SERVISAIR Plc 924991

Directors' report

Principal activity

The company is a holding company. Activities of the subsidiary companies are outlined on page 1.

Results and dividends

The profit for the year attributable to shareholders amounts to £4·2m (1997: £5·0m).
These results are reviewed by the chairman and the finance director and are set out in the accounts.
The directors recommend a final ordinary dividend of 3·75p (1997: 3·55p) per share, payable on 25 May 1999 to shareholders on the register at the close of business on 19 March 1999. Retained profits were £2·0m (1997: £2·9m).

Substantial shareholdings

At 26 February 1999 the company's share register showed the following interests representing 3% or more of the current issued ordinary share capital of the company:

	Number of shares	Percentage of issued share capital
Schroder Investment Management	7,163,848	17·6
Framlington Group Ltd	3,997,258	9·8
Standard Life Assurance Co	3,609,475	8·9
Prudential Portfolio Managers Ltd	3,094,082	7·6
Newton Investment Management Ltd	2,663,465	6·5
Threadneedle Investment Management	2,040,000	5·0
Guardian Assurance plc	1,970,000	4·8

Share Capital

Details of changes in share capital are given in note 19 to the accounts.

Directors and their interests

The directors who held office during the year were as follows:

J G Carlzon
J W Coates (appointed 1 June 1998)
C D Cranmer (resigned 15 May 1998)
H P Dyer (resigned 7 May 1998)
J G Hawkes CBE
J E Kvarnström (resigned 7 May 1998)
K Purdom (appointed 18 March 1998)
G S Roberts
S R Walls
J S Willis

Under Article 101 of the company's Articles of Association, J G Carlzon and J G Hawkes retire by rotation and, being eligible, offer themselves for re-election.

Under Article 106 of the company's Articles of Association, J W Coates, who was appointed a director on 1 June 1998 retires and, being eligible, offers himself for re-election.

Brief biographical details of the non-executive directors are as follows:

Jan Carlzon, 57, is chairman of both Karl Stockman and Ledstiernan, Swedish based Investment Companies. Furthermore he holds a number of other non-executive directorships. From 1981 to 1993 he was president and chief executive of the Scandinavian Airlines Group (SAS).

Garry Hawkes CBE, 59, is chairman of Gardner Merchant Services Group Ltd and a director of Sodexho Alliance SA of France. He is also chairman of NTO National Council (National Council for Industry Training Organisations) and chairman of BTI (British Training International).

Stephen Walls, 51, is a non-executive director of Lonrho Africa Plc and a member of the Executive Council of Compass Partners International Ltd.

Directors who held office at 31 December 1998 had interests in the share capital of the company as follows:

	1998 Ordinary shares	1997 Ordinary shares	1998 Executive options	1997 Executive options
J S Willis	134,360	134,360	386,468	303,796
G S Roberts	30,000	–	153,782	85,227
J W Coates	8,000	–	169,778	–
K Purdom	10,000	10,000	96,833	51,574
S R Walls	11,111	11,111	–	–
J G Carlzon	–	–	–	–
J G Hawkes	2,000	–	–	–

During the period from 1 January 1999 to 6 March 1999 there was no change in the interests of directors shown above.

Employees

Disabled persons are employed and trained whenever their aptitude and abilities allow, subject to any overriding consideration of access and safety at the workplace. Where any employee becomes disabled during the period of their employment with the company, retraining and continued employment is arranged wherever practicable.

Arrangements exist whereby the company's representatives may meet regularly with employees' representatives who are able to enquire into matters likely to affect their interests. Such meetings also enable the company to seek to make employees aware of the financial and economic factors affecting the performance of relevant areas of the company. The company does not operate an employee share scheme.

Payment to suppliers

The company's policy in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The company does not follow any code or statement on payment practice.

The number of days' purchases outstanding for payment by the group at the year-end was 51 days (company 40 days).

Political and charitable contributions

The group made no political contributions during the year but made donations of £650 (1997: £1,520) to UK charities.

Authority for directors to allot shares

Shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or be conferred by a general authority. Resolution 8 at the annual general meeting contains a general authority for the directors to allot 13,577,848 unissued ordinary shares representing approximately 33% of the current issued share capital for a period expiring on 5 May 2004. The board have no present intention of exercising the authority sought by this resolution.

Quite distinct from the general authority to allot shares, unless otherwise agreed by shareholders, any equity securities to be issued for cash must in general be offered first to shareholders in proportion to their existing shareholdings. Resolution 9 is a special resolution which will empower the directors, over the period until the 2000 annual general meeting, to issue equity securities for cash other than to existing shareholders in proportion to their holdings. However, the power will be limited to permit (i) scrip dividends and other allotments under arrangements in which shareholders have an opportunity to participate substantially in proportion to their holdings (subject to arrangements considered necessary to deal with fractional entitlements or legal or regulatory constraints) to the extent of the authority granted pursuant to Resolution 8, and (ii) other allotments of equity securities up to a limit of 5% of the issued ordinary share capital of the company.

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

6 March 1999

John Morgan, Secretary
19/21 Ack Lane East
Bramhall, Stockport
Cheshire SK7 2BE

The remuneration report

The chairman of the remuneration committee is Garry Hawkes and the other current members are Stephen Walls and Jan Carlzon. The committee is responsible for setting the remuneration of executive directors on behalf of the board with proper regard to the interest of shareholders. This structure complies with the recommendation of the Combined Code.

