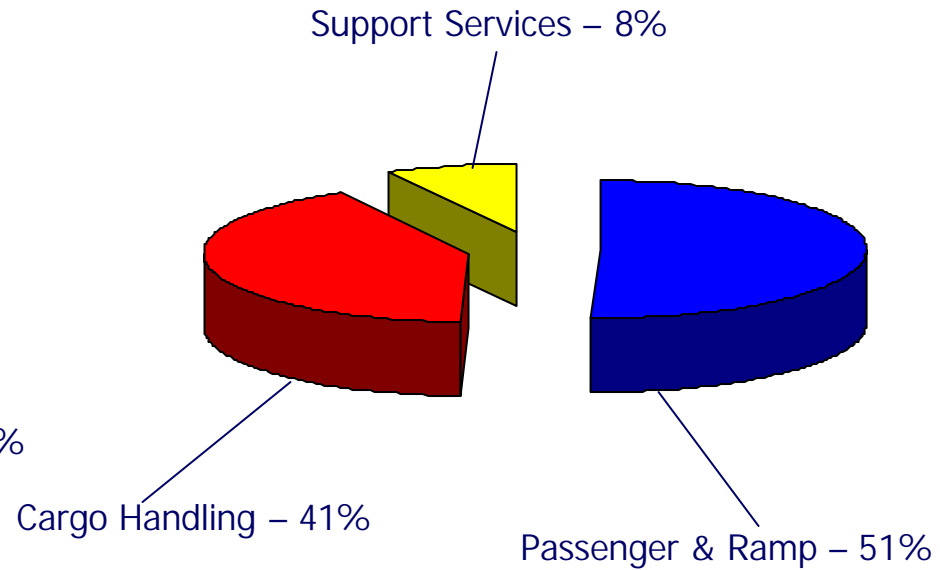
## Operational Information

• Number of depots	Main Hubs - 28 Spokes - 8	• Copies distributed in 2002	
• Employees	4,200	Magazines	218,000,000
• Customer accounts	21,200	Periodicals	430,000,000
• Vehicles	Menzies - 300 Contractors - 1,120	Daily	1,473,000,000
• Mileage	31,200,000 per annum 85,700 per day	Sunday	277,000,000
• Number of runs	Mon – Fri 1,484 per day Saturday 1,620 per day Sunday 1,580 per day	• Packing accuracy KPI	99.7%
		• Market Mix	
		Dailies	37.21%
		Periodicals	24.27%
		Magazines	21.96%
		Sunday	14.80%
		Phonecards & Others	1.76%

## Geography



## Sector



Source: MAG 12 months turnover to 28<sup>th</sup> December 2002 – excluding exited businesses

## Passenger and Ramp Services

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

## Cargo Handling

Lima

Heathrow

Manchester

### Activities

Edinburgh

Melbourne

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

Aberdeen

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

## Support Services

Aberdeen

Heathrow

Cardiff

### Activities

St Maarten

Shannon

Dublin

Birmingham

Edinburgh

Inverness

East Midlands

Glasgow

Sao Paulo

Prague

Bournemouth

- 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