John Menzies plc
Annual Report 2006

the time critical
logistics company

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

Menzies Aviation is rapidly expanding in terms of revenue, contract wins and geographical spread. Operating in growing markets, it is a top five player in the global independent ground and cargo handling sector with over 100 stations worldwide.

Menzies Distribution is a strongly cash generative business with around 30% of the newspaper and magazine wholesale distribution market in the UK, and has a record of investment in innovation and customer service delivery.

Both divisions operate in distinct B2B sectors where success depends on providing an efficient, high quality, time critical service to their customers and partners.

CAUTIONARY STATEMENT:
This Annual Report contains information which readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations and businesses of John Menzies plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Contents

Our Business Divisions

Menzies Aviation

Menzies Aviation is a focused provider of ground handling (passenger and ramp) and cargo handling services. The division has over 12,000 employees worldwide, and operates at 108 airports in 23 countries, serving more than 500 aviation customers.

We provide the following services to airlines and airport authorities:

Passenger
Management of passenger lounges, ticketing, check-in and baggage services.

Ramp
Load control, passenger and baggage transfer and ramp handling services; aircraft towing and pushback; cabin cleaning and water services; de-icing and other ancillary services.

Cargo
Our service provision includes ramp transfer, load management, import and export handling, warehousing, trucking and other track and trace services. Our AMI business provides airfreight and courier wholesaling services and forwarder handling.

Menzies Distribution

Menzies Distribution is a leading provider of added value distribution and marketing services to the UK's newspaper and magazine supply chain. The division has 4,000 employees at 22 hub and 17 spoke branches located throughout the UK.

Our services include:

Newspaper and Magazine Distribution
We handle 4.8 million newspapers (6.4 million on Sundays) and 2.6 million magazines (covering 3,000 titles) every day. Deliveries are made in the early hours of the morning 364 days a year to more than 23,000 retail customers from Inverness to the Isle of Wight.

Marketing Services
Services to multiple and independent retailers include space and range planning, racking and displays, and sales promotion, category management and sales-based replenishment.

Services to publishers include helping to launch new titles, ongoing sales promotion and development, and bespoke services such as data services and returns processing.

Chairman's Statement

"John Menzies is a strong, profitable company, and both its divisions are leaders within their respective markets. Menzies Aviation has excellent growth potential and Menzies Distribution remains highly cash generative."

WILLIAM THOMSON, CHAIRMAN

Results
2006 has been a year of contrast for the Group.

Menzies Aviation delivered another year of record growth, delivering a third consecutive year of 25% or more growth in profits. This market leading performance is a credit to the excellent team we have at Aviation. The division is on a strong growth curve and I look forward to further substantial progress through organic and acquisitive expansion.

Menzies Distribution has experienced tough trading conditions which impacted on profitability. This division however remains a strong cash generative business, and management actions in repositioning and adapting to a rapidly changing market continue.

At Group level, underlying profit before taxation decreased by 9%.

Dividend
To reflect the confidence your Board has in the future performance of the Group, your Board is recommending a final dividend of 14.4p per share, making a full year dividend of 20.5p – an increase of 5%.

Board
Patrick Macdonald is to step down from his role as Chief Executive with effect from 20 March. Over the last four years he has transformed and developed the Company to a point where the new management teams and operating disciplines which he has put in place are now sufficiently robust to implement successfully the key strategic goals set by the Group Board for the divisions. Today's reorganisation marks a further logical step in the development of the Company. I would sincerely like to thank Patrick for his significant contribution in making the business what it is today. I am delighted he will remain available to us until the end of April. I wish him all continued success in the future.

As a result of this change Craig Smyth, Managing Director, Menzies Aviation, and Ellis Watson, Managing Director, Menzies Distribution, join the Board. They will continue to be responsible for running their respective divisions each with their own Operating Boards. Paul Dollman, Group Finance Director, assumes responsibility for the Corporate Head Office and will sit on both Operating Boards. Paul, Craig and Ellis will all report to me.

As I previewed in my statement last year, Octavia Morley joined your Board in April and after 11 years' valuable service, Michael Walker left your Board in May. An evaluation of the Board, which was extended to its committees, was carried out last year and, based on the results of that process, I remain confident that the composition of the Board is appropriately balanced and structured to meet the ambitions and challenges of our business.

Staff
The performance of the Group during the last year reflects the resilience and strength of our staff. It is their dedication and commitment that stands this Group apart from its peers, and I wish to express my gratitude to them.

Pension Fund
I am pleased to report that the Pension Fund was returned to surplus at the year end. Paul Dollman, Group Finance Director, who is chairman of the Trustees, will be stepping down from this role at the end of the month, handing over to Professor Ian Percy who is independent. This reflects best practice in Pension Fund governance.

John M. Menzies
We were all greatly saddened when our Life President and former Chairman died last month. He chaired the Company for 46 years until 1997 and was a pivotal figure in transforming the way the Company was run, particularly the news distribution operations. He provided leadership and vision, and played an instrumental role in determining the strategic direction of the Group. He will be sorely missed by all those who knew and worked for him.

Financial Highlights

Strategy
Looking forward both businesses will continue to focus on customer service, innovation and tight financial discipline. They both have clear strategies.

The key priorities of Menzies Aviation are:

- Organic growth at existing stations, by maintaining a strong focus on delivering great service at the right price while keeping costs lean.
- Organic growth by opening new stations to achieve network density in key regional markets.
- Acquisitive growth to accelerate our achievement of network density.
- Developing and exploiting cross-sell and key account opportunities across the network.
- Maximising our position in this high-growth sector.

The key priorities of Menzies Distribution are:

- Accelerating our programme to remodel the cost base and protect the strong cash generation of the business.
- Strengthening our clear No2 market position by working more closely with our retailer and publisher customers to benefit the consumer.
- Developing innovative new products, services and revenue streams.
- A relentless focus on improving customer service, productivity and operational excellence.

Prospects
John Menzies is a strong, profitable company, and both its divisions are leaders within their respective markets. Menzies Aviation has excellent growth potential and Menzies Distribution remains highly cash generative.

