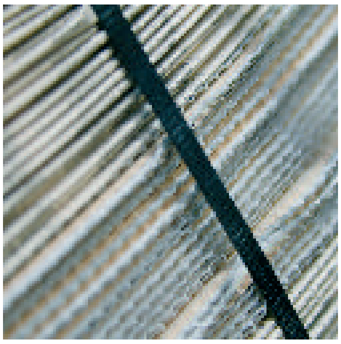
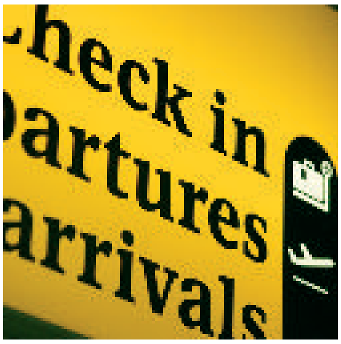
John Menzies plc
Annual Report 2005

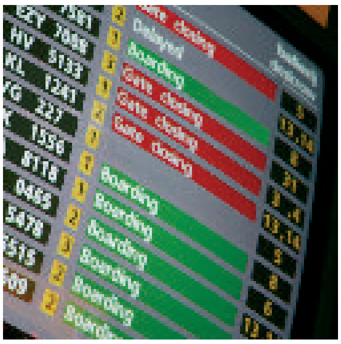


MENZIES DISTRIBUTION –
newspaper deliveries
1.7
billion copies



magazine deliveries
701
million copies

MENZIES AVIATION –
over **10,500**
employees at 93 stations
in 23 countries



serving more than
500
aviation customers in
Europe, North and South
America, South East Asia,
Australasia and Africa

John Menzies plc is a time critical logistics company with two operating divisions, **Menzies Distribution** and **Menzies Aviation.**

Our divisions are leading players in their markets and aim to be the service provider of choice for their customers.

Our success depends on providing an efficient, high quality and customer focused service.

CONTENTS

It gives me great pleasure to report a further year of substantial growth, with headline profit before tax[1] up 17% to £39.4m.

Menzies Distribution has done well to maintain profits at a level close to last year in a period affected by a weakness in sales of monthly magazines and partworks. It has also, after the year end, extended its geographical footprint into the Cheshire and North Wales areas with the conditional acquisition of a well established independent news wholesaler.

Menzies Aviation has moved forward decisively in both its cargo and ground handling operations. It has successfully rationalised its Heathrow cargo operations, set up a significant ground handling operation in the USA, and after the year end purchased Aeroground Inc., a cargo handler also based in the USA.

Dividend

The Board is recommending a final dividend of 13.7p per share, an increase of 5.4%. This brings our full year dividend to 19.5p, an increase of 5.4%, supported by a healthy level of dividend and free cash flow cover. This reflects our confidence in our future prospects.

Board

Iain Callaghan retired as Managing Director of Menzies Distribution in September after 40 years' service, including eight on your Board. He set high standards in all he did, and made a huge contribution to Menzies Distribution which has been central to the Group's success for many years.

In line with corporate governance best practice, Michael Walker will retire after the AGM having served on the Board for 10 years. He has brought wise counsel to the Board throughout this time; his contribution has been invaluable, and we shall miss him.

Octavia Morley will join the Board in April. We look forward to the contribution that her extensive experience with major retailers will bring to our business.

I am confident that the composition of the Board is now appropriately structured in the interests of the Company and its shareholders as we seek to expand our business.

Divisional Leadership

Ellis Watson has now joined the Group as Managing Director of Menzies Distribution, bringing to this division new talents and a broad experience with a different perspective, having previously held senior positions at Trinity Mirror and News International.

He and Craig Smyth, the Managing Director of Menzies Aviation, will attend the Board whenever required.

Staff

In John Menzies, it is the quality and spirit of our staff at all levels which matters most. Once again, I would like to record my sincere thanks for their commitment to the Company.

Prospects

The new year is showing a very mixed picture. Since the start of the year, Menzies Distribution has experienced very tough markets and, even with intensified cost reduction initiatives, the division will fall short of last year if current trends continue. Menzies Aviation is moving ahead strongly both organically, through recent contract wins, and by acquisition. The recent purchase of Aeroground is an example of our future growth plans for this division.

Looking further ahead, we believe that the outlook for the Group is positive.

WILLIAM THOMSON
CHAIRMAN

1. Headline profit before tax is defined as profit on ordinary activities after interest and before tax, goodwill amortisation and exceptional items.

HIGHLIGHTS

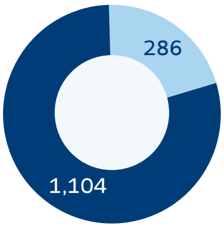
Financial Highlights

Turnover up 2% to £1,390.0m (2004: £1,369.2m)
Headline profit before tax* up 17% to £39.4m (2004: £33.6m)
Profit on ordinary activities** up 20% to £36.1m (2004: £30.0m)
Headline earnings per share up 19% to 52.2p (2004: 44.0p)
Free cash flow*** down 10% to £23.6m (2004: £26.3m)
Final dividend up 5.4% to 13.7p (2004: 13.0p)

* Profit on ordinary activities after interest and before tax, goodwill amortisation and exceptional items
** Before taxation and exceptionals
*** Cash generated after capital investment, interest, tax and preference share dividends and before acquisitions, disposals, ordinary dividends and share issues

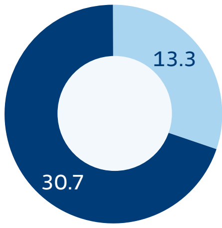
Group Turnover Split

£m — Aviation 21% / Distribution 79%



Divisional Operating Profit

£m — Aviation 30% / Distribution 70%



Trading Highlights

Group

- 2005 another successful year
- Above-inflation dividend increase
- £22.1m capital expenditure
- Two acquisitions since year end

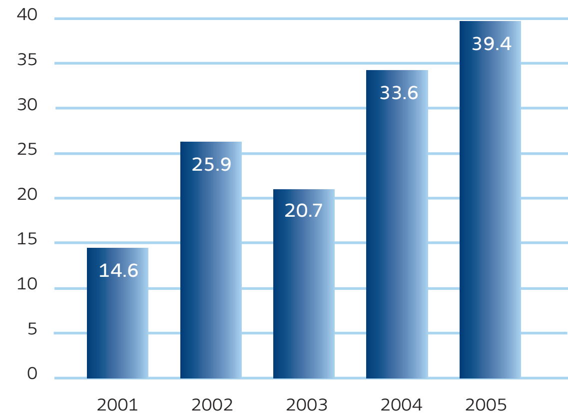
Menzies Distribution

- More challenging market
- Profits held close to last year's level
- Weaker magazine demand
- Most publisher contracts renewed

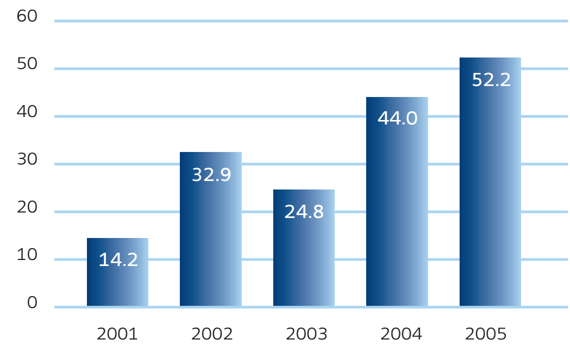
Menzies Aviation

- Sales up 10%
- Profits up 29%
- Increased focus on consistency of customer service
- Major restructure of cargo operations at Heathrow

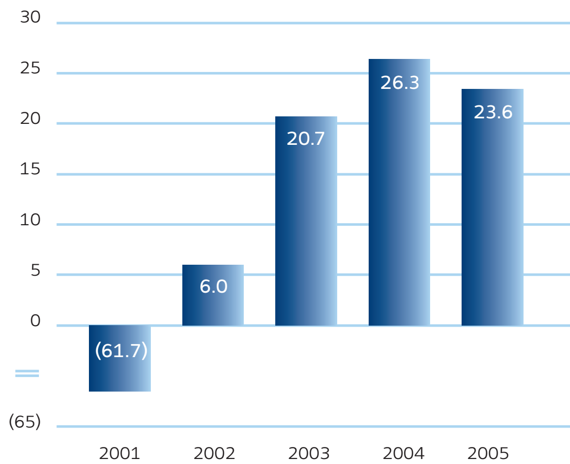
Headline profit before tax £m



Headline earnings per share pence



Free Cash Flow £m



2001 figures are based on pro forma statements to December

2005 Overview

We have delivered a strong set of results in 2005.

At Menzies Distribution, our UK newspaper and magazine wholesaling business, the team produced a resilient performance despite changes in consumer behaviour, in particular reduced revenues from monthly magazines and partworks. This was achieved through continued tight cost control and the growth in weekly magazines and weekend newspapers.

Our international aviation services business, Menzies Aviation, continued its recent profits growth record. Profits would have been even higher but for the startup costs of new contracts; these new contracts will in turn drive profit growth in the future.

As planned, we increased investment levels in 2005, particularly to accelerate growth in Menzies Aviation. This reflects the division's improved track record and our increasing confidence in its ability to generate shareholder value.

Strategy

Over the last two years we have delivered against a consistent strategy:

1. Get the Basics Right
2. Build Strong Businesses
3. Grow from Strength.

The results have been particularly evident at Menzies Aviation, where the leadership team has raised service levels and delivered that service more consistently across the network. We have been successful in turning around underperforming stations in our 'Fix/Close/Sell' programme. The USA remains the last loss-making part of the system and we believe that, with the additional scale from our 2006 conditional purchase of Aeroground, the turnaround here is well under way. Finally, we have developed new products and become more customer focused.

We have formed strong relationships with a number of major customers, including the fast-growing low-cost sector. I am now much more confident that we can invest successfully in growing Menzies Aviation and create substantial shareholder value as we do so. The right platforms are now in place to grow the business more rapidly, both organically via contract wins at existing and new stations, and by acquisition.

Menzies Distribution is a much more mature division than Menzies Aviation. It is well-established in its geographical territories and delivers a high standard of service to publisher and retailer customers alike. Our 2006 conditional acquisition of Chester News enables us to extend that service into a new region. In the short term the business faces a tough consumer market. In addition, the sector is going through a number of changes, with contract renewals and changes in product mix depressing yields. This, together with the growth in supermarkets, is creating significant pressure on the remaining independent wholesalers. In this environment, it is important to control costs tightly and we are accelerating and intensifying our cost reduction initiatives. We are finding new ways to help our customers sell greater product volumes with less waste. We are also seeking new growth opportunities with regional newspapers and through extensions of our 'Superleague' programme.

Finally, we await the outcome of the Office of Fair Trading's ongoing investigation into the newspaper and magazine wholesaling industry's structure. This has the potential to drive further change – not necessarily, we believe, in the interests of the consumer – and we continue to consult with the rest of the sector and the OFT. We have plans in place to meet a range of potential outcomes.

People

We are a people business. Our people differentiate us from our competitors and deliver an edge in the marketplace by working closely with our customers.

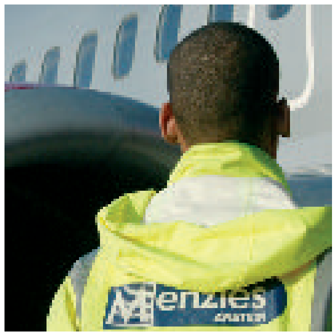
We have put in place a number of initiatives designed to help us identify, recruit, develop and retain talent. These include the Company's first consistent personal development review system, talent management approach and staff survey. We are trialling a number of leadership development approaches to roll out during 2006. Taken together, these initiatives help ensure we continue to deliver robust growth in the future.

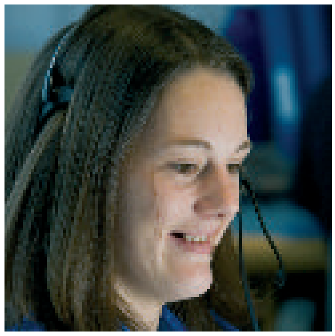
Ellis Watson, the new Managing Director of Menzies Distribution, has settled in well and is providing strong leadership at a time of change. Craig Smyth has continued to reinforce the leadership team at Menzies Aviation and the business is now much better placed than previously.

Looking ahead

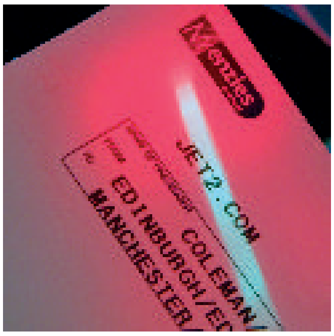
We are facing a more challenging year in Menzies Distribution. The management team has a strong track record and with its new leadership I believe we are ready to reposition our business as the industry evolves.

Menzies Aviation is benefiting from our focus on new product development and consistent service delivery. I am now much more confident that the leadership team is able to grow the business from a position of strength. We will continue to focus on our customers and expand into new locations, both organically and by acquisition.





PATRICK MACDONALD
CHIEF EXECUTIVE



SERVICES

CHECK-IN
TICKETING
RESERVATIONS
PASSENGER TRANSFER
BAGGAGE HANDLING
LOAD CONTROL

Passengers handled last year: **52** million

Flight turns handled in 2005:

344,000

(equivalent to 688,000 flights)

DE-ICING
RAMP HANDLING
CABIN CLEANING
WATER SERVICES
AIR TRAFFIC SIGNALLING
AIRCRAFT PUSH BACK & TOW

Group Results

The Board set out at the start of the year to build on 2004's achievements. 2005 has been another successful year for the Group in which we have made good progress.

Menzies Distribution held its profits close to last year's level. This performance was achieved against the backdrop of contract renewals, a significant drop in partwork sales and a decline in monthly magazine demand. Its results benefited from the strength of weekly magazine sales and from successfully implementing cost savings.

Menzies Aviation has had another successful year. It has continued to build its profits, which increased by £3.0m (+29%) to £13.3m. Its drive to standardise its business processes over the past two years has contributed significantly to this success.

Group Highlights

	2005 £m	2004* £m	Growth
Turnover	1,390.0	1,369.2	2%
Operating profit before goodwill	40.2	36.5	10%
Interest	(0.8)	(2.9)	72%
Headline PBT[1]	39.4	33.6	17%
Headline earnings per share[2]	52.2p	44.0p	19%
Free Cash Flow[3]	23.6	26.3	-10%

Performance

Overall Group turnover continues to be heavily influenced by the relative size of Menzies Distribution, where sales broadly matched 2004 levels despite a 21% drop in partwork sales. Menzies Aviation's turnover was up 10% on last year, driven by a 21% increase in ground handling revenues.

The interest cost at £0.8m was £2.1m below last year due to the full year benefit of the refinancing of a long-term bond in 2004, an increase in other income from the additional contribution in 2004 to the pension fund and lower average debt levels.

Headline profit before tax rose by 17%, driven by a 29% improvement in Menzies Aviation's profits and reduced interest costs.

Free cash flow remains strong at £23.6m. Capital expenditure, at £22.1m (2004 £16.2m), was increased by £5.9m, reflecting Menzies Aviation's investment in equipment to support startup operations and our emphasis on renewing and upgrading existing ground handling equipment. Menzies Distribution also opened two new branches, replacing two smaller units, and spent £3m on IT including the installation of the first of a new generation of automated magazine packing systems. Net debt has reduced by £12.9m to £30.6m.

We have acquired two new businesses since the year end. On 8 February we announced that Menzies Distribution had acquired Chester Independent Wholesale Newsagents ("CIWN"), conditional on regulatory approval. On 8 March we announced that Menzies Aviation had reached conditional agreement to acquire Aeroground Inc., a provider of cargo handling services to customers at 9 airports in USA and Canada. Further details on these businesses are included in the divisional reviews below.

[1] Headline PBT is defined as profit on ordinary activities after interest and before tax, goodwill amortisation and exceptional items.

[2] Headline earnings per share is defined as profit after tax, minority interest and preference dividends, but before goodwill amortisation and exceptional items, divided by the weighted average number of ordinary shares in issue.

[3] Free cash flow is defined as the cash generated by the business after capital investment, interest, tax and preference share dividends and before acquisitions, disposals, ordinary dividends and share issues.

** The comparative results for 2004 have been restated following the adoption of FRS 20 'Share-based Payment' for 2005. This new accounting standard resulted in an additional profit & loss charge for 2004 of £0.3m.*

Menzies Distribution

£m	2005	2004	Growth
Turnover	1,104.3	1,109.4	0%
Operating profit before goodwill	30.7	30.5	1%

A full description of Menzies Distribution's business and the markets in which it operates is set out on pages 20 and 21.

Performance

Menzies Distribution's sales have in general continued previous trends, with overall newspaper volumes showing small declines offset by cover price increases. In addition to this we have seen some shift from monthly to weekly magazine sales, increasing towards the end of the year, and partwork sales have fallen by 21%, reverting to their 2003 levels. We have also seen a significant decline in sales of phonecards. The impact of these factors was partly offset by the 53rd week, which added 1% to sales and £0.6m to profits.

Our performance reflects the cost benefits from recent productivity improvements and decisive action taken to accelerate cost saving initiatives. These have partly offset increased costs arising mainly from the increased volumes of magazine returns being processed for recycling and from fuel costs. We have continued to invest in the future of this business through IT development, staff training and process innovation.

Developments in Menzies Distribution in 2005

Menzies Distribution continues to develop industry-leading processes to meet the needs of all its customers, both publishers and retailers.

We have appointed a new Managing Director, Ellis Watson, who joined us in September from a background in the newspaper industry. He brings a fresh outlook and increased emphasis on customer service and on the development of additional services which can be provided from our network and skill base.

Two new branches have been opened, in Dalgety Bay, Fife and in Swansea, replacing older smaller branches. This has also enabled us to complete the national roll-out of our 'pack-by-light' IT-based system, which has significantly improved packing line management and packing accuracy.

A next-generation magazine packing system has been installed in Sheffield, one of our larger magazine distribution branches, and with further development will lead to significant productivity enhancements in our larger branches. Our established Kardex system remains effective for our smaller units.

During the year, we successfully introduced our 'Dial' performance information and reporting system throughout our branch network. Its name derives from the performance dials which are posted in each branch weekly, recording the accuracy with which we have fulfilled our service KPIs – principally packing accuracy and delivery within agreed timings – which are made available to all customers. For example, performance for newspaper copies delivered accurately is running consistently above our 99.5% target level.

We carried out our first customer survey, part of our drive to ensure that we understand fully the needs and information requirements of our customers, and that we deliver accordingly. Our success in achieving this is evidenced by our winning the 'Wholesaler of the Year' award from the National Federation of Retail Newsagents and the Gold award at the Association of Circulation Executives awards. We also won the Orange Award for Bright Business at the National Business Awards for Scotland for our 'Launch Factory' marketing initiative to maximise sales of new titles.

To enhance further our customer services to retailers, we launched our 'Great Service' project which includes a customer charter specifying the standard of service our customers can expect from us, a standard well above the industry benchmark. As part of this initiative, we have set up a team of dedicated sales and development representatives across our network of branches. They visit our customers regularly, to improve communication with them and to ensure that they are fully aware of, and can benefit from, the other services which we provide, all aimed at boosting their sales and profits.

Another key service provision rolled out in 2005 was our sales based replenishment system. We are working closely with many of our customers to maximise the stocking efficiencies available to them and thus to achieve reductions in returns levels.

Contract renewals with publishers continue to progress satisfactorily and many are now concluded. Although as anticipated we have experienced some margin reduction, we are pleased to secure these contracts for another five years and have marginally increased market share through additional business.

Position as we enter 2006

Menzies Distribution is a strong player in a major market. Newspaper volumes continue to decline slowly. The number of magazine titles available continues to grow, and initial trading results for 2006 indicate that the shift from monthly to weekly magazine titles is continuing. Magazine sales overall have started the year disappointingly, and sales of partworks are running well below previous levels.

The conditional acquisition of CIWN provides a useful expansion of our geographical footprint into Cheshire and North Wales. This acquisition will initially have little impact on the Group's earnings per share.

The OFT has yet to publish its final opinion on the distribution system for magazines. We have developed contingency plans for a range of outcomes, and believe that we can meet the opportunities and challenges which may arise.

We remain confident that we can reposition this business in this time of change, and that the value which we add to the distribution process will continue to underpin our position as a major player in this market.

'Great Service' involves giving retail customers a personal contact who will listen to them and share information about our performance so that we can consistently provide the best levels of service.

A Customer Charter details how we aim to improve our service still further, with targets across various areas measured using key performance indicators.