The main aim of the committee's policy is to attract, retain and motivate high calibre individuals with a competitive package of basic salary, incentives and rewards which are linked to the overall performance of the group and so in turn to the interests of shareholders.

Remuneration for executives consists of basic salary, performance related annual bonus, pension benefits, share incentive schemes and other benefits, including a company car and medical insurance.

Basic salary

Salaries for directors and certain key executives are reviewed annually by the committee to take effect from 1 January. It is the committee's policy to ensure that basic salary is appropriate and competitive for the responsibilities involved, taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs.

Performance related annual bonus

The group's philosophy is to use its performance related annual bonus to provide an incentive for executives to achieve predetermined financial targets as well as key objectives which are deemed important for the strategic development of the business. The financial targets are based on the growth in profit before tax and earnings per share and have been approved by the committee.

Under the bonus scheme a bonus equal to a maximum of 50% of salary can be earned and will be paid on the adoption of the financial statements each year.

Executive directors are entitled to participate in the bonus scheme at the discretion of the committee. The committee has resolved that each of the executive directors shall participate in the scheme.

The bonuses awarded in respect of the 1998 financial year are detailed on page 14.

Pension benefits

The committee's policy where practicable is to offer executives membership of the Servisair Pension Plan, which is an Inland Revenue approved defined benefit pension scheme governed by an independent trust. The scheme is non-contributory for executive directors; the normal retirement age under the pension scheme is 60 and the pension accrual rate is 1/45th which enables executives to achieve a pension of two-thirds of their basic salary at normal retirement age after 30 years' service (subject to Inland Revenue restrictions). For death before retirement, a capital sum equal to four times salary is payable, together with a spouse's pension of 50% of the member's prospective pension at the age of 60. Where the lump sum benefit exceeds Inland Revenue limits the excess is provided through a separate unapproved arrangement. For death in retirement, a spouse's pension of 50% of the member's pre-commutation pension is payable. In the event of death after leaving service but prior to commencement of pension, a spouse's pension of 50% of the accrued preserved pension is payable. In all circumstances, children's allowances are also payable. Protection is also offered in the event of serious ill health.

Post-retirement pension increases are guaranteed at the rate of 5% p.a. (or the rate of increase in the Retail Prices Index, if lower).

	Age at 31 Dec 1998	Years of service at 31 Dec 1998	Additional pension earned (excluding inflation) during the year ended 31 Dec 1998	Accrued entitlement at year end or date of resignation 31 Dec 1998	31 Dec 1997
J S Willis	56	29	13,756	109,687	92,597
J W Coates	46	–	1,136	1,136	–
K Purdom	49	5	2,001	10,220	7,933
G S Roberts	48	1	1,462	1,703	233
C D Cranmer	46	5	906	8,760	7,581

J W Coates joined the company on 1 June 1998.

C D Cranmer left the company on 31 May 1998.

Although K Purdom has five years' service in the scheme (and the above figures reflect his increase in pension over the year to 31 December 1998), he was appointed a director part way through the year on 18 March 1998.

Executive share option scheme

The executive share option scheme is in two parts. Part A is an Inland Revenue approved scheme. Part B is unapproved. Under both parts A and B an executive may receive options with an exercise price equal to the market value at the time of grant, exercisable in normal circumstances between three and ten years after grant. The options can only be exercised if certain performance conditions are achieved which reflect sustained and significant improvement in the underlying performance of the company. One of the conditions is the growth in earnings per share before non-operating exceptional items exceeding the growth in the Retail Price Index by an average of at least 2% per annum over a three year period.

Service agreements

All the executive directors (including those seeking election or re-election) have service agreements which can be terminated on twelve months notice by the company. No director has a compensation entitlement on early departure of greater than twelve months salary.

Non-executive directors

The basic fees payable to the non-executive directors are set by the whole board and are currently £20,000 each per annum.

The deputy chairman, J G Hawkes, receives a fee of £50,000 per annum.

The non-executive directors receive no other benefits from their office.

Directors' emoluments

The emoluments of the directors of the company were:

Executive directors	Note	Salary £000	Benefits £000	Annual bonus £000	Fees £000	**Total 1998 £000**	Total 1997 £000
J S Willis (chairman)		175	13	15	–	**203**	186
G S Roberts	1	154	12	13	–	**179**	30
J W Coates	2	58	5	10	–	**73**	–
K Purdom	3	78	9	9	–	**96**	–
C D Cranmer	4	40	111	–	–	**151**	110
A J McCann	5	–	–	–	–	**–**	166
D G Collier	6	–	–	–	–	**–**	197
Non-executive directors							
J G Carlzon		–	–	–	20	**20**	20
H P Dyer	7	–	–	–	7	**7**	20
J G Hawkes	8	–	–	–	50	**50**	15
J E Kvarnström	7	–	–	–	7	**7**	20
S R Walls	9	–	–	–	20	**20**	40
Total emoluments		505	150	47	104	**806**	804

Notes 1 – G S Roberts was appointed on 27 October 1997
2 – J W Coates was appointed on 1 June 1998
3 – K Purdom was appointed on 18 March 1998
4 – C D Cranmer resigned on 15 May 1998
5 – A J McCann was Chairman until 2 May 1997 and resigned on that date
6 – D G Collier resigned on 19 March 1997
7 – H P Dyer and J E Kvarnström both resigned on 7 May 1998
8 – J G Hawkes was appointed on 17 September 1997
9 – S R Walls acted as chairman between 2 May 1997 and 27 October 1997
10 – In addition, pension contributions of £nil (1997: £10,000) were paid into A J McCann's private pension plan

During the year £108,000 was paid to C D Cranmer on early termination of his contract and has been included in benefits above.