I am confident that the medium-term outlook for the Group is positive.

WILLIAM THOMSON
CHAIRMAN
19 March 2007

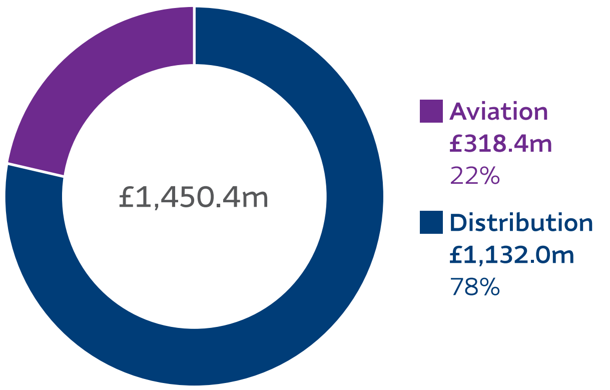
Financial highlights

	£m
Revenue	1,450.4
Underlying profit before tax*	35.8
Free cash flow*	3.2
Underlying earnings per share*	46.9p
Proposed final dividend per share	14.4p

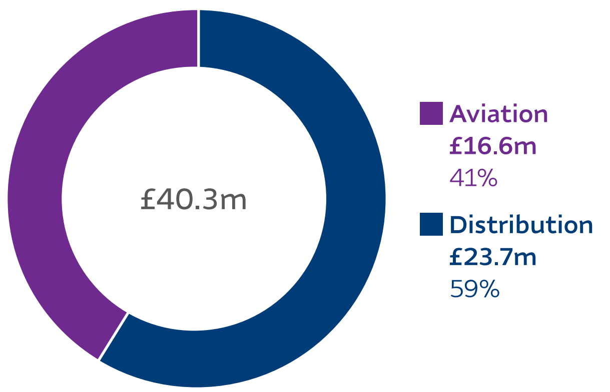
*Terms are defined on page 6

Revenue and profit analysis

Group Revenue



Divisional Operating Profit



Chief Executive's Review

"Over the last four years and through a period of significant market change, John Menzies has become a much more dynamic and robust business. Each division's strategy is clear and their leadership teams are now ready to take full responsibility for operational delivery."

PATRICK MACDONALD, CHIEF EXECUTIVE

Overview
During 2006 a strong performance from Menzies Aviation was insufficient to offset tough market conditions in Menzies Distribution.

Menzies Aviation delivered strong profit growth for the third consecutive year, despite experiencing softer markets in cargo in the second half of the year. This market leading set of results justifies the Board's increasing confidence in this business. We continued to build the business in 2006 through a balanced mix of organic and acquisitive growth. Across the network we won a net 28 new contracts. We completed 8 acquisitions in North America, Europe and Australia. We also announced a very exciting joint venture which will start operations at two airports in India in 2008.

Despite taking significant and rapid action to reduce costs, trading at Menzies Distribution was adversely affected by changing consumer habits and preferences. We believe these changes are structural and partly driven by the proliferation of new digital choices available to consumers. These include broadband internet, MP3 players, multi-channel TV, electronic games, etc. We have seen the most impact on monthly magazines and partworks. We are investing in new technology to raise productivity, including automated magazine packing and returns processing systems. We have also strengthened our clear No2 position in the sector with two acquisitions.

Strategy
I am pleased that the table below shows how we have delivered against our stated objectives for 2006. A further review of each division and their developments can be found on pages 6 to 20.

delivering against strategy

What we set out to do in 2006:

Our 3-step strategy	Menzies Aviation	Menzies Distribution
1. Get the Basics Right	> Focus on consistency of service delivery > Maintain strong financial disciplines > Keep costs lean	> Reposition the business > Remodel the cost base
2. Build Scaleable Businesses	> Integrate new businesses > Standardise and simplify operating procedures across our network	> Focus on customer service > Innovate/automate
3. Grow from Strength	> Expand through a mixture of organic growth and acquisitions	> Grow market share

We have been following our three-step strategy for some time: 1 Get the Basics Right; 2 Build Scaleable Businesses; 3 Grow from Strength.

Menzies Aviation has clearly benefited from this strategy and is now building confidently from strength as it targets further acquisitive and organic growth.

Menzies Distribution remains a strong, cash generative business and is repositioning and adapting to the structural changes in its market, principally by focusing relentlessly on the cost base.

I am confident they are both well positioned to prosper.

People

Our business relies 365 days a year on our people, who work through all hours and conditions to deliver a world class service to our customers. I would like to thank them for their innovation, integrity and commitment. This is what differentiates us from our competitors. Without them, we have no business.

To support our dedicated staff, we have developed and rolled out a new Leadership Training programme across both operating divisions. The programme has successfully raised leadership performance levels and has been well received within the businesses.

The two strong divisional leadership teams are key to the future success of the Group. Craig Smyth and Ellis Watson are actively developing their management teams to ensure we continue to build the businesses and adapt to changing market conditions – to be leaders rather than followers of market change. In particular, we have strengthened the management structure in Menzies Aviation to support the continuing high growth rates the business anticipates delivering in the future.

Looking ahead

I remain very positive about the growth prospects for Menzies Aviation as it focuses on growing quality earnings. We have developed a business model differentiated from the competition with a series of innovative products we are uniquely capable of delivering across our network.

In a market that continues to be tough, I am confident that the measures being implemented to reduce cost and improve productivity at a much higher rate in Menzies Distribution will make it leaner and fitter for the future.

We announced, just before the year end, our all-Ireland joint venture with Eason & Son Limited, conditional on certain regulatory and other approvals. This exciting venture will put us in a position to work with publishers and retailers alike to extend our service offering.

Over the last four years and through a period of significant market change, John Menzies has become a much more dynamic and robust business. Menzies Aviation is delivering on its high growth potential internationally while Menzies Distribution is repositioning and adapting to a rapidly changing market with speed and energy. I am proud of the achievements of the strong teams we have built at both divisions. Each division's strategy is clear and their leadership teams are now ready to take full responsibility for operational delivery.

