

JOHN MENZIES PLC

Preliminary results for the year ended 30 December 2006

Highlights:

• Revenue	-	up 6% to £1,450.4m	(2005: £1,362.1m)
• Profit before taxation	-	down 3% to £35.6m	(2005: £36.7m)
• Underlying profit before taxation ¹	-	down 9% to £35.8m	(2005: £39.4m)
• Underlying operating profit ²			
• Aviation	-	up 25% to £16.6m	(2005: £13.3m)
• Distribution	-	down 23% to £23.7m	(2005: £30.7m)
• Basic earnings per share	-	down 4% to 46.4p	(2005: 48.2p)
• Final dividend	-	up 5% to 14.4p	(2005: 13.7p)

Performance

2006 was a year of contrasts for the Group with Menzies Aviation showing substantial growth while Menzies Distribution experienced tough market conditions. Group profit before taxation was down 3% and underlying profit before taxation was down 9%.

Menzies Aviation produced a market leading performance with underlying operating profit² up 25% to £16.6m, the third consecutive year of 25% or more growth. During the year the business achieved excellent organic growth as well as completing eight acquisitions. We have successfully turned around our USA core business, which has been loss making for some years. The Aviation division has a strong proven management team and a stable business platform. It is ideally placed to deliver further growth as a major player in the aviation services market.

Menzies Distribution experienced tough trading conditions with underlying operating profit² down 23% to £23.7m, mainly as a result of a rapidly changing marketplace, particularly in monthly magazines and partworks. Contract renewals, which are now substantially complete, resulted in some margin reduction as expected. The management team continues to pursue an accelerated productivity and efficiency programme which is focused on three areas:- shop floor productivity, centralisation of functions and branch network reconfiguration.

We expect the Group to trade in line with our expectations during 2007. As the Group continues to move towards the higher rated aviation services market, we believe we are well placed to increase shareholder value.

¹ Underlying profit before taxation is defined as profit before taxation, goodwill and exceptional items.

² Underlying operating profit includes the Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.

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Notes to Editors:

1. John Menzies plc, the time-critical logistics company, is one of Scotland's largest companies. The company has two operating divisions, Menzies Aviation and Menzies Distribution. Both divisions operate in distinct B2B sectors where success depends on providing an efficient, high quality, time-critical service to their customers and partners.
2. The company was established in 1833 and its head office is in Edinburgh, Scotland. Today the company is an international operation with businesses in Europe, North and South America, South East Asia, Australasia and Africa.
3. Menzies Aviation is one of the world's major independent suppliers of ground handling services to the aviation market providing passenger, ramp and cargo services for many of the world's leading airlines and some of the busiest international airports. The division employs over 12,000 people across the world, at 108 airports in 23 countries servicing more than 500 aviation customers.
4. Menzies Distribution is a leading provider of added value distribution and marketing services to the newspaper and magazine supply chain in the UK. The division handles 4.8 million newspapers (6.4 million on Sundays) and 2.6 million magazines (covering 3,000 magazine titles) each day, with deliveries to more than 23,000 customers.
5. Further information on John Menzies plc can be found at:
www.johnmenziesplc.com, www.menziesdistribution.com and www.menziesaviation.com.

Group results

£m	2006	2005	Growth
Revenue	1,450.4	1,362.1	6%
Profit before taxation	35.6	36.7	(3%)
Underlying profit before taxation ¹	35.8	39.4	(9%)
Free cash flow ³	3.2	24.2	(87%)
Basic earnings per share	46.4p	48.2p	(4%)
Underlying earnings per share ⁴	46.9p	51.9p	(10%)
Final proposed dividend per share	14.4p	13.7p	5%

Performance

2006 was a year of contrasts for the Group with Menzies Aviation showing substantial growth while Menzies Distribution experienced tough market conditions. Group profit before taxation was down 3% and underlying profit before taxation was down 9%.

Menzies Aviation produced a market leading performance with underlying operating profit² up 25% to £16.6m, the third consecutive year of 25% or more growth. During the year the business achieved excellent organic growth as well as completing eight acquisitions. We have successfully turned around our USA core business, which has been loss making for some years. The Aviation division has a strong proven management team and a stable business platform. It is ideally placed to deliver further growth as a major player in the aviation services market.

Menzies Distribution experienced tough trading conditions with underlying operating profit² down 23% to £23.7m, mainly as a result a rapidly changing marketplace, particularly in monthly magazines and partworks. Contract renewals, which are now substantially complete, resulted in some margin reduction as expected. The management team continues to pursue an accelerated productivity and efficiency programme which is focused on three areas:- shop floor productivity, centralisation of functions and branch network reconfiguration.

Cash flow and investment

As expected, as we increased investment in both divisions, free cash flow was down £21.0m to £3.2m.

In addition, Menzies Aviation invested £27.8m in eight acquisitions during the year and at Menzies Distribution, we acquired two independent UK wholesalers for £9.2m.

The Group further strengthened its pension fund during 2006 with an additional payment of £5.7m over and above the regular pension payment of £5.4m, making a total contribution of £11.1m. Overall, the pension fund ended 2006 with a small IAS19 surplus.

The Group's net debt at the end of 2006 was £77.0m.

³ Free cash flow is defined as the cash generated by the business after capital investment, interest, taxation and before special pension contribution, acquisitions, disposals, ordinary dividend and share issues.

⁴ Underlying earnings per share is profit after taxation and minority interest but before goodwill and exceptional items, divided by the weighted average number of ordinary shares in issue.

Exceptional items

Profit before tax and basic earnings per share reflect a number of exceptional items, with a net gain of £3.0m.

The exceptional gains comprise a £5.8m benefit from a change to the calculation of pension liability accruals and a £2.5m gain from the sale of an investment in an independent wholesaler. The exceptional costs comprise £3.1m of spend relating to the integration of acquisitions and to rationalisation at Menzies Aviation, and £2.2m of rationalisation costs at Menzies Distribution.

Menzies Aviation

£m	2006	2005	Growth
Revenue	318.4	268.6	19%
Underlying operating profit ²	16.6	13.3	25%

Performance in 2006

Menzies Aviation had another excellent year. Growth in revenue and underlying operating profit has been driven by a combination of contract wins, with net gains of 28 contracts, geographic expansion, particularly in Spain, and acquisitions.

We are developing an increasingly robust business model and have a network of over 100 stations across 23 countries.

In ground handling, like for like⁵ flight turnarounds have grown by 16% in 2006. Like for like cargo tonnes were down 2% as we experienced weaker volumes particularly in the second half of 2006. With the help of our acquisition of AeroGround Inc, a cargo handler in North America, total cargo tonnes were up 41%.

We also experienced some foreign exchange pressures during 2006, especially with the weaker US dollar.

In order to ensure a strong infrastructure to support further expansion, we invested in additional people and systems, particularly within the central commercial and network standards functions and at regional management level.

⁵ Like for like excludes stations opened or closed during 2006.

Europe, Middle East and Africa (EMEA)

EMEA continues to be our most profitable region. Further progress was made with contract wins including easyJet at Belfast and VLM at London City. At AMI, our wholesale freight forwarding business, profitability was significantly improved driven by cost reduction and revenue gains. The UK and Netherlands cargo businesses remained broadly flat despite weaker volumes and the loss of Emirates in the UK.

We made three acquisitions :- Malmo Main Air Cargo AB, which establishes our first presence in Scandinavia; Top Service SRL, a passenger services provider at Romania's second airport, Timisoara; and Express Baggage (Heathrow) Limited, a provider of luggage repatriation services to major airlines at Heathrow and five regional locations across the UK. These acquisitions have been successfully integrated and trading has been in line with our expectations.

We have expanded geographically, particularly in Spain, where in a joint venture with Ferrovial, we have won ground handling licences at six airports and have secured a number of important contracts including Ryanair, easyJet and Lufthansa.

Americas

We made significant progress in our underlying USA ground handling business and it exited 2006 in profit. Our Mexico business recovered more quickly from the 2005 hurricane than anticipated. Peru benefited from strong cargo volumes and we closed our loss making Brazil and Panama businesses during the year.