The “Nightly Miracle”

On 364 days a year, between the hours of midnight and 3am, millions of newspapers arrive at our branches

On arrival, the “papers” are unbundled, sorted and packed into individual orders for each of our 21,300 retail customers

Deliveries to our retail customers, from Inverness to the Isle of Wight, commence from 3am onwards

Unsold products from the previous day are collected when deliveries are made, and then prepared for recycling or processing

Menzies Aviation

£m	2005	2004	Growth
Turnover	**285.7**	259.8	10%
Operating profit before goodwill	**13.3**	10.3	29%

A full description of Menzies Aviation's business and the markets in which it operates is set out on pages 23 and 24.

Performance

Menzies Aviation's 10% increase in sales was driven by new contracts and startup operations, particularly at Alaska Airlines' Seattle hub, with ground handling revenues up 19% in line with volumes. Cargo revenues were flat, with volumes on a like for like basis increased by 2.4% after adjusting for our exit from a major cargo handling contract as part of the restructuring of our Heathrow warehouses.

Profits benefited from the improvements made to our UK cargo operations, with Europe cargo handling showing a £3.5m increase on 2004. Ground handling profits there were broadly flat due to the level of startup activity. This also affected our US stations where startup costs including those at Seattle increased losses by £1.1m. Asia Pacific region profits increased by £0.5m, benefiting from new contracts.

Prior year profits of £10.3m also included £0.6m from Execair which was sold during 2004.

Developments in Menzies Aviation in 2005

Menzies Aviation has made good progress in realigning the underperforming parts of its business and in standardising its business practices, greatly improving the consistency of its service levels.

Europe

Our European cargo handling operations have benefited from our £1.5m investment at Heathrow. This involved the refurbishment of our main 135,000 sq ft warehouse and the closure of one of our three other cargo sheds there, and allowed us to improve operating procedures with an immediate improvement in operating margins. It also involved the exit from a major contract, with the loss of revenue involved being more than offset by the overall infrastructure savings. Amsterdam also performed well, with improved results benefiting from the first full year of a cargo contract won in 2004.

Our UK ground handling operations have seen significant growth in new contracts at most of our stations including Heathrow, Edinburgh and Manchester. At Edinburgh, for example, we have moved from being the smallest to the largest independent handler at the airport during the year as a result of performance-based contract wins. This growth has involved an increased level of startup costs.

Americas

In the USA, Menzies Aviation was awarded the contract to perform all ramp operations for Alaska Airlines at its Seattle hub, handling some 150 flights each day. This important contract win is further evidence of the trend among major airlines to outsource key services. Our ability to operate hubs such as this and easyJet's UK Luton hub shows the importance of, and the added value which can be brought by, independent ground handlers in this growing sector.

Activity at our Los Angeles station also increased following several contract wins. Operating performance there has improved significantly following the introduction of new systems such as 'Right Bags On Board' (see page 25). However, initial startup costs affected the region's results.

Our Latin American operations are concentrated in Mexico, Peru, Venezuela and, together with our Caribbean operations, are performing well. Hurricane Wilma caused significant damage to our Cancun operations which had just been awarded 'Best Station Worldwide' status by Britannia Airways. Although our services there were up and running again quickly, the resulting drop in traffic is having some effect on our profits from Mexico.

Asia Pacific

Performance in this region continues to improve, with our Australia/New Zealand stations showing a useful profit increase although continuing to experience tough price competition. A small acquisition helped to achieve greater consolidation and to generate economies of scale in New Zealand and has strengthened our position in this market.

Hong Kong maintained the profitability achieved in 2004, and Macau increased revenues slightly despite a small decline in cargo volumes. Our investment in startup operations at Chengdu in south-west China is continuing to develop, with some new contract activity.

Other initiatives

We are also rolling out the 'Dial' operating KPI measurement suite in Menzies Aviation as we standardise our processes, focusing on service levels and staff utilisation efficiencies at all our stations to bring them into line with best practice. These include productivity measures such as man-hours per turn for flight turnrounds.

During the year, Menzies Aviation conducted its first full customer survey. The feedback received was constructive, highlighting some further opportunities to improve service levels. These are being addressed under a specific project designed to ensure that we provide a consistent level of excellence at all stations. Our efforts have not gone unrecognised, and we were delighted to receive during the year the 'BA Way' award for the handler which most closely matches the way British Airways wants its outsourced handling performed and the 'Most Responsive Handler' award also from BA for the way in which we helped restart their operations at Houston after Hurricane Katrina.

Position as we enter 2006

Menzies Aviation has entered 2006 on a positive note.

We are clear on where and how we can make profit in both our ground handling and cargo businesses, and are in a position to capitalise on this.

We have established industry-leading systems to meet the needs of customers. To complement our leading-edge cargo system, 'Hermes', we have developed products such as 'Ucheckin', a web based self service check-in platform for our airline and airport customers and 'Right Bags On Board', which has delivered dramatic improvements in Los Angeles.

Our businesses continue to evolve and adapt to changing market dynamics. At Heathrow, while we did not retain the BAA airside inter-terminal bussing and baggage transfer contract which will end in April 2006, we have won the new BAA landside 'Heathrow LOOP' bussing contract which starts in January 2007.

We intend to continue our growth in a market which has significant potential for expansion through a mix of organic growth and targeted acquisitions.

The conditional acquisition of Aeroground announced this month will give us critical mass in important US cargo airports and will double our turnover in the region. It has a strong strategic fit with our existing ground handling and cargo handling business in North America, with operations overlapping at four airports and new sites at a further five. It will bring significant synergies to our US West Coast cargo operations which will now be able to offer a wider range of services to an expanded group of customers. We expect that this acquisition will be earnings enhancing in 2006, and, together with our other US developments, will bring our US operations to break even by the year end.

We operate in global markets which, particularly in ground handling, are generally expected to continue current growth patterns. The opportunities which exist in these markets, and which we are now better able to realise, point to a positive future.

Cargo volumes handled in last 12 months:

1.1m tonnes

SERVICES

RAMP TRANSFER

LOAD MANAGEMENT

IMPORT & EXPORT HANDLING

WAREHOUSING & STORAGE MANAGEMENT

Total revenues from cargo handling:

£126 million

MANPOWER PROVISION

INTER-AIRPORT TRUCKING

TRACK AND TRACE SERVICES

AIRFREIGHT WHOLESALING

COURIER & MAIL WHOLESALING

FORWARDER HANDLING

Financial Review

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

The adoption of IFRS for the 2006 financial statements will not have any substantial impact on our reported results.

Shareholders' Funds

Shareholders' funds increased by £12.3m during the year to £51.3m, as follows:

	£m
Shareholders' funds at December 2004	**39.0**
Profit for year	36.1
Taxation	(9.0)
Dividends	(11.5)
Minority interests	(0.3)
Net actuarial loss	(6.6)
Investment in own shares	(0.2)
Currency translation	(0.4)
Increase in share capital	3.5
Share based payment	0.7
Shareholders' funds at December 2005	**51.3**

The Group generated an operating cash flow of £46.9m in both 2004 and 2005. Share issues in 2005 raised a further £3.5m. Some £22.1m was re-invested in the business whilst dividend and tax payments accounted for £15.8m. Net debt decreased from £43.5m to £30.6m.

Cash Flow

		2005		2004
	£m	£m	£m	£m
Operating Profit		**36.9**		32.9
Share based payments		**0.7**		0.3
Depreciation		**16.5**		16.3
Goodwill amortisation		**1.5**		1.8
Net pension movement		**(0.3)**		(0.5)
Working capital		**(4.1)**		(0.3)
Cash spend on exceptionals		–		(0.1)
Non cash items		**(4.3)**		(3.5)
Operating cash flow		**46.9**		46.9
Purchase of fixed assets	**(22.1)**		(16.2)	
Sale of fixed assets	**1.6**		0.6	
Net capital expenditure		**(20.5)**		(15.6)
Dividends from associates and joint ventures		**4.0**		4.0
Net interest paid		**(1.9)**		(4.0)
Preference and minority dividends paid		**(0.3)**		(0.1)
Tax paid		**(4.6)**		(4.9)
Free cash flow		**23.6**		26.3
Loan notes redeemed		–		0.2
Equity dividends paid		**(10.9)**		(10.3)
Additional pension payment		–		(10.0)
Acquisitions		**(0.8)**		(3.4)
Disposals		–		12.6
Shares		**3.5**		2.2
Total movement		**15.4**		17.6
Opening net debt		**(43.5)**		(63.3)
Currency translation		**(2.5)**		2.2
Closing net debt		**(30.6)**		(43.5)

The statutory FRS 1 cash flow statement is shown on page 54.

Working Capital

Working Capital movement is analysed as follows:

	2005 £m	2004 £m
Stocks	(1.9)	1.7
Debtors	(3.2)	(8.9)
Creditors	1.0	6.9
Net increase in working capital	(4.1)	(0.3)

Significant attention continues to be focused on managing the Group's working capital position, with particular emphasis on tight control of debtors. Debtor days outstanding at Menzies Aviation were 36 at December 2005 compared with 39 at December 2004 as a result of its continued focus on cash management which has seen its debtor days reduce each year from 56 days in 2002.

Fixed Assets

Purchases of fixed assets totalled:

	Property £m	Plant & Equipment £m	Total £m
Distribution	1.5	5.4	6.9
Aviation	1.0	14.2	15.2
Capital expenditure	2.5	19.6	22.1

During the year Menzies Distribution opened two new branches, in Dalgety Bay, Fife and in Swansea and invested some £3m in new technology.

Menzies Aviation's capital expenditure mainly comprised equipment to service new contracts.

Interest

The net interest charge is analysed as follows:

	2005 £m	2004 £m
Bonds	–	1.9
Fixed rate sterling term loan	2.0	0.9
US dollar term loan	0.3	0.5
Cash / overdrafts	(0.3)	0.2
Other finance income	(1.2)	(0.6)
Net interest charge	0.8	2.9

The bonds, which were redeemed during 2004, were at a fixed rate of 7.362%.

The sterling term loan is at a fixed rate of 6.23% and is repayable between 2006 and 2020.

Other finance income is the net financial return from the pension scheme under FRS 17 and has increased due to the additional £10m contributed by the Group during 2004.

Taxation

The effective Headline tax rate for the year was 22.8% compared with 24.7% in 2004 and is analysed as:

	%
Tax due at UK rate	30.0
Non tax-deductible items	0.3
Unrelieved overseas losses	5.6
Overseas rate impact	1.3
Utilisation of tax losses	(6.3)
Deferred tax asset on overseas losses	(2.0)
Adjustments in respect of prior years	(6.1)
Headline tax rate	22.8

The tax rate on Headline earnings continues to be below the standard UK rate as a result of the realisation of carry forward overseas tax losses, the creation of overseas deferred tax assets on brought forward losses and the resolution of prior year matters.

Tax paid during the year was £4.6m. Payments are expected to increase for the year to December 2006.

Goodwill amortisation of £3.3m does not attract any tax relief.

Goodwill

Capitalised goodwill amounts to £36.8m compared to £37.2m in 2004.

Pensions

FRS 17 'Retirement benefits' was fully adopted in 2004 to provide investors with greater clarity of earnings going forward. The following table summarises the profit and loss account and balance sheet impacts of FRS 17 for 2004 and 2005:

		2005		2004
	£m	£m	£m	£m
Profit & Loss Account				
Current service cost		(5.1)		(5.5)
Expected return on scheme assets	11.5		10.5	
Interest on pension liabilities	(10.3)		(9.9)	
Net financial return		1.2		0.6
Net P&L charge		(3.9)		(4.9)
Balance Sheet				
Total market value of assets		209.8		179.3
Present value of scheme liabilities		(241.1)		(202.6)
Deficit in scheme		(31.3)		(23.3)
Related deferred tax asset		9.4		7.0
Net pension liabilities		(21.9)		(16.3)

Whilst the market value of invested assets increased by 17% in the year to 31 December 2005, as a result of strong investment growth in the equity component of the assets, the present value of scheme liabilities increased by 19% over the same period, as a result of the reduction in yields on corporate bonds.

During 2005 the Group contributed cash of £5.4m.

For 2006 the net profit and loss account pension charge is expected to reduce slightly.

The defined benefit salary scheme is closed to new members.

Treasury operations

From a Treasury perspective the main financial risks faced by the Group are liquidity, interest rate fluctuations and foreign exchange exposures. The Board has approved policies for each of these risks, which are managed on a day-to-day basis by Group Treasury. The purpose of these policies, which remained unchanged throughout the year, is to ensure that adequate funds are available to the Group at all times and that financial risks arising from the Group's operating and investment activities are carefully managed. Accordingly, Group policy is not to enter into transactions of a speculative nature.

The Group Treasurer reports formally on a monthly basis to a Treasury Committee under the chairmanship of the Group Finance Director and operates within scope and authorisation levels specified by the Board.

Liquidity: operations are financed by a mixture of shareholders' funds and bank borrowings. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Surplus cash is currently held, and Group policy is to make major deposits only with substantial institutions with high credit ratings. In addition to its fully drawn down term loans of £32.2m the Group has £32.9m of unutilised committed facilities, which are committed to January 2007.

Interest rate fluctuations: the Group's policy is to arrange core debt with fixed rate borrowings. The term bank loan of £32.2m is fixed at 6.23% and is repayable between 2006 and 2020. Foreign currency bank borrowings totalling £17.7m are floating at rates ranging from 2.83% to 5.125%, which mature within the next 12 months. Other borrowings and cash deposits are at variable rates.

Foreign exchange exposures: the Group's exposure to currency risk at a transactional level is minimal, with day-to-day transactions of overseas subsidiaries largely carried out in local currency.

The Group's exposure to balance sheet translation risk in respect of its overseas net investments is minimised by borrowings in the functional currency of the investment and by use of derivative financial instruments, which have the effect of converting sterling borrowings into borrowings of the functional currency.

Approximately 12% of Group turnover and 50% of assets are denominated in overseas currencies. The Group does not actively hedge exchange rate movements on the translation of overseas profits except where those profits are effectively matched by foreign currency interest costs.

The majority of Menzies Aviation's stations are located outside the UK and operate in currencies other than sterling. The rates of exchange to sterling for those currencies which have principally affected the Group's results were:

	Average for year to Dec 2005	Year end 31 Dec 2005	Average for year to Dec 2004	Year end 25 Dec 2004
US$	1.824	1.717	1.826	1.926
Euro	1.462	1.455	1.475	1.423

Credit risk: the Group is exposed to credit related losses in the event of non-performance by counterparties to financial instruments, but mitigates such risk through its policy of selecting only counterparties with high credit ratings.

Further disclosure in respect of the above is included in Note 16 to the Accounts.

International Financial Reporting Standards

The Group, along with all listed groups in the European Union, will prepare its 2006 financial statements under International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Accordingly, the Annual Report and Accounts for the year to 31 December 2005 is the last to contain financial statements prepared in accordance with UK GAAP.

The Group has been following a transition plan to migrate its financial reporting from UK GAAP to international accounting. Based on the work performed to date and current international standards, the significant differences that are likely to arise from the adoption of international accounting are as follows:

Leases: IAS 17 establishes a new methodology to determine whether leases are to be treated as operating leases or finance leases. This particularly affects leases over land and buildings, which must be split into their constituent parts and assessed separately. A review of the Group's portfolio of operating leases is being undertaken to determine whether the current operating lease treatment remains appropriate under IAS 17.

Goodwill: IFRS 3 requires that on acquisition of new businesses after March 2004 a value is attributed specifically to all separately identifiable intangible assets. Such amounts are then to be amortised over the estimated useful life of the asset. The remaining difference between the consideration paid and the fair value of net assets acquired is attributed to goodwill. Goodwill is required to be held at cost and is not to be amortised. Instead, it is to be subject to annual impairment tests. Any existing goodwill will be carried at the amortised amount and will no longer be amortised.

Pensions: for defined benefit pension schemes, the requirements of IAS 19 'Employee benefits' are similar to those of FRS 17 under UK GAAP. The Group has fully adopted FRS 17 for 2004 and 2005.

Dividends: IFRS requires dividends payable to be recorded in the period in which they are declared whereas under UK GAAP dividends are recorded in the period to which they relate.

Deferred taxes: IAS 12 requires accounting for deferred tax on temporary differences, which is wider in scope than existing UK GAAP accounting principles in relation to deferred taxation.

Financial instruments: the primary impact of the implementation of IAS 32 and IAS 39 is anticipated to be the reclassification of the Group's 9% cumulative preference shares from non-equity share capital to debt and the related dividend being reclassified as an interest cost.

Group Trading Outlook

Menzies Distribution has experienced a significantly softer market in the first 10 weeks of 2006. The momentum in weekly magazines has softened and monthly magazine sales are running 8% below the same period last year. Partwork sales have been very disappointing at 37% below last year's weak figures. Newspaper sales are in line with our expectations and stickers are well ahead. We are implementing strategic initiatives to address the current market challenges but, if current trends continue, these will not be sufficient to offset the sales shortfall and the impact on margins of contract renewals. We therefore expect that Distribution's performance will be lower than that achieved in 2005.

We are well placed to grow Menzies Aviation, where revenues are running above our expectations, supported by last year's contract wins. As a result of this together with contract wins in 2006 and the recent conditional acquisition of Aeroground, we expect that the division's performance for the coming year will be well ahead of last year.

Whilst we are still at an early stage in the year, we do not currently expect that the improvements in the performance of Aviation will fully offset the impact of the challenging environment in which Distribution is now operating. We therefore expect that the Group's overall performance for 2006 will be slightly behind our initial expectations.

Looking further ahead, we believe the outlook for the Group is positive.

On behalf of the Board

PATRICK MACDONALD
CHIEF EXECUTIVE

PAUL DOLLMAN
GROUP FINANCE DIRECTOR

20 March 2006

Marks & Spencer case study

Menzies Distribution was appointed category partner in 2002 when M&S decided to roll-out the introduction of newspapers and magazines. The number of stores increased from 51 in 2003 to 286 by the end of 2004, and is planned to increase again during 2006. Our role includes monitoring sales trends, advising on display formats and product range, and helping to deliver operational excellence and sustained growth.

Bill Davies, Head of Newspapers and Magazines at M&S, had this to say: "The newspaper industry is very different to the food industry. We appointed Menzies because we wanted someone who could deliver to high operational standards, and who had expert knowledge of the news retail market and a proven track record in working closely with retailers. Menzies fitted the bill perfectly. They are extremely customer focused and I am delighted with their all round performance."

John Menzies plc is a logistics company specialising in providing value adding and time critical outsourced services.

Menzies Distribution

Menzies Distribution is the second largest of the UK's newspaper and magazine wholesalers, and the only one to operate throughout the UK. We operate from 25 main and 10 sub branches with 4,000 employees, serving 21,300 retail customers with products from more than 900 publishers covering over 3,600 individual titles.

In newspaper distribution, often described as the "nightly miracle" (see page 10), the most visible task is the breaking of the bulk newspaper deliveries to our main branches into delivery packs for each of our 21,300 individual retail customers, for early morning delivery. This product will usually be in our hands for only 3-4 hours, as its shelf life is exceptionally short, with a title delayed being a sale lost.

Our less obvious services depend on our continuing development of IT systems to provide essential information quickly so as to add crucial value for both the publisher and retailer, which include:

- Allocating copies, also in response to larger or smaller print runs
- Collecting and processing unsold copies for recycling
- Providing next-day information on actual copies sold
- Helping retailers to increase sales through marketing/display advice and general business training
- Helping publishers and our 'Superleague' retail customers to launch new titles
- Reducing waste and improving sales through use of our sales based replenishment system
- Stripping cover-mounted special offers from returns, and recycling returned magazines and cover mounts separately
- Providing range management services to retailers, taking account of changing demand for magazine sectors or individual titles.

Our customers vary from the small local newsagent to, increasingly, the major multiple chains whose information requirements vary considerably. Our suppliers range from the major publishing chains to the small local publishers, and all enjoy equal access to the UK's markets through the current distribution system.

A particular feature of the past few years has been the strong sales of partworks; these are specific publications which tend to be launched early in the year, and are issued monthly, weekly or fortnightly for a defined period.

Menzies Distribution's Marketplace

The newspaper and magazine distribution network plays a key role in linking publishers with the 54,000 retail outlets which serve the consumer. There are eight leading national newspaper publisher groups, and some 100 smaller or regional news publishers, covering over 600 titles. There are 12 main magazine publishers with 60% of this market, plus some 800 smaller publishers bringing the total range to over 3,000 titles.

An extensive range of individual magazine titles are brought to the market by specialist distributors, three of whom – Marketforce, Frontline and COMAG – manage the marketing and the distribution to wholesalers of around 70% of magazine titles.

Newspapers across all sectors from 'tabloids' to 'qualities', daily and weekend, have been experiencing volume declines over recent years. Magazines are broadly split between weekly and monthly titles, with current trends indicating a shift from monthly to weekly titles.