PATRICK MACDONALD
CHIEF EXECUTIVE
19 March 2007

What we achieved in 2006:

Menzies Aviation

- Continuing strong growth path
  > Aircraft turns up 25%
  > Cargo tonnes up 41%
- Profit growth split 45% / 55% between organic and acquisition
  > 28 net contract wins
  > 8 acquisitions
- Underlying USA business exits 2006 in profit
- Additional infrastructure to support future growth

Menzies Distribution

- Two acquisitions and conditional all-Ireland joint venture reinforces our No2 position
- Driving the cost base hard:
  > Shop floor productivity
    – automated returns processing systems
    – automated magazine packing systems
    – continuous process improvement
  > Centralisation of functions
    – regional contact centres
    – central magazine allocation: i-Mag
    – central newspaper allocation: i-News
  > Branch network reconfigurations

Business Review: Group Performance

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

PAUL DOLLMAN, GROUP FINANCE DIRECTOR

Group results

£m	2006	2005	Growth
Revenue	1,450.4	1,362.1	6%
Profit before taxation	35.6	36.7	(3%)
Underlying profit before taxation[1]	35.8	39.4	(9%)
Free cash flow[2]	3.2	24.2	(87%)
Basic earnings per share	46.4p	48.2p	(4%)
Underlying earnings per share[3]	46.9p	51.9p	(10%)
Final proposed dividend per share	14.4p	13.7p	5%

1 Underlying profit before taxation is defined as profit before taxation, goodwill and exceptional items.
2 Free cash flow is defined as the cash generated by the business after capital investment, interest and taxation, and before special pension contribution, acquisitions, disposals, ordinary dividend and share issues.
3 Underlying earnings per share is profit after taxation and minority interest but before goodwill and exceptional items, divided by the weighted average number of ordinary shares in issue.
4 Underlying operating profit includes the Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.

Performance

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

Menzies Aviation produced a market leading performance with underlying operating profit[4] up 25% to £16.6m, the third consecutive year of 25% or more growth. During the year the business achieved excellent organic growth as well as completing eight acquisitions. We have successfully turned around our USA core business, which has been loss making for some years. The Aviation division has a strong proven management team and a stable business platform. It is ideally placed to deliver further growth as a major player in the aviation services market.

Menzies Distribution experienced tough trading conditions with underlying operating profit[4] down 23% to £23.7m, mainly as a result of a rapidly changing marketplace, particularly in monthly magazines and partworks. Contract renewals, which are now substantially complete, resulted in some margin reduction as expected. The management team continues to pursue an accelerated productivity and efficiency programme which is focused on three areas:- shop floor productivity, centralisation of functions and branch network reconfiguration.

Financial KPIs

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

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

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

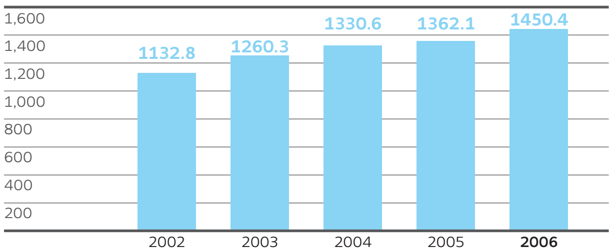
The Group's net debt at the end of 2006 was £77.0m.

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

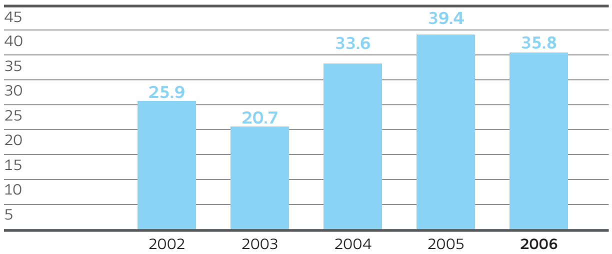
The exceptional gains comprise a £5.8m benefit from a change to the calculation of pension liability accruals and a £2.5m gain from the sale of an investment in an independent wholesaler. The exceptional costs comprise £3.1m of spend relating to the integration of acquisitions and to rationalisation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

Financial key performance indicators

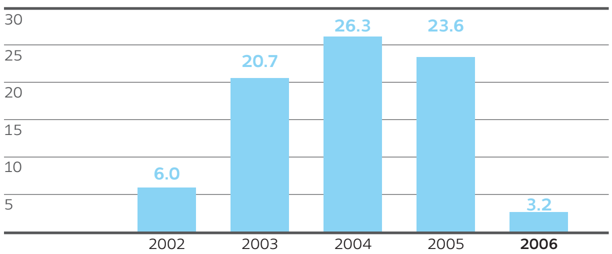
Revenue – £m



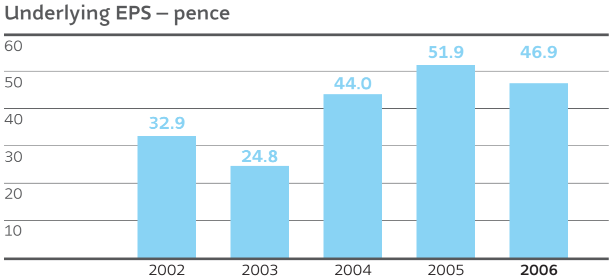
Underlying PBT – £m



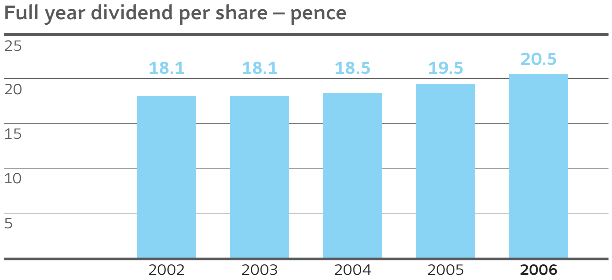
Free cash flow – £m



Underlying EPS – pence



Full year dividend per share – pence



Note: all terms are defined on page 6.