We completed three acquisitions during the year :- Aeroground Inc, a cargo handler at nine airports across North America; Catamount Holdings LLC, a Chicago based cargo handler; and Integrated Airline Services Alliance LLC, an east coast USA ground handler which specialises in low cost airlines. Trading has been in line with our expectations and these businesses are also being successfully integrated with our existing business.

Asia Pacific

In our underlying business we secured a multi station contract in Australia with Thai Airways, covering ground and cargo handling. Hong Kong made strong progress helped by contract wins.

We made two acquisitions in Australia during 2006 :- Perth Cargo Centre Pty Limited, a cargo handling business; and Australian Airsupport Pty Limited, a ground handling business in Brisbane. Together with our existing businesses in Melbourne and Sydney, we now have operations in each of the four key Australian gateways.

We secured two exclusive ten year joint venture contracts for cargo handling at the new Hyderabad and Bangalore airports which are being built as part of India's airport renewal programme. These are scheduled to commence operations in 2008.

Menzies Distribution

£m	2006	2005	Growth
Revenue	1,132.0	1,093.5	4%
Underlying operating profit ²	23.7	30.7	(23%)

Performance in 2006

Revenue was up 4% mainly due to acquisitions. Like for like (lfl) sales⁶ were down 1% reflecting the tougher sales environment particularly for monthly magazines and partworks. Lfl magazine sales fell by 3% while lfl newspaper sales were up 1%.

We are seeing structural changes in the magazine sector. As broadband penetration increases and on-line content becomes more sophisticated, consumers are spending more time on the internet and less time on printed media. We believe this contributed significantly to a 7% drop in lfl sales of monthly magazines. Partwork sales, which peaked in 2004, have now returned to 2002 sales levels. In 2006 lfl partwork sales fell by 35%. Although gross profit from weekly magazine sales was flat, lfl sales rose by 3% as some consumers moved from monthly to weekly titles.

Newspapers volumes continued their steady decline but this reduction was offset by a number of price increases, particularly on Sunday titles.

The contract renewal process for magazines and newspapers is now substantially complete and we are pleased that we have secured this business on five year contracts. As anticipated, this has resulted in some margin reduction.

Stickers performed well due to World Cup 2006 and the Doctor Who collection with lfl sales rising by 64%. With no major football tournament occurring, we do not expect this level of sales to be maintained in 2007.

Underlying operating profit² for the division fell by 23% reflecting the significant drop in monthly magazine and partwork sales and the margin reduction from contract renewals with publishers.

Acquisitions and joint ventures

Menzies Distribution acquired two independent newspaper and magazine wholesalers during the year - Chester Independent Wholesale Newsagents Limited and North West Wholesale News Limited. The operational integration of these businesses was successfully completed during 2006 and this has reinforced our position as the No2 in the marketplace.

Just before the year end we entered into a conditional joint venture agreement with Eason & Son Ltd (Eason). The deal is subject to certain regulatory and other approvals. The joint venture will see Menzies and Eason combine their newspaper and magazine distribution businesses in Northern Ireland and the Republic of Ireland. We expect the venture to start during April in Northern Ireland and September in the Republic of Ireland.

⁶ Like for like sales exclude acquisitions and new business and have been measured against the comparative sales of 2005.

Cost initiatives

We have invested in our cost reduction programme during the year and this helped deliver cost savings in real terms of £2.7m during 2006, up from £1.1m in 2005. This programme has concentrated on 3 areas:

1) Shop floor productivity

New magazine packing systems have been installed at our York, Chester, Leeds, Dundee and Cambuslang branches and we have successfully trialled new equipment for processing returns at our Dundee branch.

Our continuous process improvement (CPI) programme has been an important tool for management in seeking further efficiencies in the cost base, aiding the delivery of significant cost savings in 2006.

2) Centralisation of functions

We have set up a new regional contact centre in Sheffield which covers almost 6,000 customers and has delivered significant cost savings.

Following the development of a new integrated system 'i-Mag', we have successfully centralised our magazine allocation function from branches into the Edinburgh Head Office. This has delivered cost efficiencies and, through better controls, has led to higher compliance with customer service metrics.

3) Branch network reconfiguration

The new magazine packing systems have enabled us to further re-engineer our branch configuration and extend our 'hub and spoke' network, whereby the smaller 'spoke' branches only perform newspaper packing with magazine packing managed from the larger 'hub'. Successful 'hub/spoke' implementations comprised Cambuslang/Dumfries and Chester/Preston.

Office of Fair Trading

The OFT has recently announced that there will be a further delay to issuing a final opinion on a framework for assessing how newspaper and magazine agreements comply with competition law. During 2006, we significantly strengthened our position as the No2 player in the market and remain confident that we can meet the changing service requirements of the industry.

Current trading and outlook

Menzies Aviation

We are trading ahead of last year despite the continuing softness in cargo volumes and the weaker US dollar. We expect to see further growth in 2007.

We have won a number of contracts since the year end, most notably British Airways ground and cargo handling in Sydney; Virgin cargo handling in Chicago; Lufthansa ground handling in Houston and easyJet ground handling at London Gatwick, Glasgow and East Midlands.

Our joint venture to handle cargo at the new Hyderabad and Bangalore airports in India remains on track, and operations are scheduled to commence in 2008.

We continue to differentiate ourselves from our competitors by tailoring our products to meet customer needs, delivering consistent levels of service, providing innovative IT solutions and investing in infrastructure to underpin growth and profitability.

Menzies Distribution

There are some signs of stability in the market and both newspaper and magazine revenues have been flat in the first 10 weeks of 2007. As previously indicated, we have accelerated cost saving initiatives and we expect to deliver further cost savings in real terms in excess of £3m in 2007.

Group

We expect the Group to trade in line with our expectations during 2007. As the Group continues to move towards the higher rated aviation services market, we believe we are well placed to increase shareholder value.

GROUP INCOME STATEMENT

for the year ended 30 December 2006 (year ended 31 December 2005)

	Notes	2006 £m	2005 £m
Revenue	3	1,450.4	1,362.1
Net operating costs		(1,416.4)	(1,327.7)
Operating profit		34.0	34.4
Share of post-tax results of joint ventures and associates		2.7	3.2
Operating profit after joint ventures and associates	3	36.7	37.6
<i>Analysed as:</i>			
Underlying operating profit		36.9	40.3
Exceptional items	5	3.0	-
Intangible amortisation	5	(2.2)	(2.1)
Share of tax on joint ventures and associates		(1.0)	(0.6)
Operating profit after joint ventures and associates		36.7	37.6
Finance income		15.6	13.8
Finance charges		(16.7)	(14.7)
Profit before taxation		35.6	36.7
Taxation	6	(8.4)	(8.7)
Profit for the year		27.2	28.0
Attributable to equity shareholders		27.0	27.7
Attributable to minority interests		0.2	0.3
		27.2	28.0
Earnings per ordinary share	8		
Basic		46.4p	48.2p
Diluted		46.1p	47.7p

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 30 December 2006 (year ended 31 December 2005)

Profit for the year		27.2	28.0
Actuarial gain/(loss) on defined benefit pensions	4	23.4	(9.6)
Deferred tax associated with defined benefit pensions		(7.0)	2.9
Net exchange adjustments		(1.7)	0.1
Net gains/(losses) not recognised in income statement		14.7	(6.6)
Total recognised income for the year		41.9	21.4
Attributable to equity shareholders		41.7	21.1
Attributable to minority interests		0.2	0.3
		41.9	21.4

The parent company Statement of Recognised Income and Expense includes the profit for the year of £31.1m (2005: £23m) and a net actuarial gain on defined benefit pensions of £16.4m (2005: a net actuarial loss of £6.7m). There are no minority interests in the parent company.