The final delivery of product to retailers is done through three main wholesalers – Menzies, WH Smith and Dawsons – and several smaller independent wholesalers and publisher-owned arrangements.

The UK's distribution network has been developed through competition into a cost-effective structure which is very much in the interest of the consumer due to the wide availability of all titles in all parts of the UK. This cost-effectiveness arises generally through the use of exclusive territories.

The reduction in the van mileage which would otherwise be involved in multiple supply to individual outlets also brings obvious environmental benefits.

The wholesalers operate under contracts from the publisher or distributor which generally range from three to five years. Contract renewals are tendered openly, generally based on margins as a percentage of cover prices. With the competitive nature of the market, this tends towards some reductions in margins at renewal. However, the security of these contracts supports the wholesaler in the continual development of cost-effective information and distribution services.

Within the retailer network, the supermarkets have been increasing market share, and multiple retailer groups have been increasing outlets, generally at the expense of the independent newsagent.

UK Competition Law

The effectiveness of the newspaper and magazine distribution structure has for many years been recognised by the UK Government, latterly through the exemption of the vertical agreements involved from competition law. To align our competition law more closely with EU law, the Government announced in 2003 that it would withdraw this exemption, prompting the industry members to seek an opinion from the OFT on whether the operation of the system, based on codes of practice previously endorsed by the competition authorities, was compatible with UK law.

The OFT's current draft opinion, published in February 2005, provisionally concluded that the newspaper wholesaling structure was compatible, but that the magazine wholesaling structure required modification. The OFT is currently considering responses from all sectors of the industry.

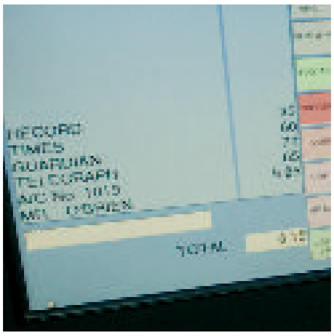
Should the opinion of the OFT remain unchanged, the exclusive territory nature of the current magazine contracts would have to be amended. This could have the potential to alter the economics and environmental benefits of the current network, and could remove the obligation on the current wholesalers to ensure that all magazine titles had equal access to the retail market.

The OFT will issue a further draft opinion in May 2006 and a final opinion in the autumn. Whatever the outcome, Menzies Distribution intends to ensure that it remains the UK's service provider of choice for publisher and retailer alike through its focus on developing new services to support all our customers.

Business trends

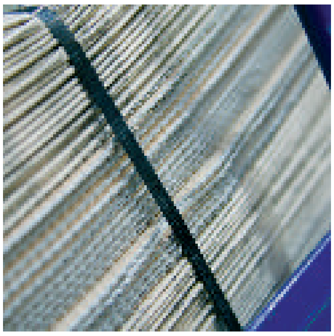
Within this market, the services provided by the wholesaler have added significant value to its customers over the past years. Key to this development has been the wholesaler's IT systems, providing detailed sales analysis on a daily basis, net of returns, enabling the publisher to focus product and content more effectively. Supporting this has been the move to larger branches with semi-automated packing systems, maximising packing efficiency and increasing the accuracy of retailer deliveries.

Current developments include the introduction of stock management and sales based replenishment systems for retailers, accepting information electronically direct from the retailer's till transactions. Support for the smaller retailer includes help with the purchase and installation of EPoS till systems, with obvious benefits to stock control (see case study on page 22), and with other added value services, including marketing and shelf management support to achieve increased sales. These initiatives also help to reduce the volumes of returns as publishers seek additional sales by ensuring full copy availability throughout the shelf life of each title.



Churchills is one of the largest home news delivery agents in Kelvinside, Glasgow. Just over a year ago it upgraded its barcode and scanner system to an integrated EPoS "SuperStore" system provided by Torex Retail. Rory O'Brien, the proprietor, said: "Menzies Distribution convinced me that it was simply the best system around and I agree. The system ensures that prices are always correct, and provides statements for customer accounts including billing and delivery information. It also monitors stock levels, prompting me to re-order when stocks are low, and helps me handle newspaper and magazine returns.

I chose the SuperStore system because Menzies has a close working relationship with Torex and had negotiated a zero percent financing facility with them over two years, which made it easier for me to make that kind of investment. The control I now have over stock, profit margins and cash flow, and the savings I have made since installing the system, make it worth every penny."



Menzies Aviation

Menzies Aviation is one of the world's major independent suppliers of ground handling and cargo handling services to the aviation market. We provide passenger, ramp and cargo services for many of the world's leading airlines operating from 93 airports (known as stations) in 23 countries, with over 10,500 employees serving more than 500 customers.

Some two-thirds of ground handling worldwide is done by either the airline or the airport concerned. There is, however, an increasing realisation that this is not their core business, and that these services can most cost-effectively be carried out by specialist ground handling operators such as ourselves. At all times, safety and security are paramount.

These ground handling services cover:

- Ticketing, reservations and check-in services, where for some contracts we operate under our customer's banner, wearing their uniform
- Baggage loading and unloading, including load control and completion of loading sheets
- Passenger transfer - boarding and disembarking assistance, and airport bus services
- Passenger steps
- Cabin cleaning
- Toilet and water services
- Aircraft weight and balance
- Aircraft de-icing services
- Aircraft towing and push-back services
- Guiding aircraft at on-ramp parking (air traffic signalling)
- Ramp safety management.

Cargo handling includes the management of cargo sheds as well as aircraft loading and unloading, and usually includes import/export clearances. We have significant cargo operations at 10 airports, with smaller scale services at 46.

We handle a wide variety of cargo, ranging from precious commodities to mobile phones, from racehorses to Rolls-Royces and racing cars, even an ocean-going racing yacht, as well as perishable and dangerous goods. These operations are mainly carried out under contracts with specific airlines for cargo flown by them, but our AMI business also buys cargo space and provides a service mainly for freight forwarders.

The cargo handling services we provide include:

- Aircraft loading and unloading
- Cargo break up and down
- Manpower provision
- Trucking
- Track and trace services
- Aircraft load management
- Warehousing facilities.

Menzies Aviation also provides other specialist services, including bus services which operate at Heathrow, a call centre for outsourced airline services including reservations and customer complaints, and tailored business solutions to enhance our service offering whether to ground or cargo handling customers, for example our Hermes or RBOB solutions (see case study on page 25).

Menzies Aviation's Marketplace

The ground handling market worldwide is estimated at £19.3bn, of which £6.4bn (33%) is outsourced to independent companies such as Menzies Aviation. This sector is estimated to be growing at 4%pa, with a combination of increased volumes (5%) and increased outsourcing by airlines (2%), offset by some reduction in yields (3%). [Source - SH&E analysis and Airline Business magazine]

Within the £6.4bn independent sector, one-third of the market is estimated to be shared by the top eight companies including Menzies Aviation, with the remainder served by smaller mainly local operators.

Handling processes vary depending on the type of aircraft to be serviced. Airline delivery and order statistics continue to demonstrate the dominance of the narrow-bodied fleets, with wide-bodied aircraft more focused on the national passenger airlines and the dedicated freight carriers. Menzies Aviation handles all types, but has developed a specific team-based approach to handling narrow-bodied airliners which aligns the teams' performance and remuneration packages with the service objectives of our customer. This has proved to be attractive to our low-cost airline customers, with our first contract, for bmibaby's hub handling at East Midlands in 2002, followed by easyJet at Luton and Amsterdam and now Alaska Airlines at Seattle. This service also proves its worth for smaller contracts where, for instance, we have significantly reduced flyglobespan's turnround times at Edinburgh, and boosted easyJet's internal on time performance ratings of local station performance from 9th to 2nd within a month of our taking over its handling there.

Our new contract at Seattle is an example of the continuing outsourcing of ground handling services by airlines, with our teams taking over the full operations at Alaska's hub airport in May 2005. Effective ground handling management is also of significant benefit to airports through improved timetable maintenance and gate availability.

With staff costs representing a significant proportion of handling costs, we are implementing a global resource planning programme to improve the efficiency of staff utilisation. We recruit staff from a variety of backgrounds to improve our focus on meeting the needs of the customer. We develop IT systems which not only improve our service, but also highlight future development potential.

Global air cargo activity is strongly correlated with global GDP growth rates. Trends indicate an increasing tendency for freight to travel on dedicated wide-body cargo planes, with the global freighter fleet expected almost to double over the next 15 years. [Source - Boeing]

The USA's west coast will remain an important gateway from Asia, and the expansion of the EU is also expected to increase activity at central European airports such as Prague, with its central position, good transport links and low base costs compared with the 'older' European hubs.

With minimum handling times being a priority in this sector, cargo handlers are judged on their ability to meet deadlines. At Amsterdam, where Menzies Aviation is the largest independent cargo handler, we unload and reload a 100 tonnes capacity 747 in under two hours. Our Hermes cargo tracking system allows on-line parcel tracking at any point in the handling process, and was a significant factor in Lufthansa's renewal of its 5-year handling contract with us in the UK.

Our specialist bussing contracts at Heathrow are also based on effective and flexible management systems. Menzies Aviation busses carry 24,000 airport employees and construction workers each day at Heathrow, including feeder services, operating both scheduled services and flexible on-demand resources to cope with the unexpected, such as on demand services to cover unexpected shift changes at its Terminal 5 site. IT and satellite-based tracking and security pass monitoring services ensure the right level of service for this major workforce.

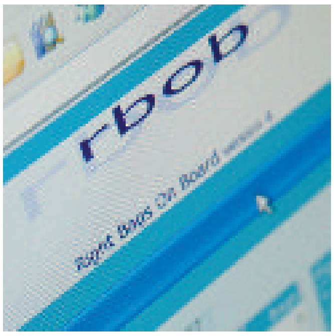
Business trends

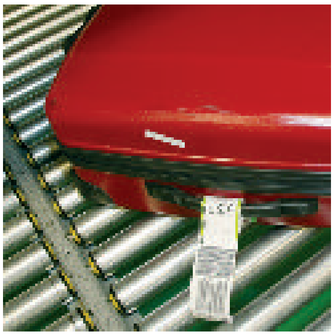
As in Menzies Distribution's marketplace, the increasing sophistication of the services provided by the specialist ground and cargo handler secures improvements for airline and airport customers and the positions of the successful operators.

Similar trends are evident in the important health, safety and security areas, where the specialist operator provides significant and continuing levels of training and safety management.

As the major ground handling companies show that they can meet these high standards, the opportunities for new outsourcing and for the acquisition of smaller handlers increase.

Misplaced or misconnecting passenger baggage is an expensive business for airlines. The RBOB application we designed uses hand held scanners to capture data for baggage handlers, such as passenger name, flight number, destination and which container the baggage should go in. This information means bags for connecting flights can be flagged for priority unloading or if a passenger doesn't board a flight, bags can be traced and removed quickly so as to minimise delays.





Victor Wong, Systems Manager – Service Delivery for Cathay Pacific Airlines at Los Angeles airport, said: "On its own initiative, Menzies has delivered a quality solution to resolve our baggage loading issues, especially to reconcile interline baggage and reduce mishandled baggage." RBOB is now used by Cathay Pacific, Delta Airlines and Japan Airways, with Singapore Airlines, Thai Airways and EVA Air due to go live this year.

Our aim is to be the service provider of choice in our markets.

Our focus on our employees, on training, and on health and safety are major contributors to our business success.

Employees

Our employees are key. We aim to provide an appropriate culture and working conditions to support them in providing effective and reliable service to our customers.

Patrick Macdonald, Chief Executive, is the Board member responsible for employee matters. The Managing Directors of each division have this responsibility on their Divisional Boards.

Culture

Menzies Aviation's employees have taken the lead in expressing our culture. Their *SPIRIT* ethos summarises it:

S afety and Security
P assion
I ntegrity
R eliability
I nnovation
T eamwork

SPIRIT emerged from employee focus group discussions, was trialled in our Bucharest station, and is being rolled out in appropriate form. It is backed by formal policies set by the Board.

Values

The Board has adopted Integrity Guidelines for the assistance of all managers, in a form which sets out clearly the "do's" and "don'ts" of modern working and employment practices. They include examples of situations which have been handled inappropriately in the past, and clear encouragement to seek the professional assistance available within the Group where necessary.

Policies

The Board expects the Group to conduct its operations based on sound ethical practices which are open and free from discrimination and harassment, and will not tolerate discrimination in any form. It has adopted and disseminated appropriate policies and procedures, including clear guidelines on matters such as competition law, bribery and policies on whistleblowing.

The principles of equal opportunities are recognised through published employment policies which are designed to attract, retain and motivate quality staff and to give full consideration to the employment of disabled people. Should an employee become disabled when working for the Group, efforts would be made to continue their employment and any necessary retraining would be provided.

Training

The Board has reinvigorated the Group's approach to training at all levels.

All executives and managers, from the Chief Executive downwards, undergo annual Personal Development Plan assessments. Leadership Development Programmes are being trialled, together with pilot schemes for the introduction of modern one-to-one coaching programmes.

All new employees are given induction training designed to ensure that they can fulfil their tasks safely, particularly where this involves lifting. All the Group's commercial vehicle drivers are given driver training designed to help them to drive safely, economically and with consideration to those around them.

Communication and Consultation

Internal communications are designed to ensure that employees throughout the Group are kept informed about the direction and performance of their own division and of the Group as a whole. The Group magazine "The Reporter" is issued on a regular basis and the interim and final results are presented to employees at visits to local operations undertaken by the Chief Executive, the Group Finance Director, or by divisional management. For those who cannot receive a personal visit, a video of the Chief Executive and Group Finance Director discussing the Results can be viewed at all locations.

We conducted our first Group-wide survey of all 14,800 employees spread over the 23 countries in which we operate. With full anonymity and a response rate of 40%, the statements given an "excellent" rating by employees were: "I enjoy my job"; "My immediate team/shift works well together"; "Menzies always puts the customer first". While there were many responses where the rating was less good, even poor, this exercise has for the first time given us a clear set of targets to work towards. The exercise will be repeated periodically.

Employee Share Option Scheme

Employees are able to develop a direct interest in the financial performance of the Group through its savings-related share option scheme, which is open to all UK employees, of whom some 1,400 are members. Under this scheme, options are granted over the Company's shares at a discount of 20% from the prevailing market price at the time of grant at an aggregate value based on savings of up to £250 per month over three years, with savings scaled back if an invitation is oversubscribed.

Health and Safety

Patrick Macdonald, Chief Executive, is the Board member responsible for health and safety matters. The Managing Directors of each division have this responsibility on their Divisional Boards.

Reports on health and safety performance are the first operating item at all meetings of the Group Board, the Executive Committee, and at Divisional Board meetings. They include injury statistics and trends as well as lessons learned, training performance, contacts with regulators and legislative changes.

Good health and safety practices are integral both to employee welfare and to the success of the Group. We are continually reviewing our procedures and our training in order to develop and adopt methods of working which reduce the likelihood of accidents occurring.

Both divisions operate in a time critical environment; newspaper deliveries work to a tight schedule, with any delay losing sales for ourselves and our customers. Ground handling operations focus on aircraft, where any slip can delay departure or damage a customer's aircraft.

The most common injuries incurred are those related to manual handling – lifting and tripping/slipping – and workplace transport flows. The Group's health and safety policy statement, which is published on our website, focuses on establishing a suitable environment, providing proper training and employee consultation.

Each division has a specialist health and safety manager, who is supported by local management.

In 2005, the first of a series of Group-wide health and safety conferences was held at which all our health and safety managers could share their practical solutions to the everyday problems they experience worldwide.

In 2005, a workplace transport safety information and advice line from the Freight Transport Association and the Health and Safety Executive was launched from our distribution branch in Bow.

We were chosen because both the FTA and HSE were impressed by our exceptional standards, yard layouts and workflows. The HSE is now publishing a case study based on our controls of workplace transport, which demonstrate best practice.

Menzies Distribution

Menzies Distribution's major investment programme in new warehouses over the past few years has given us the opportunity to introduce industry-leading vehicle movement practices both on branch forecourts and indoors. This has significantly improved the workplace transport flows involved, separating workplace vehicle movements from people movements and significantly reducing the opportunity for accident, to such effect that the Health and Safety Executive chose to launch their May 2005 "Safety at Work" helpline initiative for workplace transport from our new branch at Bow, East London. This took the form of a partnership between HSE and the Freight Transport Association (FTA), with whom we have also worked on separate training developments as noted below. The HSE will use our Bow branch as a published case study in successful workplace transport management.

Distribution has introduced over the past two years improved newspaper and magazine sorting processes – the 'pack-by-light' system. This has enabled them to standardise pack sizes and reduced significantly our exposure to lifting injuries, the largest category of our injury types. In addition, this has enabled them to improve their use of product packaging, thus helping to keep the workplace tidy and reducing the chances of slipping/tripping injuries.

Distribution's use of vehicles and the composition of its fleet is continually under review to ensure that the most appropriate vehicles are used. New vehicle bodies are being introduced which in some cases are narrower, allowing improved access for certain delivery routes, and in other cases have lower loadbeds, reducing the chances of lifting injury for the operator.

Each of our main branches operates a weighbridge to ensure that each axle of all delivery vehicles is properly loaded, reducing the chances of an accident on the road. This provides the "spin-off" benefit that once the vehicle time-out is recorded, accurate delivery times can be automatically forecast, improving our early-morning service to each of our customers.

Menzies Aviation

Menzies Aviation introduced an innovative, industry leading, behaviour-based safety process (Behavioural Risk Improvement) in its San Francisco airport ground and cargo handling processes, directly focused on addressing the poor standards inherited when it took over this operation. This has reduced accident rates there by 60% over the past four years and is fully operational in more than half the network including all major stations. It is being rolled out to all stations worldwide.

Aviation has focused on developing bespoke ground handling solutions for all types of customers. Each solution has been developed with safety at its forefront, so as to minimise the chances of incidents which might delay time critical operations for their customers, whether major carriers or the low-cost or smaller operators. Processes are centred around teams which operate on an open, no-blame, basis.

Aviation's operations are spread through 93 airports in 23 countries, many with differing attitudes to health and safety. The division has responded to this by establishing a regional health and safety management structure, with regional managers and local safety committees. Each location has a safety champion monitoring application of approved practices and local regulations. It also operates an intranet-based network reporting and investigation system for the recording of all incidents including near misses, to UK standards, and the follow-up action taken and lessons learned. Each operating site's health and safety practices are subjected to regular internal audit.

On our approach to customer service and safety, Luke Farajallah, easyJet's regional general manager, UK and Ireland, had this to say: "Our primary concern is always safety and Menzies shares our philosophy with its own strong code of safety.

Cost competitiveness is obviously key for a business like easyJet but we, in Menzies, also have a partner with a similar customer service ethic to our own and shared values".

Environment

Our focus on training, health and safety, and costs helps to reduce our environmental impact.

We were one of the original members of the FTSE4Good Index, where we are classed as "low impact".

The principal environmental factors in our business are our use of fuel as a distribution business, the handling of unsold newspapers and magazines ("returns") and packaging waste. For each of these factors, our focus on controlling costs is a key driver for minimising our environmental impact.

Fuel

Fuel is a significant cost for Menzies Distribution, which we seek to minimise (along with our CO2 emissions – 21,000 tonnes in 2005) in several ways. We have an effective system for creating 'run patterns' for morning deliveries and the collection of returns so as to minimise the overall mileage involved. The success of the 'Optrak' system we introduced in 2001 was recognised by the European Institute of Transport Management with its 'Fleet Management System 2002 Partnership Award' and it is regularly monitored to ensure its effectiveness.

Distribution introduced during the year a driver training scheme which we had devised in conjunction with the FTA. Our specially fitted training vehicle provides evidence for the trainee on the fuel savings which can be achieved, whether driving for the business or at home. It shows that most trainees can and do improve their fuel consumption by 10-15%. The FTA has also made the scheme available to its smaller operator members, a 'first' for the FTA and bringing wider benefit to the freight transport industry.

Distribution's commercial fleet of 360 vehicles is designed to fit its needs in the most cost-effective way, optimising load ratios. Third party contractors carry out some 68% of delivery mileage. However, the same focus on costs and health and safety which influence Distribution's choice of vehicle and its optimisation of delivery mileages affect its choice of subcontractor, leading to use of those with modern, well-maintained vehicles suitable for the task, on journey routes set by our Optrak system.

The fleet is regularly serviced for efficient operation and is renewed on a four-yearly cycle. As part of this renewal process, alternative vehicles are trialled, with fuel consumption being a significant economic factor in any decision to change to a more cost-effective vehicle type.