Directors' share options

Directors' share options are as follows:

	As at 31 December 1998	As at 31 December 1997	Exercise price	Date when options are exercisable	Expiry date
J S Willis	296,296	296,296	135·0p	12 Oct 1997	12 Oct 2004
	7,500	7,500	421·5p	19 Sept 1999	19 Sept 2006
	82,672	–	218·8p	19 Mar 2001	19 Mar 2008
J W Coates	169,778	–	117·8p	9 Oct 2001	9 Oct 2008
K Purdom	44,074	44,074	135·0p	12 Oct 1997	12 Oct 2004
	7,500	7,500	421·5p	19 Sept 1999	19 Sept 2006
	45,259	–	218·8p	19 Mar 2001	19 Mar 2008
G S Roberts	85,227	85,227	352·0p	27 Oct 2000	27 Oct 2007
	68,555	–	218·8p	19 Mar 2001	19 Mar 2008

C D Cranmer retained options on 148,148 shares at an exercise price of 135p and 7,500 shares at an exercise price of 421·5p, exercisable within 1 year of his leaving the company, 31 May 1998.

The mid-market share price as at the close of business on 31 December 1998 was 160p.
During the year the mid-market share price ranged from 102p to 311·5p.

In June 1998, the Stock Exchange published the *Principles of Good Governance and Code of Best Practice* ('the Combined Code') which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998.

The board of directors have complied throughout the year with the Combined Code apart from those new provisions set out below and the directors' review of the effectiveness of the group's system of internal controls. The matters for which the company has not complied with the Combined Code are set out below:

– whilst the company offers new directors appropriate training, not all directors have received appropriate training on the first occasion that they were appointed to the board;

– the nomination committee did not formally meet to consider all new appointments of directors during the year; and

– the chief executive is not required by the Articles of Association to retire by rotation.

The activities of the group are controlled by the board which has established a number of committees as set out below. In addition the directors have direct meetings with major institutional shareholders at least twice a year to discuss the mutual understanding of objectives.

Board of directors

The board now consists of seven directors, three of whom are non-executive.

The board meets regularly throughout the year, normally six times per year. It is provided with information in a timely manner in a form and of a quality to allow it to monitor the executive management. The board has a list of matters formally reserved for decision by the board.

There is an agreed procedure for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

The board use the AGM to communicate with private investors. They present a balanced and understandable assessment of the company's position and prospects.

Non-executive directors

The non-executive directors carry significant weight in board decisions. Their different backgrounds and experience complement that of the executive directors and bring an independent judgement to board decisions on the development and growth of the business.

The senior non-executive director is Gary Hawkes who is also deputy chairman.

Audit committee – the audit committee, which consists of Jan Carlzon and Garry Hawkes, is chaired by Stephen Walls. It normally meets at least twice a year and is responsible for ensuring the operation of proper financial controls and that the financial performance of the group is properly measured and reported on, and for reviewing reports from the auditors. The auditors and the finance director are invited to attend these meetings. The auditors are given the opportunity to meet the audit committee separately.

All non-executive directors are considered independent apart from Stephen Walls who is connected with a potential purchaser of Servisair plc and therefore has a conflict of interest both within the terms of the company's Articles of Association and under the Takeover Code. Having become connected with a potential purchaser, Stephen Walls ceased to take a role in the audit committee.

Remuneration committee – the remuneration committee, which comprises Stephen Walls, and Jan Carlzon and is chaired by Garry Hawkes, is responsible for setting the remuneration of executive directors on behalf of the board with proper regard to the interests of shareholders.

The remuneration report is on pages 12 to 14.

Due to Stephen Walls being considered not independent, he is taking no roll in the remuneration committee.

Nomination committee – the nomination committee, which comprises Stephen Walls, Jan Carlzon and Garry Hawkes and is chaired by John Willis, is responsible for making recommendations to the board on the appointment of directors.

Internal control

The Combined Code has introduced a new requirement, that the directors' review the effectiveness of the group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including:

– financial;

– operational;

– compliance; and

– risk management.

While the board is ultimately responsible for the group's system of internal controls and for monitoring its effectiveness, formal guidance as to the review of non-financial internal control, as required by the Combined Code has yet to be published. Consequently, the directors consider that they are unable to report that they have undertaken during the year a formal review of the effectiveness of the group's system of non-financial internal controls as envisaged by the Combined Code.

However, the directors have continued to follow existing guidance and have reviewed the effectiveness of the group's internal financial control system during the financial year ended 31 December 1998 in relation to the criteria for assessing effectiveness described in *Internal control and financial reporting* issued by the Working Group on Internal Control in December 1994.

A Task Force has been established by the ICAEW to develop guidance on internal control. The board will seek to ensure that the group is compliant with such guidance when it is issued.

The internal control systems are designed to meet the group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against misstatement or loss.