Business Review: Menzies Aviation

"Menzies Aviation produced a market leading performance with underlying operating profit up 25% to £16.6m, the third consecutive year of 25% or more growth."

CRAIG SMYTH, MANAGING DIRECTOR
MENZIES AVIATION

£m	2006	2005	Growth
Revenue	318.4	268.6	19%
Underlying operating profit[5]	16.6	13.3	25%

Performance in 2006
Menzies Aviation had another excellent year. Growth in revenue and underlying operating profit has been driven by a combination of contract wins, with net gains of 28 contracts, geographic expansion, particularly in Spain, and acquisitions.

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

In ground handling, like for like[6] flight turnarounds have grown by 16% in 2006. Like for like cargo tonnes were down 2% as we experienced weaker volumes particularly in the second half of

5 Underlying operating profit includes the Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.
6 Like for like excludes stations opened or closed during 2006.

Case Study: Operational excellence

One of the challenges resulting from the rapid growth of Menzies Aviation has been to quickly integrate new businesses into the network while maintaining service consistency. The COMPLETE programme is designed to meet that challenge by establishing a framework of business principles and performance metrics in order to drive operational excellence and standardise business processes and working practices. As the business continues to develop COMPLETE will help ensure that customers receive the same standards of service delivery wherever we operate.

One of our customers is a major European airline for which we provide a mix of ground and cargo handling services at 10 locations in Western Europe, North America and Africa . They had this to say about us:

"Over the years we have continued to be impressed by Menzies' commitment and service levels. Their on-the-ground teams are well trained and they are supported by good equipment, quality IT and commercially-minded account managers."

ensuring consistent levels of service delivery worldwide

2006. With the help of our acquisition of Aeroground Inc, a cargo handler in North America, total cargo tonnes were up 41%.

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

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

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

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

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

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

64.6m
passengers handled

0.43m
aircraft turns

1.


2.


3.


1. Belt loaders are used for the safe loading and unloading of baggage into and out of aircraft holds.
2. Specialist push-back tugs are used to help aircraft move away from their stands.
3. Check-in staff wearing the Menzies uniform. Many of our staff wear the uniforms of our airline customers.

Business Review:
Menzies Aviation (continued)

Case Study: Acquisition strategy

Our growth plans for this division include making selective acquisitions. We made eight last year, four in each of our ground handling and cargo handling operations, and some of these are shown on the opposite page. All potential acquisitions undergo strict investment criteria and must fit in with our strategic rationale. These include:

- building regional network density
- creating cross selling opportunities
- delivering synergies
- developing a multi service product offering.

strict investment criteria and strategic rationale for all acquisitions

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

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

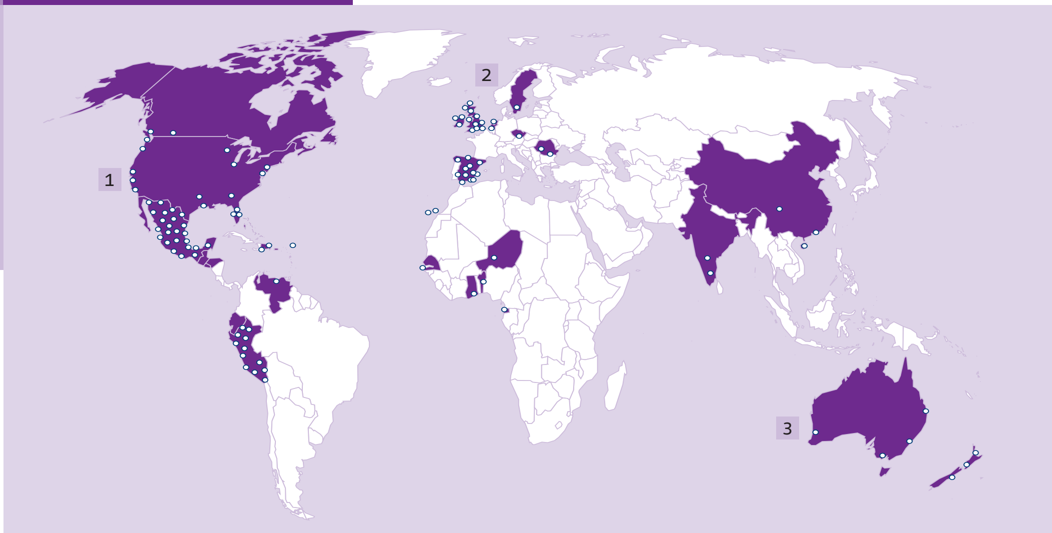
We made two acquisitions in Australia during 2006:- Perth Cargo Centre Pty Limited, a cargo handling business; and Australian Airsupport Pty Limited, a ground handling business in Brisbane. Together with our existing businesses in Melbourne and Sydney, we now have operations in each of the four key Australian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

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

1.56m
tonnes of cargo handled

108
stations worldwide

1. The acquisition of Aeroground Inc which operates from 9 locations in North America early last year increased the volume of cargo we handled in this region by over 400,000 tonnes.
2. We extended our geographical footprint to Scandinavia when we purchased Malmo Main Air Cargo AB in Sweden, which has handled over 20,000 tonnes since September.
3. The addition of Perth Cargo Centre Pty Ltd to our Australasia network established our first station on the west coast of Australia and gave us a presence at all four key gateways in Australia.



Key performance indicators
Menzies Aviation monitors a number of financial and operational key performance indicators (KPIs) to help achieve key business objectives.

The main financial KPIs are highlighted on page 7 of this annual report.

The table below includes operational KPIs which are principally aimed at monitoring levels of customer service and operational effectiveness.

KPI	2006	2005
Ground handling – labour hours per turn	32.5	37.3
Cargo handling – labour hours per tonne	2.9	3.2
Ground handling – on-time performance (%)	99.3	99.3
Aircraft damage – category A incidents[7] per 1,000 turns	0.10	0.12

Business objectives
Menzies Aviation has five key priorities:
- Organic growth at existing stations, by maintaining a strong focus on delivering great service at the right price while keeping costs lean.
- Organic growth by opening new stations to achieve network density in key regional markets.
- Acquisitive growth to accelerate our achievement of network density.
- Developing and exploiting cross-sell and key account opportunities across the network.
- Maximising our position in this high-growth sector.