The Group's car fleet of 250 vehicles will all use Euro IV engines from April 2006. Higher mileage users are required to use diesel cars and others may opt for them; our statistics show that 25% of them do so.

Returns

In the newspaper and magazine industry as a whole, all product unsold at retail is collected by the wholesaler for recycling. Efforts to minimise the environmental impact fall under three headings: lobbying to reduce copies printed, systems to optimise availability of product, and efficient consolidation systems for recycling.

This situation is a major cost to the industry and is a further example on how the reduction of cost drives the reduction in environmental impact in a low-margin business.

Lobbying: all the major wholesalers apply pressure, generally through the Association of Newspaper and Magazine Wholesalers, on publishers to minimise the number of copies they push through the distribution network commensurate with sales and other targets such as availability.

Systems: the potential for successful lobbying is significantly improved by the ability of the wholesaler to apply effective systems to maximise 'on sale' copy while minimising excess stocks held in the network. Menzies Distribution rolled out its sales based replenishment ("SBR") system, developed by the division and adopted in 2004 as the standard industry model, throughout its network during 2005. SBR provides better product availability to the consumer with lower stockholding for the retailer and wholesaler. Extensive trials showed that a reduction in unsold copies of up to 50% can be achieved.

Consolidation System: Distribution collect returns of magazines and newspapers daily throughout its branch network, which stretches from Inverness to the Isle of Wight. Each item has to be scanned, feeding vital returns data into future copy allocation systems. And for magazines, any attached free gifts have to be removed before we deliver them to UPM Kymmene's Shotton recycled newsprint plant near Chester. The use of vehicles with walking floor trailers is used to improve the health and safety aspects of unloading the product at the recycling plant.

Community and Social

In addition to playing our full part in our industry bodies such as the Association of News and Magazine Wholesalers and the International Air Handlers Association, one of our divisional directors is a non-executive board member of Skills for Logistics, the Sector Skills Council which works alongside companies involved in moving, handling or storing goods. The organisation's job is to raise awareness of skills issues within the sector and to offer support and practical advice on all aspects of improving skills and training.

Charitable donations made during the year totalled £125,000 and the type of recipient varies from the major charities and the Tsunami Appeal to overseas projects such as the Educando Project (for children's education) in Peru and the Hospice of Hope in Romania. Support for the Arts ranges from the Edinburgh Festival to the Northern Ballet Theatre and for Youth from the YMCA to the Cassley Drive Community Group play park in Sutherland and the Downs Syndrome International Swimming Organisation.

Employees are also encouraged in their personal involvements with charities through financial support from the John Maxwell Menzies Fund. Grants made in the year ranged widely, including support for employees participating in Maggie's Monster Bike & Hike (from Fort William to Inverness) to raise funds for Maggie's Centres and in the New York Marathon for Misioneros Del Camino, a Mexican charity.

William Thomson
(Notes 1,4) was appointed Chairman in 2002. He has been a non-executive director since 1987, and chairs the Nominations Committee. He is Chairman of E G Thomson (Holdings) Ltd, a shipping and logistics group with interests in Asia, British Assets Trust plc and Fidelity Japanese Values plc, and is a non-executive director of Dobbies Garden Centres plc. Age 65.

w.thomson@johnmenziesplc.com

Dermot Jenkinson
(Notes 1,2,4) was appointed to the Board in 1986 where he held various executive responsibilities before assuming a non-executive role in 1999. He is co-founder and Chairman of beCogent Ltd, a contact centre and related consultancy business, and is a director of a number of other private companies. Age 51.

d.jenkinson@johnmenziesplc.com

David Coltman
(Notes 1,3) was appointed a non-executive director in 2001. He has held various senior positions with airlines in the UK and with United Airlines in Chicago, and is Chairman of Edinburgh Worldwide Investment Trust plc. Age 63.

d.coltman@johnmenziesplc.com

Ian Harrison
(Notes 1,2,3) was appointed a non-executive director in 1987 and is Chairman of the Remuneration Committee. He is a director of Record Currency Management Ltd, an institutional investment management company specialising in currency management for pension funds worldwide. Age 49.

i.harrison@johnmenziesplc.com

Notes
1. Non-executive
2. Member of Audit Committee
3. Member of Remuneration Committee
4. Member of Nominations Committee
5. Biographies relate to the directors shown from left to right

Patrick Macdonald
was appointed as Chief Executive in 2003. Previously with GE Capital as Vice President responsible for global sourcing, he has also held senior positions with The Boston Consulting Group and Unilever. Age 43.

p.macdonald@johnmenziesplc.com

Paul Dollman
was appointed as Group Finance Director in 2002. A chartered accountant, he was previously Finance Director for William Grant & Sons Ltd, and has also held senior financial positions with Inveresk PLC, Maddox Group plc and Clydesdale Retail Group. Age 49.

p.dollman@johnmenziesplc.com

Michael Walker
(Notes 1,3,4) joined the Board in 1995 and was appointed senior independent non-executive director in 2003. He is Chairman of solicitors Maclay Murray & Spens, and is also the Chairman of the Board of Lex Mundi, a leading global association of independent law firms. Age 53.

m.walker@johnmenziesplc.com

Iain Robertson
(Notes 1,2) was appointed a non-executive director in 2004. Previously a director of The Royal Bank of Scotland Group plc, he is Chairman of British Empire Securities and General Trust plc, Cairn Capital Ltd and BT Scotland. He is a chartered accountant. Age 60.

i.robertson@johnmenziesplc.com

The Board remains committed to high standards of corporate governance, business ethics and integrity in all its business operations, and except as described under Board Independence below has applied the provisions of Section 1 of the Combined Code of Corporate Governance.

The Board

Composition

The Board currently consists of eight directors, of whom the Chairman and five directors are non-executive and two executive. The roles of the Chairman and Chief Executive are separate and clearly defined. Non-executive directors are appointed for an initial term of three years, and all directors are required under the Articles to retire and offer themselves for re-election at least every three years.

Independence

Two of the non-executive directors, David Coltman and Iain Robertson, are independent under the terms of the Code. The Board thus complies with the provisions of the Code relating to smaller companies. Octavia Morley will join the Board on 1 April as an independent non-executive director. Michael Walker, who is currently the Senior Independent Director, will retire at the Annual General Meeting on 25 May.

Dermot Jenkinson and Ian Harrison are not independent under the terms of the Code due to their shareholding and length of service. They not only represent the continuing involvement of the founding Menzies family, which set high standards of business ethics and integrity within the Company from an early stage in its development, but also contribute a breadth of skills and experience to the Board and its committees.

The Board's policy on the membership of its committees is that all non-executive directors should contribute and that in general one member of each committee be changed each year. The chairmen of the audit and remuneration committees will be chosen from directors who are independent under the terms of the Code. The inclusion of Dermot Jenkinson and Ian Harrison on these committees does not comply with the Code.

Meetings

The Board met nine times during the year, with a formal schedule of matters specifically reserved to it for decision. These include strategic plans, the approval of financial statements, acquisitions and disposals, major non-recurring projects and major capital expenditures. It also delegates specific responsibilities with written terms of reference to the Board Committees detailed below.

Information of an appropriate quality is issued in a timely manner to assist the Board in performing its duties. All Board meetings in 2005 were attended by all directors. New directors receive appropriate induction tailored to their needs. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice as appropriate at the expense of the Company.

At least one meeting of the Board each year is held at an operating division's offices, and directors are encouraged to visit both divisional operations at other times, and to undertake such activities and training as is appropriate or may be required or desirable in order to carry out their duties.

The non-executive directors held two meetings during 2005, one of which was held without the Chairman at which his performance was reviewed.

Board Performance Evaluation

The Board supports the principles and provisions of the Code which cover Board effectiveness and evaluation. A rigorous process of performance evaluation of the whole Board and of its individual members was undertaken at the turn of the 2004/2005 year with the assistance of The Change Partnership (part of the Whitehead Mann Group), who attended a meeting of the Board and of the Audit Committee, and this Board evaluation was updated in October 2005. The Chairman also held separate meetings with each member of the Board for ongoing evaluation purposes during the year.

The Board intends to conduct performance evaluations internally on an annual basis, using external consultants to refresh the process every 3-5 years, and to extend this process to its committees in 2006.

Communication with Shareholders

The Board has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through its annual and interim reports, results and other announcements, as well as through presentations to institutional shareholders and the dissemination of information via the Group's website at www.johnmenziesplc.com, the Board seeks to present its strategy and performance in an objective and balanced manner.

Shareholders attending the AGM are invited to ask questions during the meeting and also to meet the directors after the formal business of the meeting has concluded. The Chairmen of the Audit and Remuneration Committees are also available to answer questions from any shareholder at the meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the meeting and, in keeping with best practice, will be made available on the Company's website after the meeting.

The Board receives reports at each of its meetings on any meetings held with shareholders or analysts, and the Chairman and Senior Independent Director are also available for contact by shareholders at any time. As an example of the application of this policy, the Chairman of the Remuneration Committee contacted all major shareholders before finalising the conclusions of the remuneration review implemented in 2005.

Board Committees

The Board has established committees with defined terms of reference. The Nominations, Remuneration and Audit Committees each consist of three non-executive directors; the Board intends that the chairman of each of these committees serve for three years, and that one member be changed each year, as part of a general process of refreshing each of these committees. The Board has also delegated operational matters to an Executive Committee. The members of each committee are shown below.

Nominations Committee

The Nominations Committee has terms of reference modelled closely on those set out in the Code, and its responsibilities include recommending new Board appointments and succession planning. Its members are William Thomson (Chairman), Michael Walker and Dermot Jenkinson. The Chief Executive normally attends each meeting. The committee met formally twice during the year with all members present, with additional ad hoc meetings as part of the process of director recruitment

Michael Walker will retire from the committee after the AGM, and will be succeeded by David Coltman.

The Board as a whole is responsible for making new appointments to the Board on the recommendation of the Nominations Committee and for nominating recommended candidates for election by shareholders on first appointment and thereafter for re-election at relevant intervals.

During the year, the Committee recommended the appointment of Octavia Morley through a process which involved the use of an external consultant.

Remuneration Committee

The Report on Directors' Remuneration on pages 40 to 45 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to directors' remuneration have been applied. Its members are Ian Harrison (Chairman), Michael Walker and David Coltman. It met four times during the year, with all members present.

Mr Harrison will retire from the committee following the AGM under the Board's policy for rotation of committee membership, and will be succeeded as chairman by David Coltman.

Audit Committee

The Audit Committee assists the Board in the execution of its responsibilities for corporate governance and internal control, and has adopted terms of reference modelled closely on those set out in the Code. Its members are Iain Robertson (Chairman), Ian Harrison and Dermot Jenkinson. It met four times during the year, with Dermot Jenkinson unable to attend one meeting. The Group Finance Director and certain senior financial executives as appropriate, together with representatives from the internal and external audit teams, attend each meeting.

Dermot Jenkinson will retire from the committee following the AGM under the Board's policy for rotation of committee membership.

The Committee reviews the Group's internal control structure, approves the outsourced internal audit (Controls Assurance) and external audit programmes, approves the fees for each, and reviews reports from management, from the external Controls Assurance specialists, and from the external auditors on their work. It monitors the effectiveness of the Group's Controls Assurance function, and reviews the Group's financial statements and proposed announcements, together with any proposed changes in accounting policies, prior to approval by the Board.

The Committee has a formal schedule of matters to be considered at each meeting designed to ensure that it complies with the Code and its related guidance. As part of this, it keeps under review the objectivity and independence of the external auditors and the nature and extent of the non-audit services which they provide. These services consist mainly of acquisition-related due diligence, where their knowledge of the Group's business processes and controls makes them best placed to undertake this work cost-effectively on the Group's behalf. The external auditors do not deal with the Group's tax affairs. The Committee believes that the level and scope of these non-audit services does not impair the objectivity of the auditors.

Executive Committee

The Executive Committee is chaired by the Chief Executive and consists of the executive directors together with the managing director of each division and certain senior executives. It is responsible for the implementation of strategy and plays a central role in planning, budgeting and in risk identification and management within the Group's operations. It normally meets twelve times a year.

The members of this Committee are shown on page 38.

Internal Control

The directors are responsible for the Group's system of internal control, which covers financial, operational and compliance controls together with risk management. Whilst no system can provide absolute guarantee and protection against material loss, the system is designed to give the directors reasonable assurance that problems can be identified promptly and remedial action taken as appropriate. The directors, through the Board's review of risk and the work of the Audit Committee, have reviewed the effectiveness of the system of internal control for the accounting period under review.

The key features of the Group's internal control system are:

Control Environment

A key factor in the Group's approach to internal control is the recognition of the need for risk awareness and the ownership of risk management by executives at all levels. Each operating division has its own Board. A Statement of Group Policies and Procedures sets out the responsibilities of these Divisional Boards, including authority levels, reporting disciplines and responsibility for risk management and internal control. Certain activities, including treasury, taxation, insurance, pension and legal matters are controlled centrally with reports reviewed by the Board as appropriate.

Risk Identification and Review

Key identified risks are reviewed by the Board as well as at operating Divisional Board level on an ongoing basis, with a formal annual review of risks and controls taking place, supported by the Group's Controls Assurance provider. The Executive Committee also reviews each division's performance, strategy and risk management. Annual compliance statements on internal control are certified by each Divisional Board. A Treasury Review Committee meets regularly to review the adequacy of the Group's facilities against potential utilisation and commitments.

Financial Reporting

There is a comprehensive Group-wide system of financial reporting. Figures reported include profit, cash flows, capital expenditure, balance sheet and relevant performance indicators. Each operating division prepares an annual budget which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken at least twice during the year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate.

Investment Appraisal

There are clearly defined investment guidelines for capital expenditure. All such expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board. Post investment appraisals are conducted for all material capital projects.

Audit Committee

The Audit Committee considers reports from management, the Controls Assurance provider and the external auditors, and makes its recommendations to the Board, prior to the approval of the Annual Report. The Committee ensures that any weaknesses identified in the reports submitted to it are fully addressed and that improved procedures are adopted.

EXECUTIVE COMMITTEE

Patrick Macdonald
Chief Executive
(Age 43)

Paul Dollman
Group Finance Director
(Age 49)

Ellis Watson
Managing Director
Menzies Distribution (Age 38)

Craig Smyth
Managing Director
Menzies Aviation (Age 38)

Alastair Couper
Group Financial Controller
(Age 43)

Susan O'Donnell
Director of Human Resources
(Age 41)

Robin Peters
Director of Business Development
(Age 40)

Adair Anderson
Company Secretary
(Age 59)

The Executive Committee is responsible for the implementation of strategy. It plays a central role in planning, budgeting and in risk identification and management within the Group's operations.

Reports

Remuneration Committee

The Remuneration Committee ("the Committee") determines the remuneration of the Chairman, the executive directors, and the managing directors of each division on behalf of the Board. It has formal Terms of Reference set by the Board modelled on the Combined Code, which are displayed on the Company's website. Its members are all non-executive directors as identified on pages 32 and 33 and meet under the chairmanship of Ian Harrison. The Company Secretary is the secretary of the Committee.

The Board adopted a policy in 2004 that the Committee be refreshed through the rotation of its members and that the chairman serve for three years. Ian Harrison will retire from the Committee following the Annual General Meeting, to be succeeded as chairman by David Coltman.

Patrick Macdonald, Chief Executive, attends meetings as appropriate as do Susan O'Donnell, Director of Human Resources, and Kepler Associates, who have been appointed by the Committee as advisers and have also been retained by the Company to provide advice relating to the remuneration of executive management. Maclay Murray & Spens provide legal services to the Committee.

The Committee met four times in 2005, with all members attending.

Members of the Committee have no personal financial interest other than as shareholders in the matters to be decided and no day-to-day involvement in the running of the business of the Group.

The Board completed its first full review of its own performance during 2005, and intends to evaluate the performance of the Committee during 2006.

Annual General Meeting

A resolution to approve this report will be tabled at the Annual General Meeting. The Chairman of the Committee is available to answer questions from shareholders on the decisions of the Committee.

Remuneration Policy and Practice

The Group recognises that its continuing success depends on the quality and motivation of its employees. The Group aims to ensure that its remuneration practices are competitive, thereby enabling it to attract, retain and motivate executives who have the experience, skills and talents to operate and develop its businesses to their maximum potential.

The Committee applies these principles with regard to the executive directors and to the managing directors of each division, and also reviews the policies underlying the remuneration of senior executives. Directors' salaries are maintained at competitive levels for comparable positions based on information provided by Kepler Associates reflecting, where appropriate, the international nature of the business. Additional rewards for success are built in to the remuneration package through incentives designed to share with these directors any increasing profitability of the Group and increased wealth generated for shareholders.

The Committee introduced significant changes to the remuneration policy and practices for executive directors from January 2005, designed to increase the alignment between overall executive remuneration and the delivery of value to shareholders, and to reflect best practice while meeting the Company's particular business needs. The changes included the introduction of:

A revised annual bonus scheme, de-linked from salary and budget, with maximum payment only for upper quartile performance;

A bonus co-investment plan, allowing directors to invest up to 50% of their bonus in John Menzies shares with a 2:1 earnings per share ("EPS") performance-based matching share award;

A performance share plan, involving the grant of shares subject to Total Shareholder Return ("TSR") performance criteria;

A share ownership guideline, expecting executive directors to retain 50% of any shares which vest under incentive plans, and to co-invest 25% of any annual bonus, until a shareholding target is reached.

In considering and determining suitable remuneration packages for the executive directors the Committee has given full consideration to the relevant best practice provisions set out in the Combined Code. The Committee also determines the extent to which all performance targets are met.

Basic Salary and Benefits

Salaries are reviewed annually, on appointment, or on change in position or responsibility. In addition to salary, the executive directors may receive additional benefits covering car allowance, private medical insurance and life cover. Patrick Macdonald also receives a cash allowance in place of any pension entitlement above the 'earnings cap'.

Annual Bonus Scheme

The executive directors participate in a bonus scheme which is subject to the achievement of challenging Group and individual business and personal targets designed to encourage excellent performance. Bonus payments are non-pensionable.

From 1 January 2005, the Committee established a new bonus scheme in line with its decision to increase the proportion of total remuneration earned from above average profit performance.

Performance targets were de-linked from budget, and include Threshold, Target and Stretch levels derived from a review of the historical and projected performance of the Group and its peers together with an analysis of analysts' expectations. The Stretch level represents upper quartile performance.

The calculation of bonus awards was also de-linked from salary, with payment of £75,000 on achieving Target for the Chief Executive and £50,000 for other executive directors, increasing on a straight line basis to a maximum payment of three times these amounts for performance between Target and Stretch.

Bonus entitlement commences at Threshold and increases on a straight line basis. Up to 20% of any entitlement is dependent on the extent to which identified personal key result areas are achieved.

The Committee has discretion to vary bonus payments for each executive director, and applied this discretion in determining the award for Iain Callaghan on his early retirement.

Bonus awards for 2005 performance were made to Patrick Macdonald (£53,060), Paul Dollman (£43,280) and Iain Callaghan (reduced to reflect his retirement on 16.9.05 - £15,600). The 2006 bonus scheme will operate on the same basis with appropriate performance targets.

Bonus Co-investment Plan

Executive directors may elect to invest up to 50% of their annual bonus in shares of the Company which qualify for an award of up to 2:1 matching shares dependent on achieving a performance target set prior to election.

The performance target for the 2005 Plan is for real 3%-8% per annum EPS growth above the Group's 2004 EPS over the three years to December 2007, with the number of shares vesting being calculated on a straight-line basis from a nil award at 3.0% to a full award at 8.0%. Any dividends accrued on shares which vest are paid in cash on vesting.

Patrick Macdonald and Paul Dollman purchased shares under the Plan in 2005, and the John Menzies Employee Benefit Trust holds sufficient shares to cover any shares which may vest.

Performance Share Plan

Executive directors and the managing directors of each division are awarded a number of conditional shares annually under the Performance Share Plan as determined by the Committee. The number of shares involved was set in 2005, and although this will be reviewed regularly it is not intended that the number be changed each year.
The maximum number of conditional shares which may be awarded to any individual under the rules of the plan in any year is 100,000.

The shares awarded in 2005 will vest after three years if the Company's TSR is equal to or outperforms the FTSE 250 Index TSR for the three years to December 2007. The number of shares to vest will be based on the extent of any outperformance, with shares vesting on a straight line basis up to 100% of the award for performance at 30% above the Index's TSR. Any dividends accrued on shares which vest are paid in cash on vesting.

The John Menzies Employee Benefit Trust holds sufficient shares to cover any shares which may vest under this Plan.

Share Options

Prior to the introduction of the above share schemes in 2005, share options were granted to each executive director normally on an annual basis at a level of one times salary. All grants were discretionary, and awards could be varied depending on specific circumstances.