GROUP AND COMPANY BALANCE SHEETS

As at 30 December 2006 (31 December 2005)

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Assets					
Non-current assets					
Intangible assets	9	59.0	25.6	-	-
Property, plant and equipment		133.3	121.1	39.0	36.8
Investments		18.9	22.8	99.8	98.8
Derivative financial assets		0.3	0.1	0.3	0.1
Deferred tax assets		3.8	13.8	-	9.8
Retirement benefit obligations	4	5.4	-	5.4	-
		220.7	183.4	144.5	145.5
Current assets					
Inventories		12.0	13.0	-	-
Trade and other receivables		110.8	97.9	152.6	108.0
Derivative financial assets		1.5	0.6	1.5	0.6
Cash and cash equivalents		18.8	22.0	0.5	7.5
		143.1	133.5	154.6	116.1
Liabilities					
Current Liabilities					
Borrowings		(8.8)	(21.3)	(4.9)	(19.4)
Derivative financial liabilities		(0.4)	(0.5)	(0.4)	(0.5)
Trade and other payables		(153.1)	(145.9)	(94.3)	(105.0)
Current income tax liabilities		(9.8)	(14.1)	(3.0)	(2.1)
		(172.1)	(181.8)	(102.6)	(127.0)
Net current (liabilities)/assets		(29.0)	(48.3)	52.0	(10.9)
Total assets less current liabilities		191.7	135.1	196.5	134.6
Non-current liabilities					
Borrowings		(88.3)	(33.2)	(88.2)	(33.1)
Other		(0.9)	-	-	-
Derivative financial liabilities		(0.1)	(0.5)	(0.1)	(0.5)
Provisions		(7.0)	(7.2)	-	-
Deferred tax liabilities		(3.2)	(2.1)	(2.4)	(0.5)
Retirement benefit obligations	4	-	(32.6)	-	(32.6)
		(99.5)	(75.6)	(90.7)	(66.7)
Net assets		92.2	59.5	105.8	67.9
Shareholders' equity					
Ordinary shares	13	14.8	14.7	14.8	14.7
Share premium account	13	12.6	10.9	12.6	10.9
Investment in own shares	13	(3.5)	(3.5)	-	-
Retained earnings	13	46.3	15.5	56.8	20.7
Capital redemption reserve	13	21.6	21.6	21.6	21.6
Total shareholders' equity		91.8	59.2	105.8	67.9
Minority interest in equity	13	0.4	0.3	-	-
Total equity		92.2	59.5	105.8	67.9

GROUP AND COMPANY CASH FLOW STATEMENTS

for the year ended 30 December 2006 (year ended 31 December 2005)

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Cash flows from operating activities					
Cash generated from operations	11	29.7	47.5	(14.5)	(5.6)
Interest received		2.1	2.5	1.7	1.7
Interest paid		(5.5)	(4.5)	(5.4)	(3.8)
Tax paid		(8.5)	(4.6)	(3.3)	(2.3)
Net cash from operating activities		17.8	40.9	(21.5)	(10.0)
Cash flows from investing activities					
Loan repaid by joint venture		0.1	-	-	-
Acquisition of subsidiaries		(38.1)	(0.8)	-	-
Net cash acquired with subsidiaries		1.1	-	-	-
Purchase of property, plant and equipment		(25.4)	(22.1)	-	-
Intangible asset additions		(0.5)	(0.6)	-	-
Proceeds from sale of property, plant and equipment		1.1	1.6	-	-
Dividends received		4.1	4.0	-	-
Net cash used in investing activities		(57.6)	(17.9)	-	-
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		1.8	3.5	1.8	3.5
Finance lease additions		0.1	-	-	-
Repayment of borrowings	10	(15.3)	(11.3)	(15.2)	(12.2)
Proceeds from borrowings	10	58.9	3.4	58.9	20.1
Dividends paid to ordinary shareholders		(11.6)	(10.9)	(11.6)	(10.9)
Dividends paid to minority interests		(0.1)	(0.2)	-	-
Amounts provided to subsidiaries		-	-	(20.2)	(0.2)
Net cash from/(used in) financing activities		33.8	(15.5)	13.7	0.3
(Decrease)/increase in net cash and cash equivalents					
	10	(6.0)	7.5	(7.8)	(9.7)
Effects of exchange rate movements		(0.2)	-	(0.2)	-
Opening net cash and cash equivalents		18.7	11.2	5.9	15.6
Closing net cash and cash equivalents*	10	12.5	18.7	(2.1)	5.9

*Net cash and cash equivalents include cash at bank and in hand and bank overdrafts.

Notes to the Accounts

1. Introduction

The Group prepared its consolidated financial statements for 2005 under UK GAAP, supplemented with pro-forma IFRS financial information. This was to comply with the Companies Act 1985 (as amended November 2004) and was a result of the accounting year commencing on 26 December 2004, prior to the IFRS adoption date of 1 January 2005.

The Group now presents its first full-year IFRS-compliant Report and Accounts. Comparative IFRS financial information is presented for the year ended 31 December 2005 as the date of transition to IFRS for the Group was 26 December 2004, being the first day of the comparative period. UK GAAP to IFRS reconciliations are also presented in this Report and Accounts.

In accordance with Section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

A summary of the more significant accounting policies, which have been consistently applied, is set out below.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been adopted early:-

IFRS 7 "Financial Instruments: Disclosures" and IAS 1 "Amendments to Capital Disclosures", both effective for annual periods beginning on or after 1 January 2007. The Group has assessed the impact of IFRS 7 and the amendment to IAS 1, and will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning 1 January 2007. These Standards are for disclosure purposes only and will have no effect on reported results.

IFRIC 7 "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. None of the Group companies has a functional currency affected by hyperinflation. Management does not expect the interpretation to be relevant for the Group.

IFRIC 8 "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. IFRIC 8 relates to transactions which involve the issue of equity transactions where the identifiable consideration received is less than the fair value of the equity instruments issued. The Group will apply IFRIC 8 from 1 January 2007 but management does not expect it to have any impact on the Group's operations.

IFRIC 9 "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assesses whether embedded derivatives should be separated using principles consistent with IFRIC 9.

2. Basis of preparation

Basis of consolidation

The consolidated accounts, which have been prepared under the historical cost convention and in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS, incorporate the accounts of the Company and its subsidiaries, joint ventures and associates from the effective date of acquisition or to the date of deemed disposal.

Accounting policies

IFRS 1

IFRS 1 "First time adoption of International Financial Reporting Standards" requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. IFRS 1 does, however, contain the option to take advantage of certain exemptions to retrospective application.

The Group has elected to take the following permitted exemptions:

- The acquisition accounting of business combinations completed prior to the transition date has not been restated. The net book value of goodwill as at the transition date has been treated as the deemed cost of goodwill under IFRS.
- The net book value at the transition date of those tangible fixed assets that were revalued prior to the transition date has been treated as deemed cost.
- IFRS requires the tracking of all cumulative foreign exchange adjustments taken to reserves. These amounts are reversed upon any subsequent disposal of the business to which it relates. The cumulative translation differences at the transition date are assumed to be zero.
- The provisions of IFRS 2 "Share-based payment" have been applied only to awards made after 7 November 2002.

In addition, the Group has adopted "Amendments to IAS 19 employee benefits". The Group has selected the option

available within this standard, similar to FRS17 under UK GAAP, for immediate recognition of all actuarial gains and losses outside of the Income Statement in the Statement of Recognised Income and Expense.

Revenue

Distribution - revenue is recognised on the weekly invoiced value of goods sold, excluding value added tax.

Aviation - cargo revenue is recognised at the point of departure for exports and at the point that the goods are ready for dispatch for imports. Other ramp, passenger and aviation-related services income is recognised in accordance with when the service was performed. Revenue excludes value added and sales taxes, charges collected on behalf of customers and intercompany transactions.

Property, plant and equipment

Property, plant and equipment are stated at cost, including acquisition expenses, less accumulated depreciation. Depreciation is provided on a straight line basis at the following rates:

Freehold and long leasehold properties	- over 50 years
Short leasehold properties	- over the remaining lease term
Plant and equipment	- over the estimated life of the asset

Inventories

Inventories, being goods for resale and consumables, are stated at the lower of purchase cost and net realisable value.