The key components designed to provide effective internal control within the group are:
– comprehensive budgets requiring board approval, covering the key financial aspects of the business;
– monthly comparison and review of the actual results against budget, forecasts and prior year, with commentary on significant variances;
– clearly defined requirements for approval and control of capital expenditure with board authority required for major projects;
– all overseas subsidiaries are required to confirm annually the adequacy of their systems of internal control and compliance with group policies;
– meetings of the board at least six times per annum and monthly management meetings.
– the issue of a financial procedures manual to operational and financial staff.
– an internal audit function to monitor adherence to laid down systems and procedures. This function operated for only part of the year and is to be re-established in 1999.

Going concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the group has adequate resources to continue in operational existence for the foreseeable future.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Auditor's report to the members of Servisair plc

We have audited the financial statements on pages 18 to 35.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on pages 15 and 16 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 15 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc,
Chartered accountants, Registered auditor
Manchester,
6 March 1999

Consolidated profit and loss account

for the year ended 31 December 1998

	Note	1998 £000	1997 restated (see note 1) £000
Turnover: group and share of joint ventures		**190,241**	170,148
Less: share of joint ventures' turnover		**(8,392)**	(7,860)
Group turnover	2	**181,849**	162,288
Cost of goods bought for resale		**(469)**	(1,002)
Staff costs	5	**(92,768)**	(81,388)
Depreciation and other amounts written off tangible and intangible fixed assets		**(5,768)**	(4,588)
Other operating charges		**(77,115)**	(68,108)
		(176,120)	(155,086)
Group operating profit		**5,729**	7,202
Share of operating profits/(losses) of joint ventures		**98**	(324)
		5,827	6,878
Interest receivable	6	**485**	458
Interest payable and other similar items	7	**(361)**	(365)
Profit on ordinary activities before taxation	3	**5,951**	6,971
Tax on profit on ordinary activities	8	**(1,732)**	(1,969)
Profit after taxation for the financial year		**4,219**	5,002
Dividends paid and proposed	9	**(2,240)**	(2,150)
Retained profit for the financial year	20	**1,979**	2,852

		1998 Pence	1997 Pence
Earnings per ordinary share - Basic	10	**10·4**	12·4
- Diluted	10	**10·3**	12·2

The group's turnover and operating profit arise from continuing operations in both the current and preceding year.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1998

	Note	1998 £000	1997 restated (See note 1) £000
Profit after taxation for the financial year		**4,219**	5,002
Foreign currency translation differences and recognised exchange gains/(losses)	20	**76**	(1,089)
Total recognised gains and losses relating to the financial year		**4,295**	3,913

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1998

	Group 1998 £000	Group 1997 restated (See note 1) £000	Company 1998 £000	Company 1997 £000
Profit/(loss) for the financial year	**4,219**	5,002	**(1,722)**	(1,560)
Dividends	**(2,240)**	(2,150)	**(2,240)**	(2,150)
Retained profit/(loss) for the financial year	**1,979**	2,852	**(3,962)**	(3,710)
Issue of ordinary share capital	**–**	725	**–**	725
Foreign currency translation differences and recognised exchange losses	**76**	(1,089)	**–**	–
Goodwill written off during the year	**–**	(321)	**–**	–
Share of goodwill written off in joint ventures	**–**	(973)	**–**	–
Share of goodwill written back relating to joint ventures	**–**	2,525	**–**	–
Net addition/(reduction) to shareholders' funds	**2,055**	3,719	**(3,962)**	(2,985)
Opening shareholders' funds	**29,154**	25,435	**35,429**	38,414
Closing shareholders' funds	**31,209**	29,154	**31,467**	35,429

Consolidated balance sheet

at 31 December 1998

	Note	1998 £000	1997 restated (See note 1) £000
Fixed assets			
Intangible assets	11	**1,868**	2,171
Tangible assets	12	**25,863**	18,224
		27,731	20,395
Investments in joint ventures:			
Share of gross assets		**4,544**	5,202
Share of gross liabilities		**(2,228)**	(2,665)
	13	**2,316**	2,537
		30,047	22,932
Current assets			
Stocks	14	**574**	477
Debtors	15	**29,326**	24,071
Cash at bank and in hand		**6,705**	12,879
		36,605	37,427
Creditors: amounts falling due within one year	16	**(32,830)**	(27,722)
Net current assets		**3,775**	9,705
Total assets less current liabilities		**33,822**	32,637
Creditors: amounts falling due after more than one year	17	**(2,613)**	(3,375)
Deferred income		**-**	(108)
Net assets		**31,209**	29,154
Capital and reserves			
Called up share capital	19	**10,183**	10,183
Share premium account	20	**8,239**	8,239
Other reserves	20	**531**	440
Profit and loss account	20	**12,256**	10,292
Shareholders' funds: equity		**31,209**	29,154

These financial statements were approved by the board of directors on 6 March 1999 and were signed on its behalf by:

John Willis
Executive chairman

Jeremy Coates
Finance director

Consolidated cash flow statement

for the year ended 31 December 1998

	Note	1998 £000	1997 restated (See note 1) £000
Net cash inflow from operating activities	22	**10,935**	13,352
Returns on investments and servicing of finance			
Interest received		**524**	405
Interest paid		**(10)**	(29)
Interest element of finance lease rentals		**(299)**	(305)
		215	71
Taxation			
UK Corporation tax paid		**(1,643)**	(1,439)
Overseas tax paid		**(429)**	(322)
		(2,072)	(1,761)
Capital expenditure			
Payments to acquire tangible fixed assets		**(13,124)**	(6,140)
Receipts from sale of tangible fixed assets		**76**	112
		(13,048)	(6,028)
Acquisitions and disposals			
Investment in joint ventures		**255**	(3,196)
Equity dividends paid		**(2,159)**	(2,091)
Net cash (outflow)/inflow before financing		**(5,874)**	347
Financing			
Issue of ordinary share capital		**–**	725
Sale and leaseback proceeds		**864**	5,246
Capital element of finance lease rental payments		**(1,264)**	(906)
		(400)	5,065
(Decrease)/increase in cash during the year		**(6,274)**	5,412

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 1998

	1998 £000	1997 restated (See note 1) £000
(Decrease)/increase in cash during the year	**(6,274)**	5,412
Cash outflow/(inflow) from decrease/(increase) in lease financing	**395**	(4,316)
Change in net debt resulting from cash flows	**(5,879)**	1,096
Translation gain/(loss)	**100**	(688)
Movement in net debt during the year	**(5,779)**	408
Net funds at 1 January	**8,563**	8,155
Net funds at 31 December	**2,784**	8,563

Company balance sheet

at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	12	**1,883**	1,749
Investments	13	**15,623**	15,896
		17,506	17,645
Current assets			
Debtors	15	**15,918**	15,195
Cash at bank and in hand		**–**	4,573
		15,918	19,768
Creditors: *amounts falling due within one year*	16	**(1,957)**	(1,984)
Net current assets		**13,961**	17,784
Total assets less current liabilities		**31,467**	35,429
Net assets		**31,467**	35,429
Capital and reserves			
Called up share capital	19	**10,183**	10,183
Share premium account	20	**8,239**	8,239
Other reserves	20	**7,415**	7,415
Profit and loss account	20	**5,630**	9,592
Shareholders' funds: equity		**31,467**	35,429

These financial statements were approved by the board of directors on 6 March 1999 and were signed on its behalf by:

John Willis
Executive chairman

Jeremy Coates
Finance director

1 – Accounting policies

The following accounting policies have been applied consistently, except as noted below, in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards including FRS9, 10, 11, 12 and 14, and under the historical cost accounting rules.

The 1997 comparatives have been restated to comply with the above FRSs. The only material adjustment in respect of the adoption of these FRSs is the restatement of the results from joint ventures such that the group's share of turnover, operating profit and interest are disclosed separately rather than as a single line (FRS9). The adjustment has not altered profit before tax.

Basis of consolidation

The group accounts consolidate the accounts of the company and all its subsidiary undertakings, all of which have coterminous period ends.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries and joint ventures acquired or disposed of in the year are included in the consolidated profit and loss account from or to the date on which effective control passes. In accordance with FRS10 'Goodwill and intangible assets' goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised and written off against the profit and loss account over a maximum of 20 years. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited directly to the balance sheet and is credited to the profit and loss account over a maximum of 20 years. The company has not retrospectively adjusted for goodwill previously written off to reserves.

In the company's accounts, investments in subsidiary and joint ventures are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

The group's share of the profits less losses of joint ventures is included in the group profit and loss account on the gross equity accounting basis. The holding value of joint ventures in the group balance sheet is calculated by reference to the group's equity in the net tangible assets of such undertakings, as shown in the most recent accounts available.

In accordance with Section 230(4) of the Companies Act 1985 Servisair plc is exempt from the requirement to present its own profit and loss account.

The amount of the loss for the financial year dealt with in the financial statements of Servisair plc is disclosed in note 20 to these accounts.

Intangible fixed assets

The cost of airport licences acquired is capitalised and amortised over the life of the licence.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	–	50 years
Leasehold land and buildings	–	life of lease
Furniture and fittings	–	4 years
Motor cars	–	4 years
Airport equipment	–	4 to 10 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the rates of exchange ruling at the balance sheet date. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions and other post retirement benefits

The group's contribution to its defined benefit pension schemes is charged to the profit and loss account in order to allocate the cost of providing the pension, over the working lives of the relevant employees; recognising any actuarial surplus or deficiency where appropriate. The cost of the group's defined contribution scheme is charged on the basis of contributions payable.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Start-up costs

Incremental costs incurred prior to the commencement of full trading at new airports are deferred and amortised to the profit and loss account over the first three years of trading at the airport. The amounts are included in debtors.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers during the year. Overseas turnover includes disbursements which are invoiced to third party customers.

2 – Segmental analysis

The group has one principal activity as handling agents at airports. The analysis of the group's turnover, operating profit and net assets by reference to the geographic location of the group's operations is as follows:

	1998			1997		
	Group Turnover £000	**Group operating profit/(loss) £000**	**Net assets £000**	Turnover £000	Group operating profit £000	Net assets £000
UK and Channel Islands	**135,934**	**5,814**	**21,808**	123,163	6,346	19,286
Rest of Europe	**45,915**	**(85)**	**9,401**	39,125	856	9,868
	181,849	**5,729**	**31,209**	162,288	7,202	29,154

An analysis of turnover by reference to the geographic location of the group's customers is not materially different from the analysis of turnover given above.