We will continue to invest in supporting the infrastructure to underpin growth and ensure delivery of consistent levels of service.

7 Category A incidents are: (1) any event resulting in damage to an aircraft; (2) any dangerous occurrence; or (3) any incident involving a serious environmental hazard that contaminates the surrounding environment.

Business Review: Menzies Distribution

"Menzies Distribution has experienced tough trading conditions which impacted on profitability. This division however remains a strong cash generative business and is repositioning and adapting to a rapidly changing market."

ELLIS WATSON, MANAGING DIRECTOR
MENZIES DISTRIBUTION

£m	2006	2005	Growth
Revenue	1,132.0	1,093.5	4%
Underlying operating profit[8]	23.7	30.7	(23%)

Performance in 2006

Revenue was up 4% mainly due to acquisitions. Like for like (lfl) sales[9] were down 1% reflecting the tougher sales environment particularly for monthly magazines and partworks. Lfl magazine sales fell by 3% while lfl newspaper sales were up 1%.

We are seeing structural changes in the magazine sector. As broadband penetration increases and on-line content becomes more sophisticated, consumers are spending more time on the internet and less time on printed media. We believe this contributed significantly to a 7% drop in lfl sales of monthly magazines. Partwork sales, which peaked in 2004,

8 Underlying operating profit includes the Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.
9 Like for like sales exclude acquisitions and new business and have been measured against the comparative sales of 2005.

Case Study: Investment

The new HS magazine packing technology being installed in a number of our branches is a semi automated, multi-title horizontal picking line. The software-driven system greatly increases efficiency and accuracy of planning and picking/packing ensuring on-time and accurate delivery to customers.

In September last year, www.i-Menzies.com was launched allowing our retailer customers to access account information at their convenience and submit changes to their orders online – providing greater flexibility and saving customers both time and money. Enhancements are planned to provide still greater functionality.

"The ease of access along with time and cost saved on telephone calls to my supplying branch has been the biggest benefit. Added to this, being able to view and print my paperwork and change orders online has made the service a real asset in managing my business."

An independent retailer

investing, innovating and enhancing levels of service have now returned to 2002 sales levels. In 2006 lfl partwork sales fell by 35%. Although gross profit from weekly magazine sales was flat, lfl sales rose by 3% as some consumers moved from monthly to weekly titles.

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

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

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

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

Underlying operating profit[10] for the division fell by 23% reflecting the significant drop in monthly magazine and partwork sales and the margin reduction from contract renewals with publishers.

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

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

1.

2.

99.62%
Magazine packing accuracy in 2006

1. The new i-Menzies website.
2. Operational KPIs monitored include packing accuracy and on time delivery for both newspapers and magazines.
3. The recently installed HS packing system in our York branch.

3.

Business Review:
Menzies Distribution (continued)

Case Study: Customer service

In 2006, we worked closely with Sainsbury's to implement and roll out across 132 Menzies-served stores a new web-based magazine returns management system. The system involves the use of handheld Personal Digital Assistants which scan barcodes to capture data about each title such as its issue information, on sale and recall dates. The system automates the manual process of checking if a magazine is due for returning to Menzies or can remain on sale, helping to ensure Sainsbury's don't lose money on potential late returns.

"We are really happy with the expertise and commitment Menzies provided when we introduced the technology into our stores, and remain very satisfied with the ongoing magazine scanning service they provide using the PDAs in our stores."

Phil Carroll, Senior Buyer – Newspapers & Magazines, Sainsbury's

delivering a world class level of customer service

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

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

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

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

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

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

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

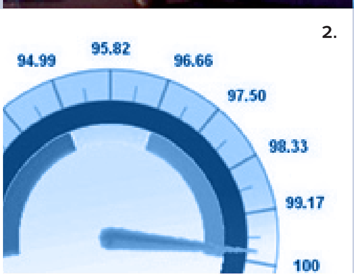
2.08bn
newspaper copies handled

1. A Menzies Distribution vehicle making a delivery to a Sainsbury's store.
2. Newspaper packing accuracy in 2006 was 99.8%.
3. The magazine scanning system automates the manual, labour intensive checking process.
4. A member of Menzies' staff scanning magazines at a Sainsbury's store.

1.


3.


4.


2.


972m
magazine copies handled

Key performance indicators
Menzies Distribution monitors a number of financial and operational key performance indicators (KPIs) to help achieve key business objectives.

The main financial KPIs are highlighted on page 7 of this annual report.

The table below includes operational KPIs which are principally aimed at monitoring levels of customer service and operational effectiveness.

KPI	2006	2005
Newspapers handled (million)	2,079	1,987
Magazines handled (million)	972	945
Newspapers delivered on time	98.0%	97.8%
Magazines delivered on time	98.0%	96.5%
Newspaper packing accuracy	99.8%	99.8%
Magazine packing accuracy	99.6%	99.7%
Newspaper returns processed on time	90.0%	90.9%

Business objectives
Menzies Distribution is focused on four key priorities:
- Accelerating our programme to remodel the cost base and protect the strong cash generation of the business.
- Strengthening our clear No2 market position by working more closely with our retailer and publisher customers to benefit the consumer.
- Developing innovative new products, services and revenue streams.
- A relentless focus on improving customer service, productivity and operational excellence.

To remodel the cost base, we will roll out new equipment for processing returns at fifteen branches in 2007. Our continuous process improvement (CPI) programme will continue with the emphasis on productivity measures and benchmarking. We plan to centralise our newspaper allocations function once our new system, 'i-News', has been implemented. A second contact centre at Linwood is scheduled for opening in the second quarter of 2007. We will extend our 'hub and spoke' branch structure to include Dundee/Inverness/Aberdeen and Leeds/Bradford.