Pensions

The operating and financing costs of pensions are charged to the income statement in the period in which they arise and are recognised separately. The cost of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the statement of recognised income and expense.

Pension costs are assessed in accordance with the advice of qualified actuaries.

With regard to defined contribution schemes, the income statement charge represents contributions made.

Taxation

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is provided in full, using the liability method, on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

Deferred tax is determined using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current and deferred tax is recognised in the income statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill acquired is recognised as an asset and reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the income statement.

Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment.

Goodwill arising on acquisitions before 26 December 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Contracts

The fair value attributed to contracts at the point of acquisition is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted weighted average cost of capital for the Group. This amount is included in intangible assets as "contracts" and amortised over the estimated useful life on a straight-line basis. Separate values are not attributed to internally-generated customer relationships.

Contract amortisation is business-stream dependent. At Distribution, contracts capitalised are not amortised due to the very long-term nature of the business in the UK. These contracts are, however, tested annually for impairment using similar criteria to the goodwill test. At Aviation, contracts are amortised on a straight-line basis over ten years as this period is the minimum time-frame management considers when assessing businesses for acquisition.

Development costs

Development expenditure incurred on individual projects is carried forward only if all the criteria set out in IAS 38 "Intangible assets" are met. Following the initial recognition of development expenditure, the cost is amortised over the project's estimated useful life, usually three years.

Computer software

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly attributable with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees. Costs are amortised over their estimated useful lives.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets acquired under finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recorded in the balance sheet as a finance lease obligation. The lease payments are apportioned between finance charges (charged to the income statement) and a reduction of the lease obligations.

Rental payments under operating leases are charged to the income statement on a straight line basis over applicable lease periods.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Foreign currencies

Foreign currency assets and liabilities of the Group are translated at the rates of exchange ruling at the balance sheet date. The trading results of overseas subsidiaries, joint ventures and associates are translated at the average exchange rate ruling during the year, with the exchange difference between average rates and the rates ruling at the balance sheet date being taken to reserves.

Any differences arising on the translation of the opening net investment, including goodwill, in overseas subsidiaries, joint ventures and associates, and of applicable foreign currency loans, are dealt with as adjustments to reserves. All other exchange differences are dealt with in the profit and loss account.

Derivative financial instruments and hedging activities

The Group uses forward contracts and cross-currency swaps as derivatives to hedge the risk arising from the retranslation of foreign currency denominated items.

The Group has derivatives which are designated as hedges of overseas net investments in foreign entities (net investment hedges) and derivatives which are designated as hedges of the exchange risk arising from the retranslation of highly probable forecast revenue denominated in non-local currency of some of our overseas operations (cash flow hedges).

In all cases the derivative contracts entered into by the Group have been highly effective during the reporting period, and are expected to continue to be highly effective until they expire. As a result all derivatives have been recorded using hedge accounting, which is explained below.

All derivatives are initially recorded on the Balance Sheet at fair value either on transition from UK GAAP at 1 January 2005 or on the date they are entered into if that is a later date. All derivatives are subsequently measured at fair value, which is calculated as the present value of all future cash flows from the derivative discounted at prevailing market rates.

Changes in the fair value of the effective portion of Net Investment Hedges are recorded in equity, and are only recycled to the income statement on disposal of the overseas net investment.

Changes in the fair value of the effective portion of cash flow hedges are recorded in equity until such time as the forecast transaction occurs, at which time they are recycled to the income statement. If however, the occurrence of the transaction results in a non-financial asset or liability, then amounts recycled from equity would be included in the cost of the non-financial asset or liability. If the forecast transaction remains probable but ceases to be highly probable then, from that point, changes in fair value would be recorded in the income statement within finance costs. Similarly, if the forecast transaction ceases to be probable then the entire fair value recorded in equity and future changes in fair value would be posted to the income statement within finance costs.

Any ineffective portion of movements in the fair value of hedging instruments is recognised in the income statement within finance costs.

Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. These estimates will, by definition, seldom equal the related actual results. The Board has considered the critical accounting estimates and assumptions used in the Accounts and concluded the main area of significant risk which may cause a material adjustment to the carrying amount of assets and liabilities within the next financial year is in respect of the assumptions used to calculate pension benefits. The assumptions include corporate bond yields, investment return, price and salary inflation and mortality assumptions. Full details of assumptions used to calculate the pension assets and liabilities are found in Note 4.

Exceptional items

Exceptional items are those one-off and/or material items which the Group considers should be highlighted due to their scope and nature.

Dividend distributions

Final ordinary dividends are recognised as liabilities in the accounts in the period in which the dividends are approved by the Company's shareholders.

3. SEGMENTAL ANALYSIS**Primary business segments
2006**

	Distribution £m	Aviation £m	Corporate £m	Group £m
Revenue	1,132.0	318.4	-	1,450.4
Operating profit/(loss)	28.0	8.9	(2.9)	34.0
Share of post-tax results of joint ventures	-	1.0	-	1.0
Share of post-tax results of associates	-	1.7	-	1.7
Operating profit/(loss) after joint ventures and associates	28.0	11.6	(2.9)	36.7

Analysed as:

Underlying operating profit/(loss)*	23.7	16.6	(3.4)	36.9
Pension credit	4.0	1.3	0.5	5.8
Gain on exchange of contract rights	2.5	-	-	2.5
Rationalisation and integration costs	(2.2)	(3.1)	-	(5.3)
Contract amortisation	-	(0.4)	-	(0.4)
Goodwill impairment	-	(1.8)	-	(1.8)
Share of tax on joint ventures and associates	-	(1.0)	-	(1.0)
Operating profit/(loss) after joint ventures and associates	28.0	11.6	(2.9)	36.7

2005	£m	£m	£m	£m
Revenue	1,093.5	268.6	-	1,362.1
Operating profit/(loss)	30.6	7.5	(3.7)	34.4
Share of post-tax results of joint ventures	-	0.7	-	0.7
Share of post-tax results of associates	0.1	2.4	-	2.5
Operating profit/(loss) after joint ventures and associates	30.7	10.6	(3.7)	37.6

Analysed as:

Underlying operating profit/(loss)*	30.7	13.3	(3.7)	40.3
Goodwill impairment	-	(2.1)	-	(2.1)
Share of tax on joint ventures and associates	-	(0.6)	-	(0.6)
Operating profit/(loss) after joint ventures and associates	30.7	10.6	(3.7)	37.6

* Underlying operating profit/(loss) is defined as operating profit/(loss) excluding intangible amortisation as shown in Note 5 and exceptional items but including the pre-tax share of results from joint ventures and associates.

3. SEGMENTAL ANALYSIS (continued)

2006	Distribution £m	Aviation £m	Corporate £m	Group £m
Segment assets	148.9	182.6	4.3	335.8
Unallocated assets				28.0
Total assets				363.8
Segment liabilities	(98.3)	(46.9)	(16.3)	(161.5)
Unallocated liabilities				(110.1)
Total liabilities				(271.6)
Segment net assets/(liabilities)	50.6	135.7	(12.0)	174.3
Unallocated net liabilities				(82.1)
Net assets				92.2
2005	£m	£m	£m	£m
Segment assets	129.3	150.1	1.7	281.1
Unallocated assets				35.8
Total assets				316.9
Segment liabilities	(96.9)	(41.6)	(15.6)	(154.1)
Unallocated liabilities				(103.3)
Total liabilities				(257.4)
Segment net assets/(liabilities)	32.4	108.5	(13.9)	127.0
Unallocated net liabilities				(67.5)
Net assets				59.5
2006	Distribution £m	Aviation £m	Corporate £m	Group £m
Capital expenditure	9.2	15.9	-	25.1
Depreciation	5.2	11.7	1.0	17.9
Amortisation of intangible assets	0.5	0.8	-	1.3
Goodwill impairment	-	1.8	-	1.8
Gain on disposal of property, plant and equipment	-	0.2	-	0.2
2005	£m	£m	£m	£m
Capital expenditure	6.7	15.2	-	21.9
Depreciation	4.6	10.7	0.9	16.2
Amortisation of intangible assets	0.6	0.3	-	0.9
Goodwill impairment	-	2.1	-	2.1
Gain on disposal of property, plant and equipment	-	0.5	-	0.5

Secondary geographic segments

	Revenue		Capital expenditure		Segment assets	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
United Kingdom	1,254.9	1,213.7	14.4	12.4	253.2	187.4
Continental Europe	80.9	68.6	5.6	3.4	30.1	32.0
Americas	76.5	47.6	3.0	4.2	27.6	26.5
Rest of the World	38.1	32.2	2.1	1.9	24.9	35.2
	1,450.4	1,362.1	25.1	21.9	335.8	281.1

4. PENSIONS

Pension schemes

The Actuary undertook a valuation of the Menzies Pension Fund as at 31 December 2006 (2005: 31 December) under IAS 19.