3 – Profit on ordinary activities before taxation

	1998 £000	1997 £000
Profit on ordinary activities before taxation is stated after charging		
Depreciation charge for the year:		
– Intangible fixed assets	**303**	294
– Tangible owned fixed assets	**4,217**	3,502
– Tangible fixed assets held under finance leases	**1,248**	792
Fees paid to the Auditor and its associates:		
– Group audit (company £10,000; 1997: £10,000)	**135**	111
– Other services	**175**	168
Hire of plant and machinery – rentals payable under operating leases	**425**	511
Hire of other assets – operating leases	**10,305**	8,947

There were no material differences between reported profits and historical cost profits on ordinary activities before taxation either in 1998 or 1997. The share of profits of joint ventures is set out in note 13.

4 – Remuneration of directors

	1998 £000	1997 £000
Directors' emoluments	**698**	528
Pension contributions to money purchase schemes	**–**	10
Compensation for loss of office	**108**	276
	806	814

Further details on directors' remuneration are given in the remuneration report on pages 12 to 14.

5 – Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 1998	1997
Operational	**5,721**	5,190
Administration	**184**	175
	5,905	5,365

The aggregate payroll costs of these persons were as follows:

	1998 £000	1997 £000
Wages and salaries	**82,860**	72,304
Social security costs	**9,008**	8,113
Other pension costs	**900**	971
	92,768	81,388

6 – Interest receivable

	1998 £000	1997 £000
Interest receivable – Group	**479**	456
– Joint ventures	**6**	2
	485	458

7 – Interest payable and other similar items

	1998 £000	1997 £000
Group		
Bank overdraft	**7**	29
Finance leases	**304**	281
Other	**3**	–
	314	310
Joint ventures		
Bank overdraft	**6**	2
Finance leases	**15**	23
Other	**26**	30
	47	55
	361	365

8 – Taxation

	1998 £000	1997 £000
UK corporation tax at 31% (1997: 31·5%)	**1,368**	1,505
Share of joint ventures' taxation	**23**	(6)
Overseas taxation	**529**	578
Adjustment relating to an earlier year	**(188)**	(108)
	1,732	1,969

9 – Dividends

	1998 £000	1997 £000
Interim dividend of 1·75p per share (1997: 1·75p)	**713**	704
Proposed final dividend of 3·75p per share (1997: 3·55p)	**1,527**	1,446
	2,240	2,150

10 – Earnings per share

	1998 £000	1997 £000
Profit after taxation for the financial year	**4,219**	5,002

	Number	Number
Average number of ordinary shares in issue – basic	**40,733,544**	40,308,633
Number of ordinary shares under option	**853,050**	1,008,747
Number of ordinary shares that would have been issued at fair value	**(554,979)**	(399,863)
Average number of ordinary shares in issue – diluted	**41,031,615**	40,917,517

	Pence	Pence
Earnings per share – basic	**10·4**	12·4
Earnings per share – diluted	**10·3**	12·2

11 – Intangible fixed assets

	Airport Licences £000
Group	
Cost	
At 31 December 1997 and 1998	**3,023**
Amortisation	
At 31 December 1997	852
Charge for year	303
At 31 December 1998	**1,155**
Net book value	
At 31 December 1998	**1,868**
At 31 December 1997	2,171

12 – Tangible fixed assets

Group *Cost*	Land and buildings £000	Fixtures, fittings, tools and equipment £000	Total £000
At 31 December 1997	2,474	41,559	44,033
Exchange adjustment	1	79	80
Additions	228	12,896	13,124
Disposals	–	(361)	(361)
At 31 December 1998	**2,703**	**54,173**	**56,876**
Depreciation			
At 31 December 1997	832	24,977	25,809
Exchange adjustment	1	79	80
Charge for year	151	5,314	5,465
Disposals	–	(341)	(341)
At 31 December 1998	**984**	**30,029**	**31,013**
Net book value			
At 31 December 1998	**1,719**	**24,144**	**25,863**
At 31 December 1997	1,642	16,582	18,224
Company			
Cost			
At 31 December 1997	2,465	212	2,677
Additions	228	117	345
Disposals	–	(61)	(61)
At 31 December 1998	**2,693**	**268**	**2,961**
Depreciation			
At 31 December 1997	823	105	928
Charge for year	151	51	202
Disposals	–	(52)	(52)
At 31 December 1998	**974**	**104**	**1,078**
Net book value			
At 31 December 1998	**1,719**	**164**	**1,883**
At 31 December 1997	1,642	107	1,749

The net book value of equipment includes an amount of £4,070,000 (1997: £4,454,000) and depreciation charge for the year includes an amount of £1,248,000 (1997:£792,000) in respect of assets held under a finance lease.

The net book value of land and buildings comprises:

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Freehold land	**150**	150	**150**	150
Freehold buildings	**519**	542	**519**	542
Short leasehold	**1,050**	950	**1,050**	950
	1,719	1,642	**1,719**	1,642

13 – Fixed asset investments

Group		Investment in joint ventures	
	Unlisted £000	Loans £000	Total £000
At 31 December 1997	535	2,002	2,537
Additions	18	22	40
Repayments	–	(295)	(295)
Share of retained profit	34	–	34
At 31 December 1998	**587**	**1,729**	**2,316**

The above represents the group's 50% interest in the ordinary shares of Heathrow Cargo Handling Limited and its 49% interest in the ordinary shares of Air France Servisair Limited. Both companies are incorporated and registered in England and Wales and provide cargo handling services and passenger handling services respectively at Heathrow airport.