Business Review: Group Financial Review

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

Shareholders' Funds

Shareholders' funds increased by £32.7m during the year to £92.2m, as follows:

	£m
Shareholders' funds at December 2005	**59.5**
Profit for year	35.6
Taxation	(8.4)
Dividends	(11.6)
Minority interests	(0.1)
Net actuarial gain	16.4
Currency translation	(1.7)
Increase in share capital	1.8
Share-based payment	0.7
Shareholders' funds at December 2006	**92.2**

Cash Flow

The Group generated an operating cash flow of £35.4m in 2006 (2005: £47.5m). Share issues in 2006 raised a further £1.8m. Some £61m was re-invested in the business whilst dividend and tax payments accounted for £20.2m. Net debt increased from £32.8m to £77m.

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

The statutory IFRS cash flow statement is shown on page 48.

Pensions

	2006 £m	2006 £m	2005 £m	2005 £m
Income Statement				
Current service cost		**(4.7)**		(5.1)
Past service credit		**5.8**		–
Expected return on scheme assets	**13.4**		11.5	
Interest on pension liabilities	**(11.0)**		(10.3)	
Net financial return		**2.4**		1.2
Net credit/(charge)		**3.5**		(3.9)

Balance Sheet

	2006 £m	2005 £m
Total market value of assets	**237.2**	208.5
Present value of scheme liabilities	**(231.8)**	(241.1)
Surplus/(deficit) in scheme	**5.4**	(32.6)
Related deferred tax (liability)/asset	**(1.6)**	9.8
Net pension assets/(liabilities)	**3.8**	(22.8)

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

During the year the Group contributed cash of £11.1m, comprising regular payments of £5.4m and an additional payment of £5.7m in June 2006. Subsequent to the year end, a further additional payment of £4.3m was made. The market value of invested assets increased by 14% in the year to 30 December 2006, mainly as a result of strong investment growth in the equity component of the assets.

The present value of scheme liabilities decreased by 10% over the same period, mainly as a result of an increase in the corporate bond rate from 4.8% in 2005 to 5.3% in 2006.

Reconciliation between IFRS operating profit and underlying operating profit

	£m
IFRS operating profit	**36.7**
(a) pension credit	(5.8)
(b) gain on exchange of contract rights	(2.5)
(c) rationalisation and integration costs	5.3
(d) goodwill impairment	1.8
(e) contract amortisation	0.4
(f) joint venture and associate taxation	1.0
Underlying operating profit	**36.9**

The results for the year include the following one-off and/or material items, which the Group considers should be highlighted:

(a) the past service pension credit results from changes to the main UK pension scheme, which have been explained above;
(b) the Group transferred its 20% shareholding in an independent distribution business to another wholesaler in return for an interest in certain magazine distribution contracts in the south-west London area, generating a non-cash gain of £2.5m;
(c) the rationalisation costs result from an in-depth review of existing business costs, comprising asset write-downs and staff costs, and the integration costs relate to new businesses, mainly in the US;
(d) under IFRS, previously capitalised goodwill is no longer amortised. However, these results include an impairment charge of £1.8m, reflecting the remaining life of the current licence at Menzies Macau Aviation Services Ltd;
(e) IFRS requires the price paid for a business to be allocated between goodwill and other intangible assets. Accordingly, the Group has a new category of fixed asset in 2006 and the amortisation charge for the year has been highlighted as a new cost;
(f) IFRS operating profit is shown after deducting the Group's share of the tax charge in the joint ventures and associates but is added back in this table to present a clearer trading position.

Further details are disclosed in Note 5 to the accounts.

Interest

The net interest charge is analysed as follows:

	2006 £m	2005 £m
Fixed rate sterling term loan	**2.0**	2.0
Floating rate sterling loan	**0.5**	0.1
US dollar loans	**1.4**	0.9
Preference shares	**0.1**	0.1
Cash / overdrafts	**(0.5)**	(1.0)
Other finance income	**(2.4)**	(1.2)
Net interest charge	**1.1**	0.9

The sterling term loan is at a fixed rate of 6.23% and is repayable between 2007 and 2020.

Business Review: Group Financial Review (continued)

Other finance income is the net financial return from the pension scheme under IAS19. The amount has increased due to the additional cash contributed by the Group during 2006 and the higher returns on invested assets.

Taxation
The effective underlying tax rate for the year was 23.2% compared with 23.6% in 2005 and is analysed as:

	%
Tax due at UK rate	30.0
Non tax-deductible items	1.3
Unrelieved overseas losses	4.9
Overseas rate impact	0.2
Utilisation of tax losses	(4.5)
Adjustments in respect of prior years	(8.7)
Underlying tax rate	23.2

The tax rate on underlying 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 £8.5m. Payments are expected to be slightly lower than this for the year to December 2007.

The tax effect of the exceptional items is a charge of £1.1m. Goodwill and other intangible asset amortisation of £2.2m does not attract any tax relief.

Acquisitions and Intangible Assets
During the year the Group acquired ten new businesses. The consideration paid, in excess of the fair value of the net assets acquired, has been allocated between goodwill and other intangible assets, mainly customer contracts.

Capitalised goodwill amounts to £48.5m compared to £38m in 2005. This goodwill is no longer amortised but rather is subject to an annual impairment review.

Contracts capitalised in the year amount to £20.5m. Amortisation periods for these contracts are business-stream dependent and vary from zero to ten years. Where the contracts are not amortised, they are subject to an annual impairment test at cash-generating unit level, generally considered to be 'station' level.

Property, plant and equipment
Purchases of property, plant and equipment totalled:

	Property £m	Plant & Equipment £m	Total £m
Distribution	0.4	9.1	**9.5**
Aviation	0.4	15.5	**15.9**
	0.8	24.6	**25.4**

During the year Distribution invested some £9m in new technology.