In deriving the results the Actuary used the projected unit method and the following financial assumptions:

	2006 %	2005 %
Rate of increase in salaries	3.60	3.50
Rate of increase in pensions (prior to 1 April 2006)	3.35	3.30
Rate of increase in pensions (after 1 April 2006)	2.50	-
Price inflation	3.10	3.00
Discount rate	5.30	4.80

Assumptions regarding future mortality experience are set based on advice from the Actuary in accordance with published statistics and experience in the business.

The average life expectancy in years of a pensioner retiring at 65, on the balance sheet date is:

	2006	2005
Male	18.3	18.3
Female	21.1	21.1

The average life expectancy in years of a pensioner retiring at 65, 20 years after the balance sheet date is:

	2006	2005
Male	19.2	19.2
Female	22.0	22.0

Fair value of assets (and expected return on assets)

	Long-term rate of return %	Value at December 2006 £m	Long-term rate of return %	Value at December 2005 £m
Equities	7.5	147.6	7.5	128.1
Bonds	5.0	39.9	4.5	40.1
Property	6.5	44.3	6.0	38.4
Other	5.0	5.4	4.5	1.9
Total market value of assets		237.2		208.5
Present value of scheme liabilities		(231.8)		(241.1)
Surplus/(deficit) in scheme		5.4		(32.6)
Related deferred tax (liability)/asset		(1.6)		9.8
Net pension assets/(liabilities)		3.8		(22.8)

4. PENSIONS (continued)

IAS 19 movements

	2006 £m	2005 £m
Amounts charged to the income statement		
Current service cost	4.7	5.1
Past service credit	(5.8)	-
Total amount (credited)/charged to the income statement	(1.1)	5.1
Amounts included in finance costs	£m	£m
Expected return on pension scheme assets	13.4	11.5
Interest on pension liabilities	(11.0)	(10.3)
Net financial return	2.4	1.2
Pension (income)/expense	(3.5)	3.9
Amounts recognised in the Statement of Recognised Income and Expense	£m	£m
Gain on assets	12.0	17.4
Actuarial gain/(loss) on defined benefit obligation	11.4	(27.0)
Actuarial gain/(loss)	23.4	(9.6)
Change in scheme assets during the year	£m	£m
Fair value of assets at start of year	208.5	178.2
Expected return on assets	13.4	11.5
Company contributions	11.1	5.3
Employee contributions	1.5	1.2
Benefits and expenses paid	(9.3)	(7.5)
Gain on assets	12.0	19.8
Fair value of assets at end of year	237.2	208.5
Change in defined benefit obligation during the year	£m	£m
Defined benefit obligation at start of year	241.1	202.6
Current service cost	4.7	5.1
Past service credit	(5.8)	-
Interest cost	11.0	10.3
Employee contributions	1.5	1.2
Benefits and expenses paid	(9.3)	(7.5)
Actuarial gain/(loss) on defined benefit obligation	(11.4)	29.4
Defined benefit obligation at end of year	231.8	241.1

History of experience gains and losses

	% of scheme assets/ obligations	2006 £m	% of scheme assets/ obligations	2005 £m
Gain on scheme assets	5%	12.0	9.5%	19.8
Actuarial gain/(loss) on defined benefit obligation	5%	11.4	12.2%	(29.4)

5. UNDERLYING PERFORMANCE

(a) Exceptional items - £3m

Pension credit - £5.8m

With effect from 1 May 2006, the principal Group-funded defined benefit scheme in the UK changed from a final pensionable salary scheme to an average salary scheme and employee contributions were increased. Benefits accrued to current active members prior to 1 May 2006 are now linked to future price inflation rather than future salary increases. The impact of these changes is a reduction of £5.8m in the present value of the scheme liabilities in respect of past service.

Gain on exchange of contract rights - £2.5m

During the year, the Group transferred its 20% shareholding in T Cox & Son (Tonbridge) Limited to another wholesaler in return for an interest in certain magazine distribution contracts in the south-west London area. The fair value of the contractual rights acquired and the shares disposed are considered to be equivalent, and both are estimated at £2.5m. As the shareholding had no carrying value in the Group's balance sheet, there is effectively no cost of disposal to offset against the interests received. As a result, a non-cash gain of £2.5m is created.

Rationalisation and integration costs - £5.3m

Costs of rationalising excess capacity, comprising asset write-downs and staff costs, and the cost of integrating new businesses.

(b) Intangible amortisation - £2.2m

Goodwill impairment - £1.8m

As permitted under the transitional requirement of IFRS 1, the acquisition accounting of business combinations completed prior to the transition date has not been restated. As a result, assets which were previously capitalised as goodwill have not been reclassified as other intangible assets. Accordingly, these financial statements include an impairment charge of £1.8m (2005: £1.8m) reflecting the remaining life of the current licence at Menzies Macau Aviation Services Limited. A further charge of £0.3m in 2005 related to an adjustment under IAS 12 for tax loss utilisation in the Netherlands.

Contract amortisation - £0.4m

A new charge for 2006 on the application of IFRS to acquisitions.

The taxation effect of the exceptional items is a charge of £1.1m.

6. TAXATION

	2006 £m	2005 £m
(a) Analysis of charge in year		
Current tax		
UK corporation tax on profits for the year	5.5	7.2
Overseas tax	1.5	1.8
Adjustments to prior years' liabilities	(3.1)	(2.4)
Total current tax	3.9	6.6
Deferred tax		
Origination and reversal of temporary differences	0.1	1.5
Adjustments to prior years' liabilities	-	0.2
	0.1	1.7
Retirement benefit obligations	4.4	0.4
Total deferred tax	4.5	2.1
Tax on profit on ordinary activities	8.4	8.7
(b) Current and deferred tax related items charged / (credited) directly to equity		
Deferred tax on actuarial gain/(loss) on retirement benefit obligations	7.0	(2.9)
Current tax on net exchange adjustments	0.4	0.1
Tax charge/(credit) reported in equity	7.4	(2.8)
(c) Reconciliation between tax charge and the product of accounting profit multiplied by the Group's domestic tax rate for the years ended 30 December 2006 and 31 December 2005 is as follows:		
Profit before tax	35.6	36.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	10.7	11.0
Non-deductible expenses	0.9	(0.5)
Depreciation on non-qualifying assets	0.3	0.5
Tax-exempt gain on exchange of contracts	(0.8)	-
Unrelieved overseas losses	2.6	2.2
Profits covered by losses forward	(1.5)	(2.5)
Recognition of overseas losses in deferred tax	-	(0.4)
Higher tax rates on overseas earnings	0.1	1.3
Adjustments to prior years' liabilities	(3.1)	(2.2)
Deferred tax on undistributed reserves of associate	-	0.3
Joint venture and associate post-tax result (included in profit before tax) at 30%	(0.8)	(1.0)
At the effective corporation tax rate of 23.6% (2005: 23.7%)	8.4	8.7

(d) Factors that may affect future tax charges

The Group has estimated tax losses carried forward, which arose in subsidiary companies operating in the undernoted jurisdictions, that are available for offset against future profits of those subsidiaries. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have either been loss-making for some time or where it is unclear that profits will be available to fully utilise the losses.