During the year the group purchased 50% of the ordinary share capital of Omniservisair Portugal, Lda incorporated in Portugal. The company commenced trade in October 1998 and provides passenger handling services at Cascais airport.

Company	Interests in joint ventures £000	Shares in subsidiary undertakings £000	Total £000
Cost			
At 31 December 1997	4,192	11,704	15,896
Additions	22	–	22
Repayments	(295)	–	(295)
At 31 December 1998	**3,919**	**11,704**	**15,623**

None of the investments are listed.

The following are the main subsidiary undertakings of the company, all of which operate as handling agents in their country of incorporation or registration.

The results of all subsidiary undertakings have been consolidated in the group accounts.

A full list of the company's subsidiary undertakings will be included in the company's annual return.

13 – Fixed asset investments continued

Subsidiary undertaking	Country of incorporation or registration	Proportion of shares held %
Servisair Holdings Limited	England and Wales	100
Servisair (UK) Limited	England and Wales	100
Servisair Holdings BV	The Netherlands	100*
Servisair (Contract Handling) Limited	England and Wales	100*
Airway Handling Limited	England and Wales	100*
Servisair (Guernsey) Limited	Guernsey	100*
Servisair (Jersey) Limited	Jersey	100*
Rotterdam Air B.V.	The Netherlands	100*
Servisair España S.A.	Spain	100*
Servisair Iberica S.A.	Spain	100*
Servisair Servicios Generales de Aviacion, ETT, S.A.	Spain	100*
Servisair Portugal – Serviços de Apoio a Aeronaves Lda	Portugal	100*
Servisair Madeira – Serviços de Apoio a Aeronaves Lda	Portugal	100*
Servisair (Ireland) Limited	Republic of Ireland	100*
Servisair AB	Sweden	100*
Servisair Deutschland GmbH	Germany	100*
Servisair Norge AS	Norway	100*

* indirectly held

14 – Stocks

	Group 1998 £000	Group 1997 £000
Raw materials and consumables	**194**	332
Merchanting stock	**33**	98
Uniforms	**347**	47
	574	477

15 – Debtors

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Amounts falling due within one year				
Trade debtors	**21,821**	17,616	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**15,594**	14,238
Amounts owed by joint ventures	**169**	391	**169**	391
Other debtors	**2,830**	2,531	**144**	149
Prepayments and accrued income	**4,506**	3,171	**11**	55
	29,326	23,709	**15,918**	14,833
Amounts falling due after one year				
Advance Corporation Tax recoverable	**–**	362	**–**	362
	29,326	24,071	**15,918**	15,195

Included in prepayments is an amount of £976,000 (1997: £466,000) relating to deferred start-up costs.

16 – Creditors: amounts falling due within one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Obligations under finance leases	**1,327**	965	**–**	–
Payments received on account	**882**	483	**–**	–
Trade creditors	**9,598**	7,809	**–**	–
Amounts due to subsidiary undertaking	**–**	–	**183**	–
Other creditors including taxation and social security:				
Overseas tax	**498**	397	**–**	–
Corporation tax	**1,109**	1,575	**–**	–
Advance corporation tax payable	**179**	538	**179**	538
Social security	**2,004**	2,228	**–**	–
Other creditors	**2,320**	1,465	**–**	–
Accruals and deferred income	**13,386**	10,816	**68**	–
Dividends	**1,527**	1,446	**1,527**	1,446
	32,830	27,722	**1,957**	1,984

17 – Creditors: amounts falling due after more than one year

	1998 £000	Group 1997 £000
Obligations under finance leases:		
Repayable: Within one year	**1,327**	965
Between one and two years	**1,266**	965
Between two and five years	**1,347**	2,410
	3,940	4,340
Less: amounts falling due within one year	**(1,327)**	(965)
	2,613	3,375

18 – Provisions for liabilities and charges

There are no unprovided liabilities except that provision has not been made for taxation which may be payable if full distributions within the group were made out of the reserves of overseas subsidiary undertakings at 31 December 1998.

19 – Called up share capital

Authorised	1998 £000	1997 £000
60,000,000 ordinary shares of 25p (1997 – 60,000,000 shares of 25p each)	**15,000**	15,000
Allotted, called up and fully paid		
40,733,544 ordinary shares of 25p (1997 – 40,733,544 shares of 25p each)	**10,183**	10,183

Directors and certain employees of the group have been granted options to purchase ordinary shares of 25p each which, subject to performance conditions, are exercisable on the dates shown below:

Number of options	Date granted	Date exercisable from	Expiry date	Exercise price
647,777	12 October 1994	12 October 1997	12 October 2004	135·0p
166,666	17 October 1994	17 October 1997	17 October 2004	135·0p
60,426	2 October 1995	2 October 1998	2 October 2005	211·0p
89,925	21 March 1996	21 March 1999	21 March 2006	278·0p
83,337	19 September 1996	19 September 1999	19 September 2006	421.5p
85,227	27 October 1997	27 October 2000	27 October 2007	352·0p
467,258	19 March 1998	19 March 2001	19 March 2008	218·8p
169,778	9 October 1998	9 October 2001	9 October 2008	117·8p
1,770,394				

20 – Reserves

Group

	Share premium account £000	Other reserves £000	Profit and loss account £000
At 31 December 1997	8,239	440	10,292
Transfers	–	61	(61)
Retained profit for the year	–	–	1,979
Exchange adjustments	–	30	46
At 31 December 1998	**8,239**	**531**	**12,256**

Company

	Share premium account £000	Other reserves £000	Profit and loss account £000
At 31 December 1997	8,239	7,415	9,592
Retained loss for the year	–	–	(3,962)
At 31 December 1998	**8,239**	**7,415**	**5,630**

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off to reserves is £9,024,000 (1997: £9,024,000).