Paul Dollman and Patrick Macdonald were granted options at three times salary during 2002 and 2003 respectively, reflecting market conditions at the time of their recruitment, and awards of one times salary in 2004. These awards were subject to EPS-based performance conditions.

Prior to September 2000, share options were not subject to any performance conditions.

Service Contracts

The executive directors have service contracts with the Company, the dates of which are listed in the table of remuneration below. The Group's practice on notice periods is that they should be for an initial period of two years following appointment, reducing thereafter to 12 months' notice, with any termination payment restricted to the actual loss incurred by the director. All executive directors who served during the year have or had service contracts on this basis.

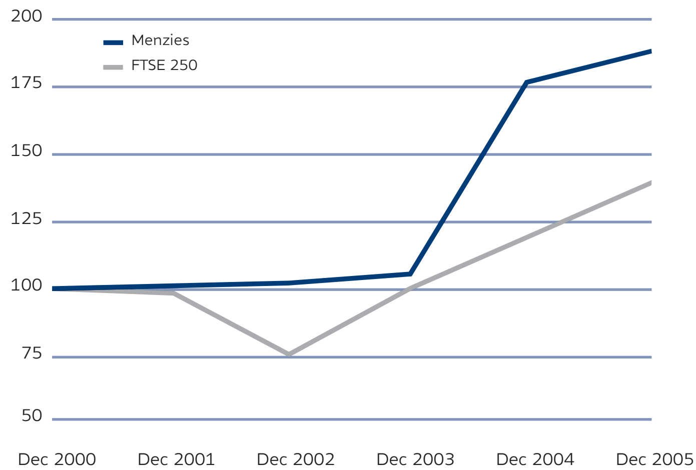
The Remuneration Committee considers that the notice periods stated above are reasonable and in the interests of shareholders having due regard to prevailing market conditions and practice among companies of comparable size.

Non-executive Directors

The remuneration of the non-executive directors is determined by the Board on the recommendation of the Chief Executive on an annual basis and takes account of market rates based on independent advice as required. The non-executive directors and the Chairman do not have service contracts, being appointed for an initial period of three years, subject to review thereafter, and do not participate in any of the Group's bonus, share or pension schemes.

Performance Graph

The following graph compares the Company's total shareholder return for the five years to December 2005 with the equivalent performance of the FTSE 250 Index. The directors consider that, given the scale and global spread of the businesses within the Group, the most appropriate comparison is with this index.



The following sections of this Report have been audited.

Directors' Emoluments

Directors' emoluments for the year to 31 December 2005 (25 December 2004) were:

Name (Date of appointment) (a)	**Salary/fees 2005 £'000**	Salary/fees 2004 £'000	**Benefits 2005 £'000**	Benefits 2004 £'000	**Bonus 2005 £'000**	Bonus 2004 £'000	**Total 2005 £'000**	Total 2004 £'000
Chairman								
W R E Thomson (9.5.03)	**116**	107	**–**	–	**–**	–	**116**	107
Executive Directors								
P J Macdonald (25.8.02) (b) (c)	**362**	348	**73**	125	**53**	199	**488**	672
P B Dollman (8.8.02)	**250**	241	**15**	17	**43**	117	**308**	375
I M Callaghan (17.12.03 retired 16.9.05)	**223**	284	**10**	14	**16**	135	**249**	433
Non-Executive Directors								
M J Walker (30.4.04)	**31**	31	**–**	–	**–**	–	**31**	31
D J Jenkinson (28.4.05)	**29**	26	**–**	–	**–**	–	**29**	26
I C L Harrison (28.4.05)	**35**	31	**–**	–	**–**	–	**35**	31
D A Coltman (30.4.04)	**47**	45	**–**	–	**–**	–	**47**	45
I S Robertson (1.11.04 reappointed 28.4.05)	**33**	5	**–**	–	**–**	–	**33**	5
C A Ramsay (7.9.01 retired 17.12.04)	**–**	26	**–**	–	**–**	–	**–**	26
P S Smith (1.12.99 left 30.4.04) (d)	**–**	71	**–**	235	**–**	43	**–**	349
	1,126	1,215	**98**	391	**112**	494	**1,336**	2,100

Notes:

(a) For executive directors, this is the date of their service contract, and for non-executive directors, the date of appointment or latest date of election/re-election to the Board.

(b) Provision of pension benefits under the Group's approved pension arrangements is restricted as a consequence of the Finance Act 1989 (the 'earnings cap'). Patrick Macdonald elected to receive a salary supplement in lieu of the balance of his pension entitlement amounting to £55,630 (2004 - £53,000) which is included in his total of benefits.

(c) Relocation expenses were paid for Patrick Macdonald in 2004 amounting to £55,840 which is included in his total of benefits.

(d) Peter Smith's benefits as listed above include the sum of £227,500 compensation for loss of office. In addition, he received an appropriate proportion of his annual bonus entitlement on the 2004 performance of Menzies Aviation.

Share Plans

Name	At 26 December 2004	Granted during year	Exercised during year (a)	Market price at date of exercise (pence)	Lapsed during year	At 31 December 2005 or date of leaving	Exercise price (pence)	Date exercisable from	Expiry date
P J Macdonald	360,577	–	–	–	–	**360,577 (c)**	312	13.5.06	12.5.13
	97,856	–	–	–	–	**97,856 (d)**	418	7.5.07	6.5.14
		45,000	–	–	–	**45,000 (e)**			
		16,756	–	–	–	**16,756 (f)**			
	2,683*	–	–	–	–	**2,683***	286	1.12.06	1.6.07
	410*	–	–	–	–	**410***	388	1.12.07	1.6.08
P B Dollman	205,166	–	–	–	–	**205,166 (c)**	329	8.11.05	7.11.12
	58,714	–	–	–	–	**58,714 (d)**	418	7.5.07	6.5.14
		30,000	–	–	–	**30,000 (e)**			
		19,592	–	–	–	**19,592 (f)**			
	2,680*	–	–	–	–	**2,680***	275	1.11.05	1.5.06
	606*	–	–	–	–	**606***	286	1.12.06	1.6.07
	78*	–	–	–	–	**78***	388	1.12.07	1.6.08
		1,561*	–	–	–	**1,561***	467	1.12.08	1.6.09
I M Callaghan (a)	10,000	–	–	–	–	**10,000**	520	1.3.99	28.2.06
	25,000	–	20,000	592	–	**5,000**	461	21.2.00	16.9.06
	70,300	–	–	–	–	**70,300**	492	7.4.01	16.9.06
	67,458	–	67,458	580	–	**– (g)**	331	10.4.05	16.9.06
	78,723	–	–	–	13,120	**65,603 (c)**	312	17.9.05	16.9.06
	69,178	–	–	–	34,589	**34,589 (d)**	418	17.9.05	16.9.06
	2,680*	–	–	–	–	**2,680***	275	1.11.05	1.5.06

Notes:

(*) All the above options were granted under the Company's executive share option schemes at nil cost with the exception of those items marked* which have been granted under the savings-related share option scheme.

(a) Iain Callaghan retired on 16 September 2005 following which certain of his option awards were reduced in number pro rata and the exercise dates amended in accordance with the rules of the relevant schemes. He subsequently exercised options over 20,000 shares with a market value of 550p and over 25,000 shares with a market value of 570p. The aggregate amount of gains, measured as the difference between option exercise prices and the closing market values or sale prices as appropriate of the shares involved on the day of exercise, on options exercised by him during the year was £305,270. He also subsequently exercised his 2,680 savings-related options with a market value of 533p.

(b) The market price for shares in John Menzies plc ranged from 506.0p to 637.25p during the year and was 507.5p at 31 December 2005.

(c) These options are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 3%-8% per annum in the three years to December 2005, adjusted to normalise pension and tax charges.

(d) These options are exercisable on a sliding scale if growth in headline earnings per share exceeds RPI plus 3%-8% per annum in the three years to December 2006, adjusted to normalise pension and tax charges.

(e) Award of conditional shares under the Performance Share Plan, subject to performance conditions as noted above, at a market price of 582p, vesting on the day on which the Company announces its preliminary results for the year to December 2008.

(f) Award of conditional matching shares under Bonus Co-investment Plan, subject to performance conditions as noted above, at a market price of 595p, vesting on the day on which the Company announces its preliminary results for the year to December 2008.

(g) These options required the Group to exceed the 3-year growth target approved by the Board in February 2002, failing which the options would have lapsed.

Pensions

Scheme Benefits

The executive directors are members of the Menzies Pension Fund, a contributory defined benefit scheme which provides pension on retirement at age 60 of up to two-thirds of pensionable earnings, or the ‘earnings cap’ if lower, together with additional benefits as below. Pensionable earnings are based on salary excluding bonuses.

Unfunded Arrangement

The pensionable salaries for Patrick Macdonald and Paul Dollman are restricted as a consequence of the ‘earnings cap’. Patrick Macdonald has elected to receive a salary supplement in lieu of his unapproved pension entitlement. Paul Dollman has an unfunded pension undertaking from the Company to provide in total the same level of pension as if the ‘earnings cap’ did not apply. This entitlement is effective from his date of appointment as a director.

Pension details are as follows:

				Transfer Value (b) (c)		
Director	Age	Increase in accrued pension during year £’000	Total accrued pension entitlement at 31 Dec 2005 (a) £’000	31 Dec 2005 £’000	25 Dec 2004 £’000	Increase excl members’ contributions £’000
P J Macdonald	43	4	11	88	52	30
P B Dollman (d)	49	9	27	295	175	109
I M Callaghan (f)	58	(4)	165	3,714	2,948	756

Notes:

(a) Accrued pension entitlements are the amounts which would be paid at normal retirement date if the director left service as at 31 December 2005, with no allowances for increases in the period between leaving service and normal retirement date. The entitlements disclosed above include unfunded benefits.

(b) Transfer values represent the value of the assets which the pension scheme (together with the Company where appropriate) would need to transfer to another pension provider on transferring its liability in respect of the directors’ pension entitlements. They do not represent sums payable to individual directors.

(c) Transfer values have been calculated in accordance with ‘Retirement Benefit Schemes (GN 11)’ published by the Institute of Actuaries and the Faculty of Actuaries. This methodology determines the values attributable to the deferred pensions for younger members by reference mainly to the UK All-Share Index and for members nearing normal retirement date mainly to the Gilts Over 15 Years Index and the Index-linked Over 5 Years (5% inflation) Index.

(d) The unfunded transfer value at 31 December 2005 relating to Paul Dollman, calculated on a cash equivalent transfer value basis, totalled £218,500.

(e) The total of the transfer values for unfunded pension entitlements as above, held on the Company’s balance sheet at 31 December 2005 for current and former directors, calculated on an FRS 17 basis, totalled £687,892, from which an annual pension of £15,915 pa is paid to a former director.

(f) Iain Callaghan retired on 16 September 2005, before his normal retirement date. All information for him is for the period to, or as at, this date. His accrued pension entitlement was reduced by the application of an early retirement factor.

By order of the Board

C A ANDERSON
SECRETARY

20 March 2006

Principal Activities and Results

The principal activities of the Company and its subsidiaries ("the Group") are the wholesale distribution of newspapers and magazines and the provision of cargo and ground handling services at airports.

A review of the results for the 53 weeks to 31 December 2005 and of the development of the business, together with a summary of the Group's approach to employee, health and safety, and environmental matters, is contained on pages 7 to 31.

Directors and their Interests

The directors who served during the year are shown below. The directors as at the end of the financial year, and their biographies, are shown on pages 32 and 33. Their interests in the ordinary shares of the Company were as follows:

		31 Dec 2005	25 Dec 2004
W R E Thomson	Beneficial	4,000	4,000
P J Macdonald	Beneficial	13,693	8,750
P B Dollman	Beneficial	8,929	3,150
D J Jenkinson	Beneficial	2,098,360	2,258,360
	See Note	2,514,885	2,514,885
	Non-beneficial	3,570,360	3,570,360
I C L Harrison	Beneficial	2,122,832	2,122,832
	See Note	2,514,885	2,514,885
	Non-beneficial	–	32,175
M J Walker	Beneficial	1,000	1,000
D A Coltman	Beneficial	15,000	15,000
I S Robertson	Beneficial	20,000	20,000
I M Callaghan (retired 16/9/05)	Beneficial	n/a	10,194

Note: These holdings are joint beneficial interests.

In addition to the above holdings, William Thomson and Michael Walker, as directors of a subsidiary which is a trustee of employee benefit trusts in which they have no beneficial interest, have non-beneficial interests in 418,361 shares.

There have been no subsequent changes to these interests as at 20 March 2006.

No director had any material interest in any contract, other than a service contract as set out on page 42 or as set out in Note 25 to the Accounts on page 77, with the Company or any of its subsidiaries at any time during the year.

The directors who retire by rotation at the Annual General Meeting ("AGM") are William Thomson and Patrick Macdonald who, being eligible, offer themselves for re-election. Octavia Morley, who has been appointed as a director with effect from 1 April 2006, will also retire in accordance with the Articles of Association and seek election.

In addition to the above, Dermot Jenkinson and Ian Harrison, who have served on the Board for more than 9 years, will also retire as required by the Combined Code and offer themselves for re-election at the AGM.

Dermot Jenkinson and Ian Harrison as non-executive directors have undergone a formal performance evaluation and the performance of each continues to be effective and to demonstrate commitment to their role including commitment of time for board and committee meetings and their other duties.

Dermot Jenkinson contributes from a wide range of business experience, and Ian Harrison brings particular skills relating to pension investment and currency management, as well as both representing the interests of our major shareholder. Octavia Morley will contribute from her extensive experience with major retailers.

The Board recommends to shareholders the election of Octavia Morley and the re-elections of William Thomson, Patrick Macdonald, Dermot Jenkinson and Ian Harrison.

Michael Walker will retire from the Board after the AGM.

Directors' and Officers' Liability Insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. A special resolution to amend the Articles of Association will be proposed at the AGM to update the provisions on indemnities to directors and officers following a change to the law last year.

Substantial Shareholdings

In addition to the directors' interests, the Company has been notified of the following interests of three per cent or more in its issued ordinary share capital as at 20 March 2006:

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co. Ltd	5,190,000	8.8
Mr J M Menzies	4,189,650	7.1
Mr D F Ramsay	2,589,878	4.4
Barclays PLC	2,358,922	4.0
Mrs S J Speke	2,039,920	3.5
Mrs K P Slater	1,981,552	3.4

Share Incentive Schemes

The Company operates various share incentive schemes for its directors, information on which is shown in the Remuneration Report. It also operates share incentive schemes for its executives, and a save-as-you-earn scheme for its UK employees, details on which are set out in Note 20 to the Accounts on pages 70 to 74.

Dividends

The directors recommend the payment of a final dividend of 13.7p per ordinary share, payable on 30 June to members on the Register as at the close of business on 2 June 2006. The shares will be quoted as ex-dividend on 31 May 2006.

This final dividend, together with the interim dividend of 5.8p per ordinary share paid on 30 November 2005, makes a total dividend of 19.5p per ordinary share for the year ended 31 December 2005.

Post Balance Sheet Events

Conditional agreement was reached for the acquisition of two businesses after the year end. Details are given on page 7 of the Operating and Financial Review and in Note 26 to the Accounts on page 77.

Directors' Responsibilities

The directors are required by law 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 as at the end of the financial year and of the profit or loss and cash flows of the Group for the financial year then ended.

In preparing the financial statements the directors are required to:

- maintain adequate accounting records;
- apply suitable accounting policies in a consistent manner and make reasonable and prudent judgements and estimates where necessary;
- comply with the provisions of the Companies Act 1985 and all applicable accounting standards;
- prepare the financial statements on a going concern basis.

The directors are satisfied, after making appropriate enquiries, that the Group has adequate resources to continue in business for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company and authorising the Board to set their remuneration will be proposed at the AGM.

Supplier Payment Policy

The Group does not operate a standard code in respect of payments to suppliers. Each division is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including terms of payment. It is Group policy that payments to suppliers be made in accordance with the agreed terms, provided that the supplier has performed in accordance with all relevant terms and conditions.

At the year end, the amount owed to trade creditors by the Group was equivalent to 34.0 days (2004: 31.5 days) of purchases from suppliers.

Annual General Meeting

The Notice of Meeting and explanations of the Special Business to be transacted at the Annual General Meeting which will be held on 25 May at the Roxburghe Hotel, Edinburgh can be found on pages 85 to 88 of this Annual Report.

By order of the Board

C A ANDERSON
SECRETARY

20 March 2006

We have audited the group and parent company financial statements (the "financial statements") of John Menzies plc for the year ended at 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Statement, the Operating and Financial Review, the Corporate Governance Statement and the IFRS pro forma statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit and cash flows for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
20 March 2006

Financial Statements

IFRS Pro formas (unaudited)

Other Information

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005 (year ended 25 December 2004)

	Notes	2005 £m	2004 (restated) £m
Turnover: Group and share of joint ventures and associates	2	1,390.0	1,369.2
Less share of:			
Joint ventures		(6.8)	(15.6)
Associates		(21.1)	(23.0)
Group turnover		1,362.1	1,330.6
Net operating costs	3	(1,329.0)	(1,301.1)
Group operating profit		33.1	29.5
Share of operating profit in			
Joint ventures		1.0	0.6
Associates		2.8	2.8
Total operating profit pre-exceptional item	2	36.9	32.9
Gain on disposal of business	5	–	7.6
Profit on ordinary activities before interest		36.9	40.5
Net interest payable	7	(2.0)	(3.5)
Other finance income	4	1.2	0.6
Profit on ordinary activities before taxation		36.1	37.6
Taxation	8	(9.0)	(8.3)
Profit after taxation		27.1	29.3
Minority interests	22	(0.3)	(0.3)
Profit for the financial year		26.8	29.0
Dividends (including non–equity)	9	(11.5)	(10.7)
Retained profit for the financial year		15.3	18.3
Earnings per ordinary share	10		
Headline		52.2p	44.0p
FRS 3		46.5p	51.0p
Headline diluted		51.7p	43.7p
FRS 3 diluted		46.0p	50.7p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005 (year ended 25 December 2004)

		2005 £m	2004 (restated) £m
Profit for the financial year		26.8	29.0
Actuarial (loss)/gain on defined benefit pensions	4	(9.4)	3.2
Deferred tax associated with defined benefit pensions		2.8	(1.0)
Currency translation		(0.4)	0.6
		19.8	31.8
Prior year adjustment for FRS 17		–	(62.6)
Total recognised gains/(losses) for the financial year		19.8	(30.8)

GROUP AND COMPANY BALANCE SHEETS

as at 31 December 2005 (25 December 2004)

		Group				Company	
	Notes	£m	2005 £m	£m	2004 £m	2005 £m	2004 £m
Fixed assets							
Intangible assets	11		22.0		22.3	–	–
Tangible assets	12		121.8		116.1	36.4	33.4
Investments	13						
– joint ventures							
Share of gross assets		2.2		1.7		–	–
Share of gross liabilities		(1.2)		(0.9)		–	–
Shareholder loans		0.3		0.3		–	–
			1.3		1.1	–	–
– associates			21.5		20.2	–	–
– subsidiaries			–		–	98.8	98.8
Total investments			22.8		21.3	98.8	98.8
			166.6		159.7	135.2	132.2
Current assets							
Stocks			13.0		11.1	–	–
Deferred tax asset	19		2.6		4.7	–	–
Debtors	14		97.9		95.2	108.0	63.0
Cash at bank and in hand	16		22.0		27.0	7.5	16.7
			135.5		138.0	115.5	79.7
Creditors: amounts falling due within one year							
Bank loans and overdrafts	16		(21.2)		(28.4)	(19.4)	(12.5)
Other	15		(168.9)		(162.9)	(115.9)	(104.4)
			(190.1)		(191.3)	(135.3)	(116.9)
Net current liabilities			(54.6)		(53.3)	(19.8)	(37.2)
Total assets less current liabilities			112.0		106.4	115.4	95.0
Creditors: amounts falling due after more than one year							
Loans and other borrowings	16		(31.3)		(42.0)	(31.2)	(41.8)
Other	15		–		(0.1)	–	–
Provision for liabilities and charges							
Deferred tax			–		–	(0.5)	–
Other	19		(7.2)		(8.5)	–	–
Net assets excluding net pension liabilities			73.5		55.8	83.7	53.2
Net pension liabilities	4		(21.9)		(16.3)	(21.9)	–
Net assets			51.6		39.5	61.8	53.2
Capital and reserves							
Called up share capital	20		14.7		14.4	14.7	14.4
Share premium account	21		10.9		7.7	10.9	7.7
Investment in own shares	21		(3.5)		(3.3)	–	–
Profit and loss account	21		6.2		(2.8)	13.2	8.1
Capital redemption reserve	21		21.6		21.6	21.6	21.6
Equity shareholders' funds			49.9		37.6	60.4	51.8
Non-equity share capital	20		1.4		1.4	1.4	1.4
Shareholders' funds	23		51.3		39.0	61.8	53.2
Equity minority interests	22		0.3		0.5	–	–
			51.6		39.5	61.8	53.2

The accounts were approved by the Board of Directors on 20 March 2006 and signed on its behalf by:

Patrick Macdonald, Chief Executive **Paul Dollman, Group Finance Director**

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2005 (year ended 25 December 2004)

	Notes	£m	2005 £m	£m	2004 £m
Net cash inflow from operating activities	24a		46.9		36.9
Dividends from joint ventures and associates			4.0		4.0
Returns on investments and servicing of finance					
Interest received		2.5		2.4	
Interest paid		(4.4)		(6.4)	
Preference dividends paid		(0.1)		(0.1)	
Minority interest dividends		(0.2)		–	
Net cash outflow from returns on investments and servicing of finance			(2.2)		(4.1)
Tax paid			(4.6)		(4.9)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(22.1)		(16.2)	
Sale of tangible fixed assets		1.6		0.6	
Net cash outflow from capital expenditure and financial investment			(20.5)		(15.6)
Acquisitions and disposals					
Investment in joint ventures and associates		–		(0.1)	
Other investments		–		(0.1)	
Purchase of subsidiaries		(0.8)		(3.2)	
Disposal of associates		–		1.1	
Disposal of subsidiaries		–		11.5	
Net cash (outflow) / inflow from acquisitions and disposals			(0.8)		9.2
Equity dividends paid			(10.9)		(10.3)
Net cash inflow before use of liquid resources and financing			11.9		15.2
Management of liquid resources					
Decrease in short term deposits		4.2		8.8	
Net cash inflow from management of liquid resources			4.2		8.8
Net cash inflow before financing			16.1		24.0
Financing					
Proceeds from shares issued		3.5		1.8	
Loan notes redeemed		–		0.2	
Sale of own shares		–		0.4	
Decrease in loans		(7.9)		(17.8)	
Net cash outflow from financing			(4.4)		(15.4)
Increase in cash in the year	24b,c		11.7		8.6

1. Accounting policies

Accounting convention and presentation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. There were no material differences between reported profits and historical profits on ordinary activities of the Group both before and after taxation. 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 policies, including one accounting policy change, which have otherwise been consistently applied, is given below.