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

Working Capital
Working capital movement is analysed as follows:

	2006 £m	2005 £m
Inventories	**1.0**	(1.9)
Trade and other receivables	**0.4**	(3.2)
Trade and other payables	**(13.7)**	0.9
	(12.3)	(4.2)

The negative movement in working capital is all due to trade and other payables. This was mainly a combination of the timing of the year-end, the effect of acquisitions and foreign exchange rate movements.

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

Business Review: Group Business Risks

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 £31.1m the Group has £42.5m of unutilised committed facilities, which are committed to November 2009.

Interest rate fluctuations: the Group's policy is to arrange core debt with fixed rate borrowings. The term bank loan of £31.1m is fixed at 6.23% and is repayable between 2007 and 2020. Foreign currency bank borrowings totalling £36.6m are floating at rates ranging from 4.28% to 5.875%, which mature within the next 34 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 13% of Group turnover and 45% 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 December 2006	Year end 30 December 2006	Average for year to December 2005	Year end 31 December 2005
US$	**1.853**	**1.957**	1.824	1.717
Euro	**1.468**	**1.484**	1.462	1.455

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.

The management of the business and the execution of strategy are subject to a number of risks.

Risks are formally reviewed by each division on an annual basis. A formal Group-wide review of risks is also performed annually by the main Board and appropriate processes and controls are put in place to monitor and mitigate these risks.

The key business risks affecting the Group are as follows:

Safety

This is the risk of safety incidents occurring within the business. Both divisions have dedicated health and safety teams who regularly visit operational sites monitoring health and safety issues and driving improvements. They also monitor legislative and regulatory changes. We work with industry bodies to lead improvements and to benchmark our performance. Monthly health and safety reports are tabled at divisional and main Boards.

Changing business environment

This is the risk that we do not respond to a changing business environment. In Menzies Distribution, 2006 saw a significant change to consumer behaviour which adversely impacted monthly magazine and partwork sales. At Menzies Aviation, there was a tightening of security measures in the UK during the year, particularly relating to on-flight baggage. A strategy review exercise, which involves a full examination of market conditions, is held each year prior to budget setting. Board reports from each Managing Director, reviewing all aspects of market conditions, are tabled for discussion each month. Customer surveys have been introduced in both divisions which we will repeat regularly.

Business Review: Group Business Risks (continued)

Investment decisions
This is the risk of making the wrong corporate portfolio investment decisions. A weekly investment review meeting is held to review significant capital expenditure decisions and all acquisitions and disposals. Projects are measured against a number of strict financial criteria such as payback, net present value and internal rate of return. Recommendations from the investment review meetings must be ratified by the main Board. All potential acquisitions are subject to rigorous due diligence involving internal and external specialists.

People development
This is the risk that we do not successfully develop our people and lose key management. To mitigate this risk, the Group has introduced a leadership development programme and a regular 360° appraisal process. A number of incentive schemes linked to the Group's results have been designed to help retain key managers.

External shock
This is the risk of the business being impacted by a major external shock, such as terrorism, disease or natural disaster. To mitigate this risk, we have emergency response procedures in place at both divisions which deal with communication guidelines, customer liaison, staff safety, contingency actions and escalation procedures. In each division we have developed strong leadership teams with broad experience of dealing with a wide variety of operational issues.

Business Review: Group Trading Outlook

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

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

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

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

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

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

PATRICK MACDONALD
CHIEF EXECUTIVE
19 March 2007

PAUL DOLLMAN
GROUP FINANCE DIRECTOR
19 March 2007

Corporate Social Responsibility

Introduction
Environmental, social and governance responsibility is fundamental to the ongoing success of the Group.

We acknowledge the impact our business activities have on the environment and communities in which we operate, and have systems in place to identify, analyse and manage key risks arising from our operations. This includes ensuring that we comply with relevant environmental legislation.

We recognise that as an employer we have a responsibility to our employees for their safety and welfare whilst at work. This responsibility extends to their training and development, as well as to setting appropriate standards for their dealings with customers and suppliers. We take business conduct seriously, and have policies and guidelines in place which set standards concerning ethics, sound business practices and wider governance issues.

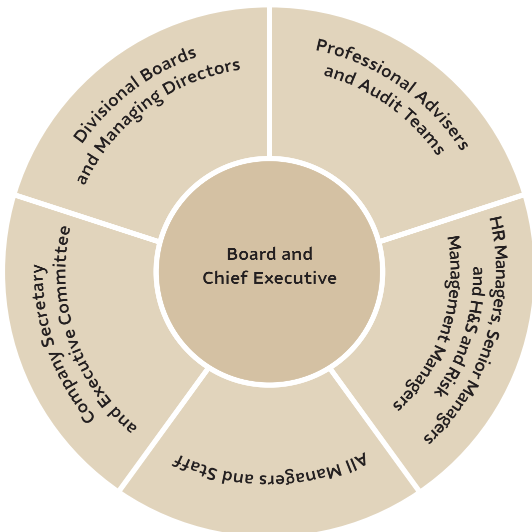
Board responsibility and management framework
The Board member with overall responsibility for environmental, social and governance ("ESG") risks is the Chief Executive, supported by the two divisional Managing Directors. This responsibility also specifically includes employees and health and safety. Significant ESG issues arising in or affecting our businesses are discussed at each Board meeting.

The Company recognises that being a socially responsible company adds to and enhances the Company's overall value, both short and long term. For example, mishandled ESG risks can be damaging to the Company's reputation as an employer, supplier or business partner. The financial costs from mishandled ESG risks can affect the Company's profitability. The Board therefore has systems in place, including access to adequate information, to identify and assess ESG risks, and to ensure that these risks, and our exposure to them, are managed appropriately.

The principal ESG risks to the Group include:
- failure to retain and develop key staff;
- failure to provide safe systems of work for staff;
- failure to have systems in place that prevent the occurrence of environmental hazards arising from our operations;
- failure to manage risks that can damage corporate image and reputation;
- failure to ensure that the Group's operations are conducted on a lawful, sound and ethical basis and in compliance with Group Policies and Procedures;
- failure to carry out adequate due diligence or business planning on joint venture partners/acquisitions.