	Losses	
	£m	Expiry
USA	20.4	Carry forward indefinitely
Netherlands	5.8	Not earlier than 1 January 2012
Hong Kong	7.0	Carry forward indefinitely
Republic of Ireland	0.9	Carry forward indefinitely
Germany	19.1	Carry forward indefinitely
Australia	1.9	Carry forward indefinitely

The Group has capital losses in the UK of approximately £23.2m that are available for offset against future taxable gains arising in the UK. No deferred tax asset has been recognised in respect of these losses.

A deferred tax asset of £0.5m has been recognized in relation to losses carried forward by a subsidiary operating in the USA, in circumstances where that subsidiary has incurred losses in the current and preceding years. The deferred tax asset has been recognised on the basis of the US acquisitions during the year, which have a history of profitability, and future projections.

A deferred tax liability of £0.7m (2005: £0.7m) has been recognised on the unremitted earnings of an associate.

7. DIVIDENDS

	2006	2005
	£m	£m
Dividends on equity shares:		
Ordinary - Final paid in respect of 2005, 13.7p per share	8.0	-
- Final paid in respect of 2004, 13.0p per share	-	7.5
- Interim paid in respect of 2006, 6.1p (2005: 5.8p) per share	3.6	3.4
	11.6	10.9

In addition, the directors are proposing a final dividend in respect of the full year to 30 December 2006 of 14.4p per ordinary share which will absorb an estimated £8.5m of shareholders' funds. Payment will be made on 29 June 2007 to shareholders on the register at close of business on 1 June 2007.

Preference share dividends have been reclassified as interest payable.

8. EARNINGS PER SHARE

	Basic		Underlying*	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating profit	34.0	34.4	34.0	34.4
add back:				
intangible amortisation	-	-	2.2	2.1
share of tax on joint ventures and associates	-	-	1.0	0.6
less: exceptional items	-	-	(3.0)	-
Finance costs	(1.1)	(0.9)	(1.1)	(0.9)
Share of post-tax results of joint ventures and associates	2.7	3.2	2.7	3.2
Profit before taxation	35.6	36.7	35.8	39.4
Taxation	(8.4)	(8.7)	(9.4)	(9.3)
Tax charge on exceptional items	-	-	1.1	-
Minority interests	(0.2)	(0.3)	(0.2)	(0.3)
Earnings for the year	27.0	27.7	27.3	29.8
Basic				
Earnings per ordinary share (pence)	46.4	48.2		
Diluted earnings per ordinary share (pence)	46.1	47.7		
Underlying*				
Earnings per ordinary share (pence)			46.9	51.9
Diluted earnings per ordinary share (pence)			46.6	51.3
Number of ordinary shares in issue (millions)				
Weighted average	58.206	57.462		
Diluted weighted average	58.544	58.079		

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts. The diluted weighted average is calculated by adjusting for all outstanding share options which are potentially dilutive i.e. where the exercise price is less than the average market price of the shares during the year.

*Underlying earnings are presented as an additional performance measure. They are stated before intangible amortisation and exceptional items.

9. INTANGIBLE ASSETS

	Goodwill	Contracts	Computer Software	Total
	£m	£m	£m	£m
Cost				
At 31 December 2005	23.6	-	4.2	27.8
Acquisitions	15.5	18.0	-	33.5
Exchange of contract rights (Note 5)	-	2.5	-	2.5
Additions	-	-	0.5	0.5
Disposals	-	-	(0.3)	(0.3)
Currency translation	(1.6)	(0.4)	-	(2.0)
At 30 December 2006	37.5	20.1	4.4	62.0
Amortisation				
At 31 December 2005	0.4	-	1.8	2.2
Amortisation charge	-	0.4	0.9	1.3
Disposals	-	-	(0.3)	(0.3)
Currency translation	(0.2)	-	-	(0.2)
At 30 December 2006	0.2	0.4	2.4	3.0
Net book value				
At 30 December 2006	37.3	19.7	2.0	59.0
At 31 December 2005	23.2	-	2.4	25.6
	£m	£m	£m	£m
Cost				
At 25 December 2004	22.3	-	4.4	26.7
Acquisitions	0.6	-	-	0.6
Additions	-	-	0.6	0.6
Disposals	-	-	(0.8)	(0.8)
Currency translation	0.7	-	-	0.7
At 31 December 2005	23.6	-	4.2	27.8
Amortisation				
At 25 December 2004	-	-	1.7	1.7
Amortisation charge	-	-	0.9	0.9
Impairment charge (Note 5)	0.3	-	-	0.3
Disposals	-	-	(0.8)	(0.8)
Currency translation	0.1	-	-	0.1
At 31 December 2005	0.4	-	1.8	2.2
Net book value				
At 31 December 2005	23.2	-	2.4	25.6
At 25 December 2004	22.3	-	2.7	25.0

Impairment test for goodwill and contracts

Goodwill

Goodwill is no longer amortised but is tested annually for impairment. Management assesses the value-in-use of the asset based on forecast pre-tax cash flows from each cash-generating unit over a ten-year period discounted at 8%.

Contracts

Contract amortisation is business-stream dependent. At Distribution, contracts capitalised are not amortised due to the very long-term nature of the business in the UK. These contracts are, however, tested annually for impairment using similar criteria to the goodwill test. At Aviation, contracts are amortised on a straight-line basis over ten years as this period is the minimum time-frame management considers when assessing businesses for acquisition.

10. ANALYSIS OF CHANGES IN NET BORROWINGS

	2005 £m	Cash flows £m	Currency translation £m	2006 £m
Cash at bank and in hand	22.0	(3.0)	(0.2)	18.8
Bank overdrafts	(3.3)	(3.0)	-	(6.3)
Net cash and cash equivalents	18.7	(6.0)	(0.2)	12.5
Bank loans due within one year	(17.9)	15.3	0.3	(2.3)
Loan stock due within one year	(0.1)	-	-	(0.1)
Preference shares	(1.4)	-	-	(1.4)
Finance leases	(0.5)	(0.1)	-	(0.6)
Debt due after one year	(31.3)	(58.1)	3.0	(86.4)
Net derivative financial (liabilities)/assets	(0.3)	(0.8)	2.4	1.3
Net borrowings	(32.8)	(49.7)	5.5	(77.0)

11. CASH GENERATED FROM OPERATIONS

	2006 £m	2005 £m
Operating profit	34.0	34.4
Depreciation and accelerated writedown	18.1	16.2
Amortisation of intangible assets	1.3	0.9
Share-based payments	0.7	0.7
Goodwill adjustment for tax loss utilisation	-	0.3
Gain on exchange of contract rights	(2.5)	-
Gain on sale of property, plant and equipment	(0.2)	(0.5)
Pension charge	4.7	5.1
Part service pension credit	(5.8)	-
Pension contributions in cash	(11.1)	(5.4)
Rationalisation and integration costs	5.3	-
Cash spend on rationalisation and integration costs	(2.5)	-
Decrease/(increase) in inventories	1.0	(1.9)
Decrease/(increase) in trade and other receivables	0.4	(3.2)
(Decrease)/increase in trade and other payables and provisions	(13.7)	0.9
	29.7	47.5

Cash generated from acquisitions during the year was not material.

12. CONTINGENT LIABILITIES

There are contingent liabilities, including those in respect of disposed and acquired businesses, which are not expected to give rise to any significant loss to the Group.

In addition, in the normal course of business, the Company has guaranteed certain trading obligations of its subsidiaries.