Change in accounting policies

The Group has adopted FRS 20 "Share-based Payment". This represents a change in accounting policy and the comparative figures have been restated accordingly (Note 2).

Basis of consolidation

The consolidated accounts 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.

Turnover

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. Turnover excludes value added and sales taxes, charges collected on behalf of customers and intercompany transactions.

Tangible fixed assets and depreciation

Tangible fixed assets 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.

Stocks

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

Pensions

In accordance with FRS 17 "Retirement benefits" (adopted in full in 2004), the operating and financing costs of pensions are charged to the profit and loss account in the period in which they arise and are recognised separately. The costs 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 total recognised gains and losses. Pension costs are assessed in accordance with the advice of qualified actuaries.

With regard to defined contribution schemes the profit and loss charge represents contributions made.

1. Accounting policies (continued)

Deferred taxation

Deferred tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in accounts. Deferred tax is not provided on unremitted earnings of subsidiaries, joint ventures and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Goodwill

Goodwill, representing the excess of purchase consideration over the fair value of net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful life of up to 20 years. Goodwill arising on each acquisition is reviewed separately for impairment as necessary and, where appropriate, charged to the profit and loss account. Goodwill arising on acquisitions prior to April 1998 (Note 21) has been set off directly against reserves in line with the provisions of FRS 10.

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.

Foreign currency contracts are accounted for as hedges and matched with the accounting treatment of the relevant hedged item.

Leases

Assets acquired under finance leases are capitalised in the balance sheet and are depreciated over their useful lives or over the lease term, whichever is shorter. The interest element of the rental obligations is charged to the profit and loss account as incurred.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over applicable lease periods.

2. Segmental analysis

	Turnover		Operating profit		Net assets	
	2005 £m	2004 £m	2005 £m	2004 (restated) £m	2005 £m	2004 £m
By class of business						
Distribution	1,104.3	1,109.4	30.7	30.5	30.7	29.4
Aviation	285.7	259.8	13.3	10.3	107.7	100.3
	1,390.0	1,369.2	44.0	40.8	138.4	129.7
Corporate	–	–	(3.8)	(4.3)	–	–
	1,390.0	1,369.2	40.2	36.5	138.4	129.7
Goodwill amortisation	–	–	(3.3)	(3.6)	–	–
	1,390.0	1,369.2	36.9	32.9	138.4	129.7
Reconciliation of net assets:						
Net debt					(30.6)	(43.5)
Unallocated net liabilities					(56.2)	(46.7)
Net assets					51.6	39.5
By geographical origin						
United Kingdom	1,224.5	1,223.1	29.5	24.9	68.6	69.1
Continental Europe	69.1	65.5	5.8	5.0	20.7	19.0
Americas	53.9	45.9	(1.4)	–	16.8	13.1
Rest of the World	42.5	34.7	3.0	3.0	32.3	28.5
	1,390.0	1,369.2	36.9	32.9	138.4	129.7
Joint Ventures and Associates included above						
Distribution						
Joint ventures	–	10.2	–	–	–	–
Associates	10.8	12.6	0.1	0.2	0.9	0.7
Aviation						
Joint ventures	6.8	5.4	1.0	0.6	1.3	1.1
Associates	10.3	10.4	4.5	4.4	20.6	19.5
	27.9	38.6	5.6	5.2	22.8	21.3
Goodwill amortisation	–	–	(1.8)	(1.8)	–	–
	27.9	38.6	3.8	3.4	22.8	21.3
Joint Ventures and Associates by geographical origin						
United Kingdom	10.8	22.8	0.1	0.2	0.9	0.7
Continental Europe	0.5	0.4	0.1	–	0.4	0.3
Americas	6.3	5.0	0.9	0.6	0.9	0.8
Rest of the World	10.3	10.4	2.7	2.6	20.6	19.5
	27.9	38.6	3.8	3.4	22.8	21.3

Turnover by geographical origin and destination do not materially differ.

Goodwill amortisation is attributable to Distribution - £0.3m (2004: £0.3m) and Aviation - £3.0m (2004: £3.3m).

The 2004 operating profit has been reduced by £0.3m following the adoption of FRS 20 "Share-based Payment" for 2005.

3. Net operating costs

	2005 £m	2004 (restated) £m
Goods for resale and consumables	1,036.8	1,026.6
Other operating charges	52.3	57.0
Employment costs (Note 4)	221.9	199.4
Goodwill amortisation (Note 11)	1.5	1.8
Depreciation (Note 12)	16.5	16.3
	1,329.0	1,301.1
Other operating charges include:		
Operating leases and hire charges – plant and machinery	8.4	7.9
Rent of properties	20.3	21.3
Gain on disposal of fixed assets	(0.5)	(0.1)
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:		
Statutory UK audit	0.4	0.3
Overseas audit	0.2	0.2
Overseas due diligence work	0.2	–

The auditors' remuneration for the parent company was £15,000 (2004: £15,000).

4. Employees

	2005 £m	2004 (restated) £m
Wages and salaries	194.2	174.8
Share based payments	0.7	0.3
Social security costs	19.5	16.9
	214.4	192.0
Pension charge	7.5	7.4
	221.9	199.4

The average number of full time equivalent persons employed during the year was:

	2005 number	2004 number
Distribution	3,670	3,738
Aviation	7,982	7,130
Corporate	40	40
	11,692	10,908

The numbers above include 5,731 full time equivalent persons employed outside the UK (2004: 5,052).

4. Employees (continued)

Pension schemes

With regard to the principal Group funded defined benefit scheme in the UK (the Menzies Pension Fund), to which the employees contribute, the charge to the profit and loss account is assessed in accordance with independent actuarial advice from Aon Consulting ("the Actuary") using the projected unit method. Certain Group subsidiaries operate overseas and participate in a number of pension schemes, which are largely of a defined contribution nature. The profit and loss charge for defined contribution schemes represents the contributions made.

The pension charge to the profit and loss account is analysed as follows:

	2005 £m	2004 £m
Menzies Pension Fund	5.1	5.5
Other schemes	2.4	1.9
	7.5	7.4

FRS 17, "Retirement benefits" was fully adopted for 2004. The adoption of FRS 17 required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

FRS 17 movements

The Actuary undertook a valuation of the Menzies Pension Fund as at 31 December 2005 (2004: 31 December) under FRS 17.

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

	2005 %	2004 %	2003 %
Rate of increase in salaries	3.50	3.35	3.25
Rate of increase in pensions	3.30	3.25	3.25
Price inflation	3.00	2.85	2.75
Discount rate	4.80	5.30	5.40

Net pension liabilities

The assets / (liabilities) in the scheme and the expected rates of return as at 31 December 2005 were as follows:

	Long term rate of return %	Value at December 2005 £m	Long term rate of return %	Value at December 2004 £m	Long term rate of return %	Value at December 2003 £m
Equities	7.5	128.9	7.5	104.9	8.0	117.9
Bonds	4.5	40.3	5.0	31.6	5.4	30.9
Property	6.0	38.7	6.0	31.2	–	–
Other	4.5	1.9	6.3	11.6	3.0	4.7
Total market value of assets		209.8		179.3		153.5
Present value of scheme liabilities		(241.1)		(202.6)		(191.1)
Deficit in scheme		(31.3)		(23.3)		(37.6)
Related deferred tax asset		9.4		7.0		11.3
Net pension liabilities		(21.9)		(16.3)		(26.3)

4. Employees (continued)

FRS 17 movements

Amounts charged to profit and loss account	2005 £m	2004 £m
Current service cost	5.1	5.5
Past service costs	–	–
Total amount charged to profit and loss account	5.1	5.5

Amounts included as other finance income	£m	£m
Expected return on pension scheme assets	11.5	10.5
Interest on pension liabilities	(10.3)	(9.9)
Net financial return	1.2	0.6

Amounts recognised in the statement of total recognised gains and losses	£m	£m
Actual return less expected return on assets	17.6	3.4
Experience (losses)/gains on liabilities	(0.4)	4.3
Impact of changes in assumptions relating to the present value of scheme liabilities	(26.6)	(4.5)
Actuarial (loss) / gain	(9.4)	3.2

Movement in the deficit during the year	£m	£m
Deficit in the Fund brought forward	(23.3)	(37.6)
Current service cost	(5.1)	(5.5)
Employer contributions	5.3	16.0
Net financial return	1.2	0.6
Actuarial (loss) / gain	(9.4)	3.2
Deficit in the Fund carried forward	(31.3)	(23.3)

FRS 17 five year history

The following disclosures will be built up over time as a five year history:

	% of scheme assets/ liabilities	2005 £m	% of scheme assets/ liabilities	2004 £m	% of scheme assets/ liabilities	2003 £m	% of scheme assets/ liabilities	2002 £m
Difference between actual and expected return on scheme assets	8%	17.6	2%	3.4	9%	14.0	38%	(46.0)
Experience (losses)/gains on scheme liabilities	–	(0.4)	2%	4.3	1%	2.1	3%	(4.7)
Amount recognised in statement of total recognised gains and losses	4%	(9.4)	2%	3.2	4%	7.1	33%	(54.1)

5. **Exceptional item**

On 12 August 2004 the Group sold its executive aviation handling business, Execair, to BBA Group plc for a gain of £7.6m.

6. **Directors**

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 40 to 45.

7. **Interest**

	2005 £m	2004 £m
Receivable:		
Bank deposits	(2.3)	(2.4)
Payable:		
Bank loans and overdrafts	4.3	5.9
Net interest payable	2.0	3.5

8. **Taxation**

(a) Analysis of charge in year	2005 £m	2004 (restated) £m
Current tax		
UK corporation tax on profits for the year	7.2	6.2
Overseas tax	1.8	1.1
Adjustments to prior years' liabilities	(2.4)	–
Share of joint ventures	0.3	0.2
Share of associates	0.3	0.7
Total current tax	7.2	8.2
Deferred tax		
Origination and reversal of timing differences	1.2	3.6
Adjustments to prior years' liabilities	0.2	(0.2)
	1.4	3.4
Pension	0.4	(3.3)
Total deferred tax	1.8	0.1
Tax on profit on ordinary activities	9.0	8.3

There was no tax charge on the exceptional item in 2004.

The tax charge for the year is lower (2004: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

(b) Factors affecting tax charge for the year	2005 £m	2004 (restated) £m
Profit on ordinary activities before tax	36.1	37.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	10.8	11.3
Effects of:		
Permanent differences (principally goodwill amortisation and exceptional item)	0.2	(1.0)
Capital allowances in excess of depreciation and other timing differences	(1.1)	(0.7)
Pension payments	(0.5)	(0.9)
Utilisation of tax losses	(2.5)	(2.0)
Adjustments to prior years' liabilities	(2.4)	–
Unrelieved overseas losses	2.2	1.3
Higher tax rates on overseas earnings	0.5	0.2
Current tax charge for year	7.2	8.2

8. Taxation (continued)

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the replacement assets were sold without it being possible to claim rollover relief, or the Group's existing capital losses could not be utilised. The total amount unprovided for is £1.7m (2004: £2.4m). At present it is not envisaged that any tax will become payable in the foreseeable future.

Some of the Group's overseas operations, particularly in the Netherlands, Hong Kong, Germany and the USA, have generated tax losses in the past, the future utilisation of which is uncertain. The Group has therefore not recognised a deferred tax asset of £18.6m (2004: £18.8m) in respect of certain tax losses of overseas companies.

No deferred tax asset has been provided in respect of capital losses within the Group. There are no current and binding contracts to sell any of the Group's assets and no sales are anticipated in the foreseeable future. The recoverability of these losses is therefore uncertain and as such, has not been provided in the accounts. The amount at 30% which may be recovered against future capital gains is £7.1m (2004: £7.9m).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, joint ventures and associates. As the earnings are continually reinvested, no tax is expected to be payable on them in the foreseeable future.

9. Dividends

	2005 £m	2004 £m
Dividends on equity shares:		
Ordinary – Interim paid, 5.8p (2004: 5.5p) per share	**3.4**	3.1
– Final proposed, 13.7p (2004: 13.0p) per share	**8.0**	7.5
Dividends on non-equity shares:		
Preference shares	**0.1**	0.1
	11.5	10.7

Dividends of £0.1m (2004: £0.1m) were waived by employee share trusts (Note 21) during the year.

10. Earnings per share

	Headline		FRS 3	
	2005 £m	2004 (restated) £m	2005 £m	2004 (restated) £m
Operating profit	**36.9**	32.9	**36.9**	32.9
add back: goodwill amortisation	**3.3**	3.6	**–**	–
Exceptional item	**–**	–	**–**	7.6
Interest	**(0.8)**	(2.9)	**(0.8)**	(2.9)
Profit before taxation	**39.4**	33.6	**36.1**	37.6
Taxation	**(9.0)**	(8.3)	**(9.0)**	(8.3)
Minority interests	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Preference dividends	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Earnings for the year	**30.0**	24.9	**26.7**	28.9
Headline				
Earnings per ordinary share (pence)	**52.2**	44.0		
Diluted earnings per ordinary share (pence)	**51.7**	43.7		
FRS 3				
Earnings per ordinary share (pence)			**46.5**	51.0
Diluted earnings per ordinary share (pence)			**46.0**	50.7
Number of ordinary shares in issue (millions)				
Weighted average	**57.462**	56.619		
Diluted weighted average	**58.079**	57.032		

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts (Note 21).
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.

11. Intangible assets – goodwill

	Joint ventures £m	Associates £m	Subsidiaries £m	Total £m
Cost				
At 25 December 2004	8.4	19.8	32.9	61.1
Acquisitions	–	–	0.6	0.6
Disposals	(0.5)	–	–	(0.5)
Currency translation	–	2.3	0.7	3.0
At 31 December 2005	7.9	22.1	34.2	64.2
Amortisation				
At 25 December 2004	8.4	4.9	10.6	23.9
Charge for the year	–	1.8	1.5	3.3
Disposals	(0.5)	–	–	(0.5)
Currency translation	–	0.6	0.1	0.7
At 31 December 2005	7.9	7.3	12.2	27.4
Net book value				
At 31 December 2005	**–**	**14.8**	**22.0**	**36.8**
At 25 December 2004	–	14.9	22.3	37.2

During the year the Group acquired the 18% minority interest in the ordinary share capital of Menzies Aviation (Iberica) SA for £0.1m and the 1% minority interest in the ordinary share capital of Ogden Aviation Services Dominicana SA for £0.5m.

On 17 January 2005 the Group sold its 50% interest in Dolphin Logistics Limited for a consideration equal to net book value.

12. Tangible fixed assets

	Group					Company				
	Freehold £m	Long lease-hold £m	Short lease-hold £m	Plant and equip-ment £m	Total £m	Freehold £m	Long lease-hold £m	Short lease-hold £m	Plant and equip-ment £m	Total £m
Cost										
At 25 December 2004	39.3	0.1	36.1	110.3	185.8	34.0	0.1	0.3	–	34.4
Additions	1.1	–	1.4	19.4	21.9	–	–	–	–	–
Transfers/Inter group additions	(0.6)	–	–	0.6	–	3.6	–	–	1.7	5.3
Disposals	(0.2)	–	(1.5)	(6.0)	(7.7)	–	–	–	–	–
Currency translation	–	–	0.4	1.9	2.3	–	–	–	–	–
At 31 December 2005	39.6	0.1	36.4	126.2	202.3	37.6	0.1	0.3	1.7	39.7
Depreciation										
At 25 December 2004	4.8	–	10.7	54.2	69.7	0.7	0.1	0.2	–	1.0
Charge for the year	0.8	–	2.0	13.7	16.5	0.8	–	–	0.1	0.9
Disposals	(0.2)	–	(1.1)	(5.3)	(6.6)	–	–	–	–	–
Inter group additions	–	–	–	–	–	–	–	–	1.4	1.4
Currency translation	–	–	–	0.9	0.9	–	–	–	–	–
At 31 December 2005	5.4	–	11.6	63.5	80.5	1.5	0.1	0.2	1.5	3.3
Net book value										
At 31 December 2005	**34.2**	**0.1**	**24.8**	**62.7**	**121.8**	**36.1**	**–**	**0.1**	**0.2**	**36.4**
At 25 December 2004	34.5	0.1	25.4	56.1	116.1	33.3	–	0.1	–	33.4

13. Investments

	Group					Company
	Shares in joint ventures £m	Loans to joint ventures £m	Shares in associates £m	Loans to associates £m	Total £m	Subsi-diaries £m
Cost excluding goodwill						
At 25 December 2004	0.8	0.3	5.2	0.1	6.4	98.8
Share of profits after tax	0.7	–	4.3	–	5.0	–
Dividends received	(0.5)	–	(3.5)	–	(4.0)	–
Currency translation	–	–	0.6	–	0.6	–
At 31 December 2005	1.0	0.3	6.6	0.1	8.0	98.8
Goodwill						
At 25 December 2004	–	–	14.9	–	14.9	–
Amortisation	–	–	(1.8)	–	(1.8)	–
Currency translation	–	–	1.7	–	1.7	–
At 31 December 2005	–	–	14.8	–	14.8	–
At 31 December 2005	**1.0**	**0.3**	**21.4**	**0.1**	**22.8**	**98.8**
At 25 December 2004	0.8	0.3	20.1	0.1	21.3	98.8

The Group holds the following interests in the ordinary share capital of:

Joint ventures
50% in Talma Menzies SRL (Peru)
50% in Freshport BV, a border inspection post facility at Schiphol

Associates
29% in Menzies Macau Airport Services Ltd
30% in Worldwide Magazine Distribution Ltd
32% in Great Wall Air Transport Services Company Ltd
40% in Menzies Chengdu Aviation Services Ltd

14. Debtors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Trade debtors	75.7	73.5	–	–
Other debtors	11.1	11.3	5.1	1.0
Prepayments and accrued income	11.1	10.4	1.7	1.2
Amounts owed by Group companies	–	–	101.2	60.8
	97.9	95.2	108.0	63.0

15. Creditors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Due within one year				
Trade creditors	96.7	88.6	–	–
Accruals and deferred income	44.8	49.3	12.9	4.6
Corporation tax	14.1	12.4	2.1	–
Other taxes and social security costs	5.1	5.0	0.2	–
Dividends	8.1	7.5	8.1	7.5
Unsecured loan stock (Note 16)	0.1	0.1	–	–
Amounts owed to Group companies	–	–	92.6	92.3
	168.9	162.9	115.9	104.4
Due after more than one year				
Accruals and deferred income	–	0.1	–	–

16. Financial instruments

The objectives, policies and strategies pursued by the Group in relation to financial instruments are described within the Operating and Financial Review on pages 16 and 17.