On 7 September 1994 the company obtained Court approval to transfer £7,415,000 of share premium to a special reserve included above as 'other' reserves. The special reserve is available for writing off goodwill arising on consolidation and, subject to guarantees given to preserve the rights of creditors as at the date of the Court order, is available for distribution.

The company's loss after taxation for the financial year was £1,722,000 (1997 loss: £1,560,000).

21 – Commitments

Capital commitments at the end of the financial year for which no provision has been made.

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Contracted	**1,615**	2,267	**–**	46

Annual commitments under non-cancellable operating leases are as follows:

	1998 Land and buildings £000	1998 Other £000	1997 Land and buildings £000	1997 Other £000
Group				
Operating leases which expire:				
Within one year	**–**	**242**	–	191
Between two and five years	**192**	**883**	174	1,456
After five years	**8,618**	**–**	7,622	–
	8,810	**1,125**	7,796	1,647

22 – Reconciliation of operating profit to net cash inflow from operating activities

	1998 £000	1997 £000
Group operating profit	**5,729**	7,202
Depreciation/amortisation charge	**5,768**	4,588
Profit on sale of tangible fixed assets	**(56)**	(11)
(Increase)/decrease in stocks	**(96)**	52
(Increase)/decrease in debtors	**(5,640)**	235
Increase in creditors	**5,230**	1,286
Net cash inflow from operating activities	**10,935**	13,352

23 – Analysis of changes in net debt

	At 1 January 1998 £000	Cash flows £000	Other non-cash changes £000	Exchange movement £000	At 31 December 1998 £000
Cash at bank and in hand	12,879	(6,274)	–	100	6,705
Finance leases	(4,316)	400	(5)	–	(3,921)
Total	8,563	(5,874)	(5)	100	2,784

24 – Pension schemes

The Group operates a number of pension schemes of which the main one is the Servisair Pension Plan in the UK. This plan commenced on 1 May 1994 with changes to the benefit structure introduced from 6 April 1997.

The plan now consists of both defined benefit and defined contribution sections and operates on a pre-funded basis with contributions by employees and the company. The plan itself is self-administered and invested independently of the group's assets. The funding policy of the company is to contribute such variable amounts as, on the advice of the actuary, will achieve a 100% funding level on a projected salary basis. Actuarial assessments covering expense and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 6 April 1997.

The group's total pension expense for the year ending 31 December 1998 was £900,000 (1997: £971,000).

The projected unit method was adopted for the last valuation of the plan. Assets were valued by discounting income from the notional portfolio. The main actuarial assumptions used in the valuation for accounting purposes were:

Investment return	9·0% p.a.
Salary growth	6·5% p.a.
Price inflation	4·5% p.a.
Equity dividend growth	5·0% p.a.
Pension increase	4·0% p.a.

The pension expense in respect of the defined contribution section is equal to the contributions paid in the period.

The available assets represented 128% of the ongoing liabilities of the plan. An additional reserve equivalent to 3% of the liabilities has been included as a provision against the impact of the removal of tax credits on dividend income receivable, introduced in the July 1997 budget.

The Plan is assessed to be fully funded on a current funding level basis, based on assets with a market value totalling £20.83m at the valuation date.

Variations from the normal cost are amortized for accounting purposes over the employees' working lives using the straight line method. Contributions have only been paid by the company during the accounting period in respect of defined contribution members and in respect of associated companies and totalled £53,000. As a result a provision of £1,392,000 (31 December 1997: £515,000) is included in creditors.

During the year the group received a repayment of £466,000 in respect of a surplus on the Servisair (Channel Islands) Pension Plan. This has been treated as a variation from the normal cost in 1998.

25 – Related party transactions

The following information is provided in accordance with Financial Reporting Standard No 8.

Related party	Transaction
Heathrow Cargo Handling Limited	During the year, a subordinated loan of £22,000 has been provided by Servisair plc. (1997: £150,000 provided by Servisair plc and £150,000 repaid by Heathrow Cargo Handling Limited). The balance due at 31 December 1998 was £329,000 (1997: £307,000). The loan is repayable in full within five years. In addition, there was a trading balance of £96,000 (1997: £71,000) due from Heathrow Cargo Handling Limited.
Air France Servisair Limited	During the year Air France Servisair Limited repaid £295,000 of the subordinated loan (1997: £1,695,000 provided by Servisair plc). The balance due at 31 December 1998 was £1,400,000 (1997: £1,695,000). The loan is repayable in full within five years. In addition, there was a trading balance of £73,000 (1997: £320,000) due from Air France Servisair Limited.

Financial calendar

Annual general meeting	6 May 1999
Final dividend paid	25 May 1999
Interim results	September 1999
Interim dividend	November 1999
Final results	March 2000