13. STATEMENT OF CHANGES IN EQUITY

	Ordinary shares £m	Share premium account £m	Investment in own shares £m	Retained earnings £m	Capital redemption reserve £m	Total £m
As at 31 December 2005	14.7	10.9	(3.5)	15.5	21.6	59.2
Profit for the year	-	-	-	27.0	-	27.0
Dividends	-	-	-	(11.6)	-	(11.6)
New share capital issued	0.1	1.7	-	-	-	1.8
Share-based payments	-	-	-	0.7	-	0.7
Actuarial gain (net of deferred tax)	-	-	-	16.4	-	16.4
Exchange adjustments	-	-	-	(1.7)	-	(1.7)
As at 30 December 2006	14.8	12.6	(3.5)	46.3	21.6	91.8
As at 25 December 2004	14.4	7.7	(3.3)	4.6	21.6	45.0
Profit for the year	-	-	-	27.7	-	27.7
Dividends	-	-	-	(10.9)	-	(10.9)
New share capital issued	0.3	3.2	-	-	-	3.5
Investment in own shares	-	-	(0.2)	-	-	(0.2)
Share-based payments	-	-	-	0.7	-	0.7
Actuarial loss (net of deferred tax)	-	-	-	(6.7)	-	(6.7)
Exchange adjustments	-	-	-	0.1	-	0.1
As at 31 December 2005	14.7	10.9	(3.5)	15.5	21.6	59.2

	Minority interest £m
As at 31 December 2005	0.3
Share of profit after tax	0.2
Dividend	(0.1)
As at 30 December 2006	0.4
As at 25 December 2004	0.5
Share of profit after tax	0.3
Dividends	(0.2)
Movement in the year	(0.3)
As at 31 December 2005	0.3

14. Acquisitions

During the year, the Group acquired 100% of the share capital or trading assets of the following businesses:

Aviation	Aeroground Inc	Malmö Main Air Cargo AB	Catamount Holdings LLC	Integrated Airline Services	Perth Cargo Centre Pty Ltd	Express Baggage (Heathrow Ltd)	Other	Total
Date of acquisition	03/05/06	17/08/06	28/08/06	31/08/06	15/09/06	01/11/06		
	£m	£m	£m	£m	£m	£m	£m	£m
Purchase consideration:								
Cash paid	15.3	2.0	2.1	3.2	0.8	2.7	0.1	26.2
Acquisition costs	1.2	0.1	0.1	0.1	0.1	0.1	-	1.7
Deferred consideration	0.5	0.7	0.6	-	0.4	-	-	2.2
Total purchase consideration	17.0	2.8	2.8	3.3	1.3	2.8	0.1	30.1
Fair value of net assets acquired	7.0	0.3	2.8	3.3	1.3	0.6	(0.3)	15.0
Goodwill	10.0	2.5	-	-	-	2.2	0.4	15.1

The assets and liabilities arising from the acquisitions are as follows:

Non-current assets:								
Intangible assets (contracts) – fair value	4.1	-	2.1	2.1	1.2	-	-	9.5
Property, plant and equipment	1.0	-	0.4	1.2	1.1	0.1	0.1	3.9
Current assets	3.7	1.5	1.1	-	0.2	1.1	0.6	8.2
Cash/(overdraft)	0.9	-	-	-	(1.0)	0.1	0.1	0.1
Current liabilities	(2.7)	(1.2)	(0.7)	-	(0.1)	(0.7)	(1.1)	(6.5)
Non-current liabilities	-	-	(0.1)	-	(0.1)	-	-	(0.2)
Net assets acquired	7.0	0.3	2.8	3.3	1.3	0.6	(0.3)	15.0

A further performance-related payment of US\$1m may become payable in respect of Aeroground Inc up to April 2008.

Other acquisitions include Top Services srl, a passenger handling business in Romania, and Australian Airsupport Pty Limited, a ramp and passenger handling business in Brisbane. The consideration paid in each case was not material.

Distribution

On 31 March 2006 the Group acquired the entire issued share capital of Chester Independent Wholesale News Limited and on 29 May 2006, the entire issued share capital of North West Wholesale News Limited.

	£m
Purchase consideration	
Cash paid	9.9
Acquisition costs	0.3
Deferred consideration	0.7
Total purchase consideration	10.9
Fair value of net assets acquired	10.5
Goodwill	0.4

The assets and liabilities arising from the acquisitions are as follows:

	£m
Non-current assets	
Intangible assets (contracts) – fair value	8.5
Property, plant and equipment	3.9
Current assets	5.5
Cash	1.0
Current liabilities	(8.4)
Net assets acquired	10.5

The acquired businesses contributed revenues of £89m from the date of acquisition. If the businesses had been acquired on 1 January 2006 revenues contributed would have been £153m. Due to divisionalisation and reorganisation of the businesses acquired, it has not been possible to meaningfully calculate the profit impact. However, the results from acquisitions were not material.

15. CASHFLOW

	£m	2006 £m	£m	2005 £m
Operating Profit		34.0		34.4
Share-based payments		0.7		0.7
Depreciation		18.1		16.2
Amortisation of intangibles		1.3		1.2
Net pension movement		(6.5)		(0.3)
Working capital		(12.3)		(4.2)
Cash spend on exceptional items		(2.5)		-
Non-cash items		2.6		(0.5)
Operating cash flow		35.4		47.5
Purchase of property, plant and equipment	(25.4)		(22.1)	
Sale of property, plant and equipment	1.1		1.6	
Net capital expenditure		(24.3)		(20.5)
Dividends from associates and joint ventures		4.1		4.0
Net interest paid		(3.4)		(2.0)
Minority dividends paid		(0.1)		(0.2)
Tax paid		(8.5)		(4.6)
Free cash flow		3.2		24.2
Equity dividends paid		(11.6)		(10.9)
Additional pension payment		(5.7)		-
Acquisitions		(37.0)		(0.8)
Shares		1.8		3.5
Other		(0.4)		(0.6)
Total movement		(49.7)		15.4
Opening net debt		(32.8)		(45.7)
Currency movement		5.5		(2.5)
Closing net debt		(77.0)		(32.8)

16. ACCOUNTING POLICIES

This statement has been prepared in accordance with accounting standards and policies consistent with those set out in the Group Accounts for the year ended 30 December 2006.

17. ACCOUNTS

The figures used in this statement, which was approved by the directors on 19 March 2007, are not the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985 for the year, but are taken from those accounts. The auditors' report on the statutory accounts was unqualified and did not contain a statement under Section 237 (2) to (4) of the Companies Act 1985.

18. ANNUAL REPORT

The Annual Report and Accounts will be posted on 19 April 2007 and the Annual General Meeting will be held at the Roxburghe Hotel in Edinburgh on 24 May 2007 at 12.15pm. Statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies, and those for the year to 30 December 2006 will be delivered following the Company's Annual General Meeting.

UK GAAP to IFRS reconciliations

Group Income Statement

For the year ended 31 December 2005

Group Balance sheets

As at 26 December 2004 (IFRS opening position)

As at 31 December 2005

Group and Company Cash Flow Statements

The only differences to the Group and Company Cash Flow Statements as a result of the adoption of IFRS were presentational. Accordingly, no table of these adjustments has been included.

Group Income Statement

For the year ended 31 December 2005

	Notes	As reported under UK GAAP* £m	Joint venture and associate presentation change £m	Effect of transition to IFRS £m	As reported under IFRS £m
Revenue		1,362.1	-	-	1,362.1
Net operating costs	(a)	(1,329.0)	-	1.3	(1,327.7)
Operating profit		33.1	-	1.3	34.4
Share of post tax results of joint ventures and associates	(b)	3.8	(0.6)	-	3.2
Operating profit after joint ventures and associates		36.9	(0.6)	1.3	37.6
Interest payable	(c)	(4.3)	-	(0.1)	(4.4)
Interest receivable		2.3	-	-	2.3
Finance income		11.5	-	-	11.5
Finance charge		(10.3)	-	-	(10.3)
Profit before taxation		36.1	(0.6)	1.2	36.7
Taxation	(d)	(9.0)	0.6	(0.3)	(8.7)
Profit for the year		27.1	-	0.9	28.0
Attributable to equity shareholders		26.8	-	0.9	27.7
Attributable to minority interest		0.3	-	-	0.3
		27.1	-	0.9	28.0

*The order and description of items presented "as reported under UK GAAP" have been amended to enable direct comparison with IFRS presentation.