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Maturity profile				
Borrowings due within one year:				
Bank loans and overdrafts	21.2	28.4	19.4	12.5
Unsecured loan stock (Note 15)	0.1	0.1	–	–
Total borrowings due within one year	21.3	28.5	19.4	12.5
Borrowings due after one year:				
Loans repayable between one and two years	1.2	5.9	31.2	5.8
Loans repayable between two and five years	4.5	8.9	–	8.8
Loans repayable after five years	25.6	27.2	–	27.2
Total borrowings due after one year	31.3	42.0	31.2	41.8
Total borrowings	52.6	70.5	50.6	54.3
Less: Cash at bank and in hand and short term deposits	22.0	27.0	7.5	16.7
Net debt	30.6	43.5	43.1	37.6

Other than trade debtors and creditors there are no financial assets or liabilities excluded from the above analysis.

No financial assets or liabilities were held or issued for trading purposes.

Borrowing facilities
At 31 December 2005, the Group had undrawn committed facilities of £32.9m (2004: £36.2m) with an expiry profile of less than one year. In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £15.1m (2004: £15.4m).

16. Financial instruments (continued)

Fair values and hedges

Set out below is an analysis of the fair and book value of the Group's financial instruments as at 31 December 2005.

	2005 Book value £m	2005 Fair value £m	2004 Book value £m	2004 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings	21.3	21.4	28.5	28.5
Medium term borrowings	5.7	6.1	14.8	15.1
Long term borrowings	25.6	27.4	27.2	28.7
	52.6	54.9	70.5	72.3
Cash and deposits	22.0	22.0	27.0	27.0
Derivative financial instruments held to manage currency translation and transaction exposure:				
Assets/(liabilities)				
Cross currency basis swaps	(0.5)	(0.4)	0.3	0.3
Foreign currency forward contracts	(0.3)	0.2	–	0.3
	(0.8)	(0.2)	0.3	0.6

Market values have been used to determine the fair value of the cross currency basis swaps and the forward currency forward contracts.

The fair value of provisions, preference shares and other financial liabilities are not considered to be materially different from their book value.

Gains on hedges

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2005 £m	2004 £m
Unrecognised gains/(losses) on hedges at the start of the year	0.3	(0.2)
(Gains)/losses arising in previous years that were recognised in the year	(0.2)	0.2
	0.1	–
Gains arising in the year that were not recognised in the year	0.5	0.3
Unrecognised gains on hedges at the end of the year (expected to be recognised within one year)	0.6	0.3

16. Financial instruments (continued)

Interest rate and currency risk profile of financial assets and liabilities

Financial assets and liabilities

The interest rate and currency profile of the Group's financial assets and liabilities (excluding trade debtors and trade creditors) at 31 December 2005 is shown below.

Currency	Floating rate financial assets £m	Fixed rate financial assets £m	2005 Total financial assets £m	Floating rate financial assets £m	Fixed rate financial assets £m	2004 Total financial assets £m
Sterling	10.7	1.6	12.3	14.4	2.9	17.3
Euro	4.4	–	4.4	4.8	–	4.8
US dollar	2.4	–	2.4	2.4	–	2.4
Hong Kong dollar	0.9	–	0.9	0.4	–	0.4
Other	2.0	–	2.0	2.1	–	2.1
	20.4	1.6	22.0	24.1	2.9	27.0

The floating rate financial assets of £20.4m (2004: £24.1m) are at interest rates linked to Base rates and LIBID. The fixed rate financial assets of £1.6m (2004: £2.9m) is a six month fixed deposit at 4.4% (2004: 1 month fixed deposit of £0.3m at 4.82% and a 2 month fixed deposit of £2.6m at 4.59375%).

Currency	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2005 Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2004 Total financial liabilities £m
Sterling	2.7	32.2	34.9	15.6	33.0	48.6
Euro	0.3	–	0.3	0.3	–	0.3
US dollar	17.4	–	17.4	21.6	–	21.6
	20.4	32.2	52.6	37.5	33.0	70.5

Floating rate financial liabilities of £20.4m (2004: £37.5m) comprise bank loans, overdrafts and unsecured loan stock. Interest on these liabilities is determined by reference to short term rates linked to Base rates and LIBOR.

Fixed rate financial liabilities comprise a loan repayable between 2006 and 2020 of £32.2m (2004: £33.0m) on which interest is at a fixed rate of 6.23% (2004: 6.23%). This loan has a weighted average maturity of 8.8 years (2004: 9.5 years).

17. Operating lease commitments

	Group			
	Property		Other	
	2005 £m	2004 £m	2005 £m	2004 £m
Annual commitments in respect of leases which expire:				
within one year	3.2	3.5	1.1	2.1
within two to five years	3.5	3.5	6.1	4.0
after five years	12.4	12.1	–	–
	19.1	19.1	7.2	6.1

The Company has no operating lease commitments (2004: nil).

18. Capital commitments

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Contracted but not provided	4.5	2.6	–	–

19. Provisions for liabilities and charges

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Deferred taxation				
Provided:				
Accelerated capital allowances and other timing differences	(2.6)	(4.7)	0.5	–
Movement in year:				
Profit and loss charge (Note 8)	1.4	3.4	–	–
Transfer from current tax	0.7	–	–	–
Transfer from subsidiary	–	–	0.5	–
Disposals	–	0.1	–	–
	2.1	3.5	0.5	–

Other – property related	2005 £m	2004 £m
At beginning of year	8.5	9.0
Provided during year	1.3	1.0
Utilised during year	(2.6)	(1.5)
At end of year	7.2	8.5

The property related provision is in respect of obligations for vacated leasehold properties where applicable sublet income may be insufficient to meet obligations under head leases.

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.

20. Share capital

	2005 £m	2004 £m
Authorised		
73,056,248 Ordinary shares of 25p each	18.3	18.3
1,735,938 9% Cumulative preference shares of £1 each	1.7	1.7
	20.0	20.0
Allotted, called up and fully paid		
Opening - 57,763,434 Ordinary shares of 25p each	14.3	14.3
Allotted under share option schemes*	0.3	0.1
Closing - 58,708,035 Ordinary shares of 25p each	14.7	14.4
1,394,587 9% Cumulative preference shares of £1 each (2004: 1,394,587 shares)	1.4	1.4
	16.1	15.8

As a result of options being exercised, 944,601 (2004: 515,630) Ordinary shares having a nominal value of £0.3m (2004: £0.1m) were issued during the year at a share premium of £3.2m (2004: £1.7m).

* Included in this total are 132,458 (2004: 35,000) Ordinary shares of 25p each allotted to directors under the executive share option scheme and 2,680 (2004: nil) Ordinary shares of 25p each allotted to the directors under the savings related share option scheme with a nominal value of £33,785 (2004: £8,750).

Potential issue of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company under the executive share option scheme approved by the shareholders, details of which are shown below. Options on 555,392 were exercised in 2005 and 60,209 options lapsed.

Date of grant	Exercise price (pence)	Exercise period	2005 Number	2004 Number
Feb-95	501	1998-2005	–	45,000
Oct-95	596	1998-2005	–	12,500
Mar-96	520	1999-2006	17,500	87,500
Oct-96	540	1999-2006	2,500	7,500
Feb-97	461	2000-2007	27,500	117,500
Oct-97	404	2000-2007	–	10,000
Apr-98	492	2001-2008	115,300	222,800
Feb-99	348	2002-2009	10,000	42,500
Jan-00	391	2003-2010	36,937	94,437
Apr-02	331	2005-2012	39,242	132,134
Nov-02	329	2005-2012	205,166	205,166
May-03	312	2006-2013	452,759	510,879
May-04	418	2007-2014	320,526	355,115
			1,227,430	1,843,031

20. Share capital (continued)

Employees, including senior executives, also hold options to subscribe for shares in the Company under the savings related share option scheme approved by the shareholders, details of which are shown below. Options on 389,209 shares were exercised in 2005 and 177,041 options lapsed.

Year of grant	Exercise price (pence)	Exercise period	**2005 Number**	2004 Number
2001	340	2004-2005	**–**	21,269
2002	275	2005-2006	**81,559**	486,576
2003	286	2006-2007	**353,762**	414,197
2004	388	2007-2008	**343,736**	418,423
2005	467	2008-2009	**375,386**	–
			1,154,443	1,340,465

Company Share Option Schemes

In 2004 accounting for share options was governed by UITF Abstract 17 "Employee share schemes" under which all options granted were made at nil cost to the Company.

In 2005 the Company has adopted FRS 20 "Share-based Payment" and accordingly the disclosures which follow are made in accordance with that standard.

The Company operates the following share-based payment arrangements:

(a) Executive share option scheme ("ESOS")

Options under the ESOS may be granted to executive directors and senior employees of the Group on an annual basis and mature only after 3 years upon which they become exercisable. The exercise period is usually 7 years from maturity and special rules apply to employees who leave the employment of the Group due to ill health, retirement or redundancy. Options are granted with a fixed exercise price equal to the market price of shares under option at the date of grant.

Options granted under the ESOS adopted in September 2000, are subject to performance conditions and lapse if these are not achieved. The performance hurdles require that for each annual grant 3-year growth targets set by the Board are achieved. Growth is typically measured by growth in headline earnings per share ("EPS") as compared to RPI plus between 3% and 8% per annum over 3 years, adjusted to normalise pension and tax charges. Options granted under the scheme adopted in 1990 did not have performance conditions.

(b) Savings related share option scheme

The Company operates a savings related share option scheme which is open to all eligible UK employees. Typically, employees who are eligible to participate include full and part time employees who work at least 16.5 hours per week, after any probationary period. Annual grants of options are made in October each year and become exercisable after three years. Employees enter into a savings contract with the Yorkshire Building Society, who administer the scheme. The options are granted at a 20% discount of the share price at the date of grant and lapse if not exercised within 6 months of maturity. Special provisions apply to employees who leave their employment due to ill health, redundancy or retirement.

20. Share capital (continued)

(c) Performance Share Plan ("PSP")

Under the PSP the Board can grant executive directors and senior employees of the Group selected by the Remuneration Committee an award of conditional shares. The shares will vest at the end of three years if Total Shareholder Return ("TSR") reaches targets set by the Board. If percentage growth in the Company's TSR for the three financial years is greater than the TSR for the FTSE 250 Index by 30% or more, then the percentage of the award vesting is 100%. If the growth is greater than the TSR for the FTSE 250 Index but less than 30% greater, then the percentage of the award vesting will be calculated on a straight line basis. If growth is equal to or less than TSR for the FTSE 250 Index, then the percentage of the award vesting is nil. There will be no retesting of performance targets.

Awards may be made by the Board at any time but no award will be made more than ten years after the adoption of the PSP. At the end of each three year performance period, the Remuneration Committee will notify each participant of the extent to which the performance targets have been met and the number of shares that will vest. Shares will be met from existing issued shares held under employee benefit trusts. Participants will also be paid an amount equal to the net dividends on those shares which actually vest which would have been paid during the performance period.

The conditional shares are not transferrable and lapse immediately if the participant leaves the employment of the Group, although special rules apply in the case of particular circumstances such as death, ill health, redundancy or other circumstances at the discretion of the Remuneration Committee. No participant may be made an award of more than 100,000 shares in any year. Share awards are valued using scenario-modelling.

(d) Long Term Incentive Scheme ("LTIS")

The terms under which share awards are made under the LTIS to senior employees are the same as for the PSP other than as follows. The shares will vest at the end of three years if headline EPS reaches targets set by the Board. If the percentage real EPS growth in the Company's headline EPS for three financial years is greater than RPI + 8% pa or more, then the percentage of the award vesting is 100%. If the EPS growth is greater than the RPI by between 3% and 8% pa, then the percentage of the award vesting will be calculated on a straight line basis. If EPS growth is RPI + 3% pa or less then the percentage of the award vesting is nil. There will be no retesting of performance targets.

(e) Bonus Co-investment Plan ("BCIP")

The BCIP offers executive directors and other senior executives selected by the Board the opportunity to invest part of their annual cash bonus for a financial year in the Company's shares entitling them, provided certain performance targets are met, to a grant of additional matching shares in the ratio of up to 2:1. The maximum amount of the annual cash bonus which may be eligible for matching is 50%. The net of tax amount is applied in the purchase of shares.

The first bonus award which qualified for investment in shares under the BCIP was the award for the financial year ended December 2004 and the last qualifying bonus award will be for the financial year which commences 10 years after the adoption of the BCIP.

Performance targets are based on real growth in earnings measured over three financial years. If the percentage growth in the Company's EPS during the three years to December 2007 is RPI + 8% pa or more, then the number of matching shares that will vest is 2. For EPS growth of between RPI + 3% pa and RPI + 8% pa, the number of matching shares vesting will be calculated on a straight line basis. No matching shares will vest for EPS percentage growth of RPI + 3% pa or less.

Similar provisions apply in respect of dividends, transferability of rights and leavers.

(f) Shadow Option Scheme

The Company also operated a cash-settled Shadow Option Scheme for certain senior executives up to 31 December 2004. Grants were made on a discretionary basis normally once a year. The Shadow Option price was the market price at the date of grant and the shadow options mature after 3 years. The period for exercising was restricted to 6 months after the date of maturity, after which the shadow options lapse. Discretionary provisions were applied to leavers.

The performance targets applied were also based on 3 year real earnings growth. The 2003 shadow options are exercisable in 2006 if the percentage EPS growth exceeds RPI + 3%-8% pa, with any gain capped at 300p per shadow option. The same targets apply in respect of the 2004 shadow options. No shadow options were granted during 2005.

20. Share capital (continued)

Fair values of share options

Options are valued using the Black Scholes option-pricing model. No performance conditions are included in the fair value calculations.

The fair value per option granted after November 2002 and the assumptions used in the calculation are as follows:

	Executive Share Option Scheme			Savings Related Option Scheme			Shadow Options	
Grant date	May-04	May-03	Nov-02	Oct-05	Oct-04	Oct-03	May-04	May-03
Share price at grant date (pence)	418	312	329	555.5	485	357	418	312
Exercise price (pence)	418	312	329	467	388	286	418	312
Number of employees	10	8	1	773	892	891	15	15
Shares under option	320,526	452,759	205,166	375,386	343,736	353,762	249,100	308,500
Vesting Period (years)	3	3	3	3	3	3	3.5	3.5
Expected volatility	25.0%	24.5%	25.0%	25.0%	25.0%	24.5%	25.0%	25.0%
Option life (years)	10	10	10	3.5	3.5	3.5	3.5	3.5
Expected life (years)	4	4	4	3.5	3.5	3.5	3.5	3.5
Risk free rate	5.1%	4.1%	4.5%	4.5%	4.7%	4.2%	4.7%	4.0%
Expected dividends expressed as a dividend yield *	4.0%	4.5%	5.2%	3.8%	3.9%	4.0%	3.8%	3.8%
Fair value per option (pence)	76	49	50	132	126	88	104	184
FRS 20 charge per option **	70	45	50	81	77	54	75	134

The expected volatility is based on the historical volatility over the last three years. The expected life is the average expected period to vesting. The risk free rate of return is the zero coupon UK government bonds of a term consistent with the assumed award life.

* Based on the daily 12 month trailing dividend yield averaged over the 12 months prior to valuation date.

** The difference between the Fair value and FRS 20 charge per option is due to adjustments for forfeiture risk.

	Performance Share Plan		Long Term Incentive Scheme		Bonus Co-Investment Plan
Grant date	Sep-05	Apr-05	Sep-05	Apr-05	Apr-05
Share price at grant date (pence)	583.5	582	583.5	582	595
Number of employees	1	3	1	22	2
Shares awarded	42,500	105,000	2,500	118,000	21,445
Contractual life (years)	3	3	3	3	3
Expected departure *	0%	0%	27%	27%	14%
Expected outcome of meeting performance criteria	41%	41%	52%	52%	52%
Fair value per share (pence)	238	237	583.5	582	595
FRS 20 charge per share award **	238	237	220	219	264

* Risk of forfeiture
** Adjusted for forfeiture risk

20. Share capital (continued)

Movement in share options

A reconciliation of conditional share movements of executive share options, savings related share options and shadow options is shown below:

	Executive Share Option Scheme				Savings Related Option Scheme			
	2005 Number	weighted average exercise price (p)	2004 Number	weighted average exercise price (p)	2005 Number	weighted average exercise price (p)	2004 Number	weighted average exercise price (p)
Outstanding at start of year	1,843,031	389	2,607,074	401	1,340,465	315	1,296,372	291
Granted	–	–	355,115	418	380,228	467	427,616	388
Forfeited/expired	(60,209)	418	(810,100)	442	(177,041)	337	(176,951)	293
Exercised	(555,392)	430	(309,058)	367	(389,209)	276	(206,572)	334
Outstanding at end of year	1,227,430	369	1,843,031	389	1,154,443	374	1,340,465	315
Exercisable	454,145	393	639,737	387	81,559	275	21,269	340

	Shadow Option Scheme				Performance Share Plan, Long Term Incentive Scheme and Bonus Co-investment Plan			
	2005 Number	Weighted average exercise price (p)	2004 Number	Weighted average exercise price (p)	2005 Number	Weighted average exercise price (p)	2004 Number	Weighted average exercise price (p)
Outstanding at start of year	928,700	350	746,700	320	–	–	–	–
Granted	–	–	315,300	418	289,445	584	–	–
Forfeited	(60,459)	340	(133,300)	346	–	–	–	–
Exercised	(310,641)	335	–	–	–	–	–	–
Outstanding at end of year	557,600	359	928,700	350	289,445	584	–	–
Exercisable	–	–	–	–	–	–	–	–

Summary information on all outstanding options

	Executive Share Option Scheme 2005	Executive Share Option Scheme 2004	Savings Related Option Scheme 2005	Savings Related Option Scheme 2004	Shadow Option Scheme 2005	Shadow Option Scheme 2004
Range of exercise prices (pence)	312-540	312-596	275-467	275-388	312-418	312-418
Weighted average exercise price (pence)	369	389	374	315	359	350
Number of shares	1,227,430	1,843,031	1,154,443	1,340,465	557,600	928,700
Weighted average remaining life (years)						
- expected	1.2	1.4	2.1	2.2	1.2	1.2
- contractual	4.4	5.1	2.1	2.2	1.2	1.2

The weighted average share price during the year for executive share options and savings related options exercised over the year was 430p and 276p respectively (2004: 367p and 334p respectively).

Total FRS 20 charge for share-based incentive schemes

The total charge for the year relating to employee share based plans was £0.9m (2004: £0.6m), £0.7m (2004: £0.3m) of which related to equity-settled share based payment transactions. After tax, the total charge was £0.6m (2004: £0.4m).

21. Reserves

	Group				Company		
	Share premium account £m	Investment in own shares £m	Profit and loss account £m	Capital redemption reserve £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m
At 25 December 2004	7.7	(3.3)	(2.8)	21.6	7.7	8.1	21.6
Share based payments	–	–	0.7	–	–	0.2	–
Actuarial loss (net of deferred tax)	–	–	(6.6)	–	–	(6.6)	–
Movement during the year	3.2	(0.2)	–	–	3.2	–	–
Profit for the year	–	–	26.8	–	–	23.0	–
Dividends	–	–	(11.5)	–	–	(11.5)	–
Currency translation	–	–	(0.4)	–	–	–	–
At 31 December 2005	**10.9**	**(3.5)**	**6.2**	**21.6**	**10.9**	**13.2**	**21.6**

The cumulative amount of goodwill resulting from acquisitions undertaken before April 1998, which has been written off to reserves, is £28.9m (2004: £28.9m).

Investment in own shares

The Company's ordinary shares are held in trust for an employee share scheme. At 31 December 2005 the trusts held 721,927 (2004: 729,545) ordinary 25p shares with a market value of £3,663,780 (2004: £3,797,282).