The principal adjustments made as a result of the transition to International Accounting Standards are:

		£m	£m
(a)	Reversal of subsidiary goodwill amortisation	IAS 38	1.5
	Capitalisation of software development expenditure previously written off as operating expenses	IAS 38	0.6
	Amortisation of software development costs	IAS 38	(0.6)
	Reclassification of operating lease rentals to finance lease interest	IAS 17	0.1
	Goodwill adjustment for tax loss utilisation	IAS 12	(0.3)
			1.3
(b)	Reversal of joint venture and associate goodwill amortisation	IAS 38	1.8
	Goodwill impairment	IAS 38	(1.8)
			-
(c)	Reclassification of operating lease rentals to finance lease interest	IAS 17	(0.1)
(d)	Adjustment to deferred tax liability	IAS 12	(0.3)
			0.9

Group Balance Sheet

As at 26 December 2004 (IFRS opening position)

	Notes	As reported under UK GAAP* £m	Effect of transition to IFRS £m	Effect of IAS 32 & 39 £m	As reported under IFRS £m
Assets					
Non-current assets					
Intangible assets	(a)	22.3	2.6	-	24.9
Property, plant and equipment	(b)	116.1	(1.0)	-	115.1
Investments		21.3	-	-	21.3
Derivative financial assets		-	-	0.2	0.2
Deferred tax assets	(c)	12.8	0.3	-	13.1
		172.5	1.9	0.2	174.6
Current assets					
Inventories		11.1	-	-	11.1
Trade and other receivables		95.2	-	(0.3)	94.9
Derivative financial assets		-	-	0.9	0.9
Cash and cash equivalents		27.0	-	-	27.0
		133.3	-	0.6	133.9
Liabilities					
Current liabilities					
Borrowings		(28.5)	-	(0.1)	(28.6)
Derivative financial liabilities		-	-	(0.4)	(0.4)
Trade and other payables	(d)	(150.4)	7.5	0.1	(142.8)
Current income tax liabilities		(12.4)	-	-	(12.4)
		(191.3)	7.5	(0.4)	(184.2)
Net current liabilities		(58.0)	7.5	0.2	(50.3)
Total assets less current liabilities		114.5	9.4	0.4	124.3
Non-current liabilities					
Borrowings	(e)	(42.0)	(0.5)	(1.4)	(43.9)
Derivative financial liabilities		-	-	(0.1)	(0.1)
Other		(0.1)	-	-	(0.1)
Provisions	(f)	(9.6)	(0.4)	-	(10.0)
Retirement benefit obligations	(g)	(23.3)	(1.1)	-	(24.4)
		(75.0)	(2.0)	(1.5)	(78.5)
Net assets		39.5	7.4	(1.1)	45.8
Shareholders' equity					
Ordinary shares		14.4	-	-	14.4
Preference shares		1.4	-	(1.4)	-
Share premium account		7.7	-	-	7.7
Investment in own shares		(3.3)	-	-	(3.3)
Retained earnings		(2.8)	7.4	0.3	4.9
Capital redemption reserve		21.6	-	-	21.6
Total shareholders' equity		39.0	7.4	(1.1)	45.3
Minority interest in equity		0.5	-	-	0.5
Total equity		39.5	7.4	(1.1)	45.8

* The order and description of items presented "as reported under UK GAAP" have been amended to enable direct comparison with IFRS presentation.

The principal adjustments made as a result of the transition to International Accounting Standards are:

		<u>£m</u>	<u>£m</u>
(a)	Capitalisation of software development expenditure previously written off as operating expenses	IAS 38	1.2
	Transfer of capitalised software development expenditure previously shown as plant and equipment	IAS 38	<u>1.4</u>
			2.6
(b)	Operating lease reclassified as finance lease	IAS 17	0.4
	Transfer of capitalised software development expenditure previously shown as plant and equipment	IAS 38	<u>(1.4)</u>
			(1.0)
(c)	Mid to bid pension valuation deferred tax adjustment	IAS 12	0.3
(d)	Reversal of the previously reported dividend accrual	IAS 10	7.5
(e)	Finance lease creditor as a result of reclassification of operating lease	IAS 17	(0.5)
(f)	Adjustment to non-current deferred tax liability	IAS 12	(0.4)
(g)	Mid to bid pension valuation	IAS 19	<u>(1.1)</u>
	Cumulative adjustment to net assets		<u><u>7.4</u></u>

Group Balance Sheet
As at 31 December 2005

	Notes	As reported under UK GAAP* £m	Effect of transition to IFRS £m	Effect of IAS 32 & 39 £m	As reported under IFRS £m
Assets					
Non-current assets					
Intangible assets	(a)	22.0	3.6	-	25.6
Property, plant and equipment	(b)	121.8	(0.7)	-	121.1
Investments	(c)	22.8	-	-	22.8
Derivative financial assets		-	-	0.1	0.1
Deferred tax assets	(d)	13.4	0.4	-	13.8
		180.0	3.3	0.1	183.4
Current assets					
Inventories		13.0	-	-	13.0
Trade and other receivables		97.9	-	-	97.9
Derivative financial assets		-	-	0.6	0.6
Cash and cash equivalents		22.0	-	-	22.0
		132.9	-	0.6	133.5
Liabilities					
Current liabilities					
Borrowings		(21.2)	-	(0.1)	(21.3)
Derivative financial liabilities		-	-	(0.5)	(0.5)
Trade and other payables	(e)	(154.8)	8.0	0.9	(145.9)
Current income tax liabilities		(14.1)	-	-	(14.1)
		(190.1)	8.0	0.3	(181.8)
Net current liabilities		(57.2)	8.0	0.9	(48.3)
Total assets less current liabilities		122.8	11.3	1.0	135.1
Non-current liabilities					
Borrowings	(f)	(31.3)	(0.5)	(1.4)	(33.2)
Derivative financial liabilities		-	-	(0.5)	(0.5)
Provisions	(g)	(8.6)	(0.7)	-	(9.3)
Retirement benefit obligations	(h)	(31.3)	(1.3)	-	(32.6)
		(71.2)	(2.5)	(1.9)	(75.6)
Net assets		51.6	8.8	(0.9)	59.5
Shareholders' equity					
Ordinary shares		14.7	-	-	14.7
Preference shares		1.4	-	(1.4)	-
Share premium account		10.9	-	-	10.9
Investment in own shares		(3.5)	-	-	(3.5)
Retained earnings		6.2	8.8	0.5	15.5
Capital redemption reserve		21.6	-	-	21.6
Total shareholders' equity		51.3	8.8	(0.9)	59.2
Minority interest in equity		0.3	-	-	0.3
Total equity		51.6	8.8	(0.9)	59.5

*The order and description of items presented "as reported under UK GAAP" have been amended to enable direct comparison with IFRS presentation.

The principal adjustments made as a result of the transition to International Accounting Standards are:

		<u>£m</u>	<u>£m</u>
(a)	Capitalisation of software development expenditure previously written off as operating expenses	IAS 38	1.3
	Transfer of capitalised software development expenditure previously shown as plant and equipment	IAS 38	1.1
	Goodwill adjustment for tax loss utilisation	IAS 38	(0.3)
	Reversal of subsidiary goodwill amortisation previously charged under UK GAAP	IAS 38	<u>1.5</u>
			3.6
(b)	Operating lease reclassified as finance lease	IAS 17	0.4
	Transfer of capitalised software development expenditure previously shown as plant and equipment	IAS 38	<u>(1.1)</u>
			(0.7)
(c)	Reversal of associates goodwill amortisation previously charged under UK GAAP	IAS 38	1.8
	Impairment of goodwill	IAS 38	<u>(1.8)</u>
			-
(d)	Mid to bid pension valuation deferred tax adjustment	IAS 12	0.4
(e)	Reversal of the previously reported dividend accrual	IAS 10	8.0
(f)	Finance lease creditor as a result of reclassification of operating lease	IAS 17	(0.5)
(g)	Adjustment to deferred tax liability	IAS 12	(0.7)
(h)	Mid to bid pension valuation	IAS 19	<u>(1.3)</u>
	Cumulative adjustment to net assets		<u><u>8.8</u></u>