22. Minority interests

	2005 £m	2004 £m
At beginning of year	**0.5**	0.1
Movement in the year	**(0.3)**	0.1
Dividend	**(0.2)**	–
Share of profit after tax	**0.3**	0.3
At end of year	**0.3**	0.5

23. Reconciliation of movements in shareholders' funds

	2005 £m	2004 (restated) £m
Profit for the financial year	**26.8**	29.0
Dividends	**(11.5)**	(10.7)
New share capital issued (Note 20)	**3.5**	1.8
Investment in own shares (Note 21)	**(0.2)**	0.4
Share based payments	**0.7**	0.3
Net actuarial (loss)/gain	**(6.6)**	2.2
Currency translation	**(0.4)**	0.6
Net increase in shareholders' funds	**12.3**	23.6
Shareholders' funds at beginning of year	**39.0**	15.4
Shareholders' funds at end of year	**51.3**	39.0

24. Cash flow

	2005 £m	2004 (restated) £m
a. Reconciliation of operating profit to net cash inflow from operating activities		
Total operating profit pre-exceptional item	36.9	32.9
Depreciation	16.5	16.3
Goodwill amortisation	1.5	1.8
Share based payments	0.7	0.3
Share of operating profit in joint ventures	(1.0)	(0.6)
Share of operating profit in associates	(2.8)	(2.8)
Cash spend on exceptional items	–	(0.1)
FRS 17 pension charge	5.1	5.5
Pension contributions in cash	(5.4)	(16.0)
Other items not involving the movement of cash	(0.5)	(0.1)
(Increase)/decrease in stocks	(1.9)	1.7
Increase in debtors	(3.2)	(8.9)
Increase in creditors	1.0	6.9
Net cash inflow from operating activities	46.9	36.9

	2005 £m	2004 £m
b. Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	11.7	8.6
Decrease in short term deposits	(4.2)	(8.9)
Decrease in debt	5.4	20.1
Movement in net debt in the year	12.9	19.8
Net debt at beginning of year	(43.5)	(63.3)
Net debt at end of year	(30.6)	(43.5)

	2004 £m	Cash flows £m	Currency translation £m	2005 £m
c. Analysis of changes in net debt				
Cash at bank and in hand	22.8	(0.8)	–	22.0
Bank overdrafts	(15.8)	12.5	–	(3.3)
	7.0	11.7	–	18.7
Short term deposits	4.2	(4.2)	–	–
Bank loans due within one year	(12.6)	(3.4)	(1.9)	(17.9)
Loan stock due within one year	(0.1)	–	–	(0.1)
Debt due after one year	(42.0)	11.3	(0.6)	(31.3)
	(43.5)	15.4	(2.5)	(30.6)

25. Related party transactions

During the year the Group transacted with related parties in the normal course of business and on an arm's length basis. Details of these transactions are shown below:

Related party	Group share holding %	Sales to related party £m	Amounts owed to related party at 31 December 2005 £m
Talma Menzies SRL (Peru)	50	0.7	–
Freshport BV	50	0.3	–
Menzies Chengdu Aviation Services Ltd	40	0.1	–

During the year the Group incurred fees for legal services amounting to £0.1m (2004: £0.2m) to Maclay Murray & Spens, of which Mr M J Walker, a director of the Company, is a partner.

During the year the Group purchased services to the value of £nil (2004: £0.4m) from beCogent Limited, of which Mr D J Jenkinson, a director of the Company, is the co-founder and Chairman.

26. Post balance sheet events

On 8 February 2006 the Group reached a conditional agreement to acquire the entire issued share capital of Chester Independent Wholesale Newsagents. It is anticipated that the transaction will be completed by the end of March 2006 subject to regulatory approval.

On 8 March 2006 the Group reached a conditional agreement to acquire the entire issued share capital of Aeroground Inc., a provider of air cargo handling services to customers at 9 airports in the USA and Canada. The total cash consideration amounts to $28m with a further $2m payable dependent on the future performance of the business over the next two years. It is expected that the transaction will be completed by the end of April 2006 subject to regulatory clearance.

27. Subsidiary companies

The principal subsidiaries, Menzies Distribution Limited, Menzies Group Holdings Limited, Menzies Aviation plc and Menzies Aviation Holdings Limited are ultimately wholly owned by the Company and operate mainly in the United Kingdom. The issued share capital of these subsidiaries is mainly in the form of equity shares.

FIVE YEAR SUMMARY

	FRS 17 basis			SSAP 24 basis	
	12 months to December			12 months to December	8 months to December
	2005	2004 (restated)	2003	2002	2001
	£m	£m	£m	£m	£m
Turnover (excluding joint ventures and associates)					
Distribution	1,093.5	1,086.6	1,033.5	936.9	578.8
Aviation	268.6	244.0	226.8	195.9	128.8
Continuing operations	1,362.1	1,330.6	1,260.3	1,132.8	707.6
Discontinued operations	–	–	–	–	55.9
	1,362.1	1,330.6	1,260.3	1,132.8	763.5
Operating profit					
Distribution	30.7	30.5	26.2	28.7	16.5
Aviation	13.3	10.3	2.4	3.7	(3.8)
	44.0	40.8	28.6	32.4	12.7
Corporate	(3.8)	(4.3)	(4.8)	(7.0)	(4.7)
Pension credit	–	–	–	3.6	3.3
Continuing operations	40.2	36.5	23.8	29.0	11.3
Goodwill amortisation	(3.3)	(3.6)	(3.6)	(3.5)	(2.2)
Discontinued operations	–	–	–	–	(5.7)
Total operating profit	36.9	32.9	20.2	25.5	3.4
Exceptional items	–	7.6	(17.2)	(4.7)	(22.5)
Profit / (loss) before interest	36.9	40.5	3.0	20.8	(19.1)
Net interest payable	(2.0)	(3.5)	(3.7)	(3.1)	(2.0)
Other finance income	1.2	0.6	0.6	–	–
Profit / (loss) before taxation	36.1	37.6	(0.1)	17.7	(21.1)
Per ordinary share					
Dividends	19.5 p	18.5 p	18.1 p	18.1 p	12.1 p
Headline earnings	52.2 p	44.0 p	24.8 p	32.9 p	0.4 p
FRS 3 earnings	46.5 p	51.0 p	(11.4) p	18.2 p	(38.7) p

Basis of preparation

The financial information presented in these financial statements has been prepared on the basis of those International Financial Reporting Standards, International Accounting Standards, and International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretation Committee (SIC) interpretations that are expected to be applicable to 2006 financial reporting, with the exception of IAS 32 and IAS 39. International Financial Reporting Standards are subject to ongoing review and endorsement by the European Commission and as a consequence further adjustments to the accounting policies and treatments may need to be made in the Report and Accounts for the year ending 30 December 2006.

GROUP INCOME STATEMENT (UNAUDITED)

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 (UNAUDITED)

as at 26 December 2004 (IFRS opening position)

	Notes	As reported under UK GAAP* £m	Effect of transition to IFRS £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
Deferred tax assets	(c)	12.8	0.3	13.1
		172.5	1.9	174.4
Current assets				
Inventories		11.1	–	11.1
Trade and other receivables		95.2	–	95.2
Cash and cash equivalents		27.0	–	27.0
		133.3	–	133.3
Liabilities				
Current liabilities				
Borrowings		(28.5)	–	(28.5)
Trade and other payables	(d)	(150.4)	7.5	(142.9)
Current income tax liabilities		(12.4)	–	(12.4)
		(191.3)	7.5	(183.8)
Net current liabilities		(58.0)	7.5	(50.5)
Total assets less current liabilities		114.5	9.4	123.9
Non-current liabilities				
Borrowings	(e)	(42.0)	(0.5)	(42.5)
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)	(77.0)
Net assets		39.5	7.4	46.9
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	4.6
Capital redemption reserve		21.6	–	21.6
Total shareholders' equity		39.0	7.4	46.4
Minority interest in equity		0.5	–	0.5
Total equity		39.5	7.4	46.9

* 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) 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	1.4	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	(1.4)	(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		(1.1)
Cumulative adjustment to net assets			7.4

GROUP BALANCE SHEET (UNAUDITED)

as at 31 December 2005

	Notes	As reported under UK GAAP* £m	Effect of transition to IFRS £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
Deferred tax assets	(d)	13.4	0.4	13.8
		180.0	3.3	183.3
Current assets				
Inventories		13.0	–	13.0
Trade and other receivables		97.9	–	97.9
Cash and cash equivalents		22.0	–	22.0
		132.9	–	132.9
Liabilities				
Current liabilities				
Borrowings		(21.2)	–	(21.2)
Trade and other payables	(e)	(154.8)	8.0	(146.8)
Current income tax liabilities		(14.1)	–	(14.1)
		(190.1)	8.0	(182.1)
Net current liabilities		(57.2)	8.0	(49.2)
Total assets less current liabilities		122.8	11.3	134.1
Non-current liabilities				
Borrowings	(f)	(31.3)	(0.5)	(31.8)
Provisions	(g)	(8.6)	(0.7)	(9.3)
Retirement benefit obligations	(h)	(31.3)	(1.3)	(32.6)
		(71.2)	(2.5)	(73.7)
Net assets		51.6	8.8	60.4
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	15.0
Capital redemption reserve		21.6	–	21.6
Total shareholders' equity		51.3	8.8	60.1
Minority interest in equity		0.3	–	0.3
Total equity		51.6	8.8	60.4

* 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)	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	1.5	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	(1.1)	(0.7)
(c)	Reversal of associates goodwill amortisation previously charged under UK GAAP	IAS 38	1.8	
	Impairment of goodwill	IAS 38	(1.8)	–
(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		(1.3)
	Cumulative adjustment to net assets			8.8

Internet

The Group operates a website which can be found at www.johnmenziesplc.com. This site is regularly updated to provide you with information about the Group and each of its operating divisions. In particular all of the Group's press releases and announcements can be found on the site together with copies of the Group's accounts.

Share Registrar

Any enquiries concerning your shareholding should be addressed to the Company's Registrar:

Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0870 162 3100
Fax: 0208 658 3430

The Registrar should be notified in writing promptly of any change in a shareholder's address.

Change of Share Registrar

The Company is changing its Share Registrar from Capita IRG plc to Computershare Investor Services PLC ("Computershare") with effect from 1 July 2006. From 3 July 2006 all shareholder queries relating to account holdings should be addressed to Computershare:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgewater Road
Bristol BS99 7NH
Tel: 0870 703 6303
Fax: 0870 703 6009

Existing share certificate(s) will remain valid and not require replacing. Investor codes, which are found on share certificates, dividend cheques and tax vouchers, will be replaced by a new Shareholder Reference Number ("SRN") from Computershare in due course. Until all shareholders receive a new SRN, investor codes can still be quoted in all correspondence or communication with Computershare, and will continue to be recognised during the transitional period of up to one year.

Full details on how to access your account holding and make changes or requests online on Computershare's website using the new SRN will follow in a separate Company mailing.

Share Price

The current share price of John Menzies plc ordinary shares can be seen on the Group's website.

Low Cost Dealing Service

The Group has arranged a low cost dealing service for those wishing to buy or sell shares in John Menzies plc. To use this service please call 0845 601 0995 and quote ref: LOW C0014.

Alternatively write to:
John Menzies plc
Share Dealing Service
Stocktrade
PO Box 1076
10 George Street
Edinburgh EH2 2PZ

Payment of Dividends

It is in the interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's Registrar to obtain a dividend mandate form.

Dividends are usually paid on the following dates:

Ordinary shares

Final dividend for 2005	30 June 2006
Interim dividend for 2006	30 November 2006

9% Preference shares

1 April
1 October

The final dividend on the ordinary shares for the year ended 31 December 2005 will be payable to shareholders on the register as at 2 June 2006.

Investor Relations

For further copies of the Group's accounts or other investor relations enquiries, please contact:

John Menzies plc
108 Princes Street
Edinburgh EH2 3AA
Tel: 0131 459 8186
Fax: 0131 226 3752
Email: info@johnmenziesplc.com

The Notice of Meeting appears on pages 87 and 88. The following information provides additional background information to several of the resolutions proposed.

Resolution 3 – Appointment of Directors

The Board recommends that the following Directors be elected or re-elected at this meeting:-

Octavia Morley

As Octavia has been appointed to the Board since the last Annual General Meeting she comes up for election at this meeting. She was appointed a non-executive director on 1 April and, if elected, she will become of a member of the Audit Committee. She was until recently an executive director of Woolworths plc, the retail subsidiary of Woolworths Group plc, having been appointed Marketing Director in 2001 and Commercial Director in 2004. Octavia's previous appointments have included Managing Director - Ecommerce at Asda Stores Ltd and Buying and Merchandising Director at Laura Ashley plc. She is 37.

Octavia was selected against an agreed specification using external consultants and on the recommendation of the Nominations Committee, and brings to the Board extensive experience with major retailers.

The following Directors retire by rotation and offer themselves for re-election at this meeting:

William Thomson

William was appointed a non-executive director in 1987 and Chairman in 2002, and also chairs the Nominations Committee. He is Chairman of E G Thomson (Holdings) Ltd, a shipping and logistics group with interests in Asia, British Assets Trust plc and Fidelity Japanese Values plc, and is a non-executive director of Dobbies Garden Centres plc. He is 65.

Patrick Macdonald

Patrick was appointed as Chief Executive in 2003. Previously with GE Capital as Vice President responsible for global sourcing, he has also held senior positions with The Boston Consulting Group and Unilever. He is 43.

In addition, the following Directors who have served on the Board for more than 9 years will also retire as required by the Combined Code and offer themselves for re-election:

Dermot Jenkinson

Dermot was appointed to the Board in 1986 where he held various executive responsibilities before assuming a non-executive role in 1999. He is co-founder and Chairman of beCogent Ltd, a contact centre and related consultancy business, and is a director of a number of other private companies. Age 51.

Ian Harrison

Ian was appointed a non-executive director in 1987 and is Chairman of the Remuneration Committee. He is a director of Record Currency Management Ltd, an institutional investment management company specialising in currency management for pension funds worldwide. Age 49.

Each of these four directors has undergone a formal performance evaluation and the performance of each continues to be effective and to demonstrate commitment to their role including commitment of time for board and committee meetings and their other duties.

Resolution 7 – Amendment to the Articles of Association

The Companies Act 1985 (the "Act") was amended with effect from April last year to enable companies to indemnify their directors against certain liabilities to third parties, and to allow companies to pay directors' defence costs as they are incurred.

To permit the Company to take advantage of the new provisions, a change is required to the Articles of Association. This will give the Company the power to extend the scope of the indemnity and pay directors' defence costs at its discretion and on terms allowed under the Act. Any indemnity granted will be subject to the approval of the Board and is required to be disclosed in the Directors' Report following each financial year end.

Resolution 8 – Authority to allot shares for cash free from pre-emption rights

This resolution proposes, on the same basis as last year, to disapply pre-emption rights of shareholders on the allotment of equity securities for cash up to a limit of 5% of the issued ordinary share capital, being shares to an aggregate nominal value of £733,850. The authority under this resolution would expire on the date of the next Annual General Meeting or 24 August 2007, whichever is earlier.

Resolutions 9 and 10 – Authority for the Company to purchase its own shares

The directors consider that it would be advantageous for the Company to renew the authority to purchase its own ordinary and 9% cumulative preference shares in case the opportunity presents itself where such course of action would be in the best interests of shareholders generally.

Under the terms of these special resolutions the maximum number of shares to be purchased is 5,870,803 ordinary shares (representing 10% of the issued ordinary share capital) and 1,394,587 9% cumulative preference shares. The minimum price payable is the par value of 25p per ordinary share and £1 per 9% cumulative preference share. The maximum price payable is an amount equal to 105% of the average middle market quotations in respect of the ordinary shares and 110% of the average middle market quotations in respect of the 9% cumulative preference shares (both as shown in the London Stock Exchange Daily Official List) for five business days prior to the date of purchase.

This authority will only be exercised where in the opinion of the Board it is likely to result in an increase in earnings per share and would be in the best interests of shareholders generally. Any shares purchased by the Company under this authority will be cancelled, unless the shares are purchased by the Company to hold as treasury shares.

These authorities would expire on the date of the next Annual General Meeting or 24 August 2007, whichever is earlier.

Notes

Entitlement to Attend Meeting
Members who wish to attend the meeting must be entered on the Company's register of members by 12.15pm on Tuesday 23 May 2006, and the number of votes they may cast will be the number of shares they hold as shown by the register at that date.

Proxies
A person entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. A pre-paid form of proxy is enclosed for ordinary shareholders which, to be valid, must be completed in accordance with the instructions printed on it and lodged with the registrars of the Company at least 48 hours before the time of the meeting.

Appointment of a proxy will not prevent a member from attending and voting at the Annual General Meeting should he/she decide to do so.

Documents
The register of interests of directors in the share capital of the Company and copies of their service agreements are available for inspection at the registered office of the Company during normal business hours and will be available at the meeting.

The Annual General Meeting of John Menzies plc will be held in the Roxburghe Hotel, 38 Charlotte Square, Edinburgh on Thursday 25 May 2006 at 12.15pm to transact the following business:

Ordinary Business

To consider and if thought fit pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the Directors' Report and Accounts for the year ended 31 December 2005 and the Report of the Auditors thereon.
2. To declare a final dividend on the ordinary shares.
3. To elect as a director:
   (i) Octavia Morley

   To re-elect as directors:
   (ii) William Thomson
   (iii) Patrick Macdonald
   (iv) Dermot Jenkinson
   (v) Ian Harrison
4. To approve the Report on Directors' Remuneration for the year ended 31 December 2005.
5. To appoint PricewaterhouseCoopers LLP as Auditors.
6. To authorise the directors to fix the Auditors' remuneration.

Special Business

To consider and if thought fit pass the following Resolutions which will be proposed as Special Resolutions:

7. That, pursuant to Section 9 of the Companies Act 1985, the Articles of Association of the Company be altered by deleting the present Article 148 and substituting the following Article 148 therefor:

   "148. (A) Subject to the provisions of the Act and Article 121 above, but without prejudice to any indemnity to which a Director or other officer of the Company may otherwise be entitled, every Director or other officer of the Company shall be indemnified out of the assets of the Company against all costs, charges, losses, expenses and liabilities which he may sustain or incur in the execution or purported execution or discharge of his duties or in the exercise or purported exercise of his powers or otherwise in relation to or in connection with his duties, powers or office.

   (B) Article 148(A) shall not operate to provide an indemnity against any loss or liability incurred by a Director or other officer of the Company:

   (i) to the Company or to any group undertaking of the Company; or

   (ii) to pay any fine imposed in criminal proceedings or any sum payable to a regulatory authority by way of penalty in respect of non-compliance with any requirement of a regulatory nature; or

   (iii) in defending any criminal proceedings in which he is convicted, in defending any civil proceedings brought by the Company, or any group undertaking, in which judgement is given against him, or in connection with any application under Sections 144 or 727 of the Act in which the court refuses to grant him relief."

8. That the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) pursuant to the authority conferred by Resolution number 9 passed at the Annual General Meeting of the Company held on 9 May 2003 as if Section 89 of the Companies Act did not apply to such allotment, provided that this power shall be limited to:

(a) the allotment (otherwise than pursuant to sub-paragraph (b) below) of equity securities which are, or are to be, wholly paid up in cash to an aggregate nominal value of £733,850, and for this purpose an issue of securities convertible into or giving the right to subscribe for ordinary shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion or subscription price provided in the terms and conditions of the issue; and

(b) the allotment of equity shares in connection with a rights issue to ordinary shareholders in proportion (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to the directors having a right to aggregate and sell for the benefit of the Company all fractional entitlements which may arise in apportioning equity securities among ordinary shareholders of the Company, and subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to legal or practical problems under the requirements of any regulatory or other authority in any jurisdiction; and shall expire at the conclusion of the next Annual General Meeting of the Company or on 24 August 2007 which ever is earlier, provided that the Company may before such expiry make an offer or arrangement which would or might require equity shares to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

9. That the Company be and is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of any of its own ordinary shares of 25p each (the "ordinary shares"), provided that:

(a) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting or on 24 August 2007, whichever is earlier, except in relation to the purchase of ordinary shares for which a contract was concluded before the authority expired and which might or will be executed wholly or partly after its expiration;

(b) the maximum number of shares hereby authorised to be purchased is 5,870,803 ordinary shares in aggregate; and

(c) the maximum price which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations for ordinary shares of the Company derived from the London Stock Exchange Daily Official List for the five business days prior to the date of conclusion of the contract for such purchases, and the minimum price is 25p, in each case exclusive of the expenses of purchase.

10. That the Company be and is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of any of its own 9% cumulative preference shares of £1 each (the "preference shares"), provided that:

(a) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting or on 24 August 2007, whichever is earlier, except in relation to the purchase of preference shares for which a contract was concluded before the authority expired and which might or will be executed wholly or partly after its expiration;

(b) the maximum number of shares hereby authorised to be purchased is 1,394,587 preference shares in aggregate; and

(c) the maximum price which may be paid for each preference share is an amount equal to 110% of the average of the middle market quotations for shares of the Company derived from the London Stock Exchange Daily Official List for the five business days prior to the date of conclusion of the contract for such purchases, and the minimum price is £1, in each case exclusive of the expenses of purchase.

By order of the Board

C A ANDERSON
SECRETARY

21 April 2006

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