A description of the Company's internal control system for the management particularly of financial risks is in the Corporate Governance report on pages 30 to 34. An analysis of the key business risks facing the Group appears in the Business Review on pages 19 to 20.

Although the remuneration of executives is not directly related to attainment of ESG objectives, our bonus arrangements allow senior managers to base a proportion of performance related pay for executives on achieving personal goals such as improving staff turnover rates or improving injury or aircraft incident rates. These flexible arrangements apply to station managers at Aviation and branch managers at Distribution.



Corporate Social Responsibility (continued)

Health and Safety

Introduction
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.

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.

The Group's health and safety policy statement, which is published on our website, focuses on establishing a suitable environment, providing proper training, and communication and consultation with employees.

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

Following the success of our first ever Group-wide health and safety conference in 2005, this event was repeated last year, with all our health and safety managers attending, sharing best practice, as well as their practical solutions to the everyday problems they experience worldwide.

Menzies Aviation
The division has a comprehensive safety management programme called MORSE (Menzies Operating Responsibly Safely and Effectively), which focuses on:
- Personal Injury.
- Aircraft Damages.
- Damage to Equipment.
- Emergency Response.
- Security Awareness.
- Avoiding the Cost of Carelessness.

The MORSE safety management system and network safety team provides a dedicated resource within each region to support the field organisation and ensure we maintain a strong safety compliance focus. The network team works together to set policy, agree standard operational procedures and communicate regular safety awareness information to the field organisation.

With operations in over 100 airports worldwide, our priority has been to standardise safety processes over the past year. One key feature of MORSE is that it incorporates an intranet-based network reporting and investigation system for the recording of all incidents, including near misses, to UK standards with follow-up action taken so that lessons are learned and shared. Additionally, a new Incident Review Board chaired by the Managing Director meets quarterly to review major (category A) incidents, shifting the emphasis on prevention rather than cure.

MORSE has been rolled out to the new businesses we acquired during 2006 and is now part of standard operating procedures across our global network.

Menzies Distribution
The most common types of injuries in this business are those sustained from manual handling, slips and trips, and moving objects.

During the year, the division adopted stage 1 of the MORSE system developed by Menzies Aviation and a poster campaign was launched in all our branches, covering: vehicle safety, separating transport and people activities, accident reporting, protective equipment and manual handling.

The division has over the years greatly improved its vehicle movement practices, separating workplace vehicle movements from people movements, and has significantly reduced the opportunity for accidents. Our practices were highly commended in 2005 by the Freight Transport Association and the Health & Safety Executive.

Our 'pack-by-light' newspaper allocation system has enabled standardisation of pack sizes, reducing our exposure to lifting injuries.

In terms of motor and vehicle related incidents, Distribution continually keeps its fleet under review to ensure that the most appropriate vehicles are used, for driving/training purposes, loading/unloading and accessing routes for making deliveries. Consideration is also given to environmental impact when choosing fleet suppliers.

All staff receive health and safety training relevant to the tasks they perform. CD based training materials are also available, including our driver training programme which covers safety as well as advanced driving skills to maximise fuel savings.

Injury and incident reporting
Both divisions utilise key performance measures to monitor trends and to improve our performance in this area. However, our two divisions operate in very different sectors, so comparing injury or incident statistics between them or overall figures against figures published by comparator companies would be meaningless.

Menzies Aviation had 29 (2005: 27) injuries reportable under UK RIDDOR with an equivalent rate per 100 FTE employees of 1.2. This compares to a rate of 1.8 in the HSE's transport sector.

Menzies Distribution had 62 (2005: 50) incidents during the year that resulted in injuries reportable under UK RIDDOR, which is equivalent to an injury rate per 100 FTE employees of 1.62 – again below the HSE's transport sector figure of 1.8. The total figure includes the two businesses we acquired earlier last year.

In respect of Menzies Aviation's overseas operations, there is no comparable UK RIDDOR, as each country where it operates has different reporting requirements. However, under the MORSE incident reporting system, all injuries are reported under different categories depending on seriousness, where category A would be for the most serious incidents.

Category A level is not the same as UK RIDDOR, but it includes major/serious incidents involving fatality, serious harm, dangerous occurrence or aircraft damage, including significant misses.

To provide some context, there were 76 category A incidents altogether reported during 2006 (2005: 69), including, regrettably, one fatality following a serious accident where an employee fell between the Elevated Transfer Vehicle and adjoining cargo pallets. Of the 76 incidents, 45 involved aircraft damage and 31 involved personal injury. This total of 31 includes injuries reported under UK RIDDOR that were serious enough to be classed under MORSE as being category A incidents.

Another significant figure that we monitor is number of incidents involving aircraft damage per 1,000 turns handled, which is an industry recognised measure. In 2006, our incident rate per 1,000 aircraft turns for category A aircraft damage was 0.10 (2005: 0.12) which compares against an IATA published benchmark figure of 0.67 and IAHA's figure for 2006 of 0.15 per 1,000 turns.

Employees

Recruitment and Equal Opportunities
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 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 and to staff who become disabled, including providing support and retraining to enable them to continue their employment. Full consideration is also given to age discrimination laws, and our policies and practices encourage recruitment and promotion based on merit, irrespective of factors such as: age, gender, race, religious beliefs or sexual orientation.

Reward
The Group recognises that its continuing success depends on the quality and motivation of its employees. It aims to ensure that its remuneration practices are competitive, 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.

Incentives
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. 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. Some 800 employees (57% of those eligible to participate) took up their invitation and subscribed to the 2006 sharesave scheme in which some 500,000 shares are now held under option.

Corporate Social Responsibility (continued)

For staff in the UK, the Group offers many benefits. One programme introduced last year through "You-at-work" entitles employees to benefit from various discounts. Another scheme allows staff to opt to receive part of their pay in tax-free childcare vouchers. Other benefits offered to staff, dependent on grade and location, include: private medical care, subsidised staff restaurant, gym membership, and a company car or car allowance.

Training
All executives and managers, from the Chief Executive downwards, undergo annual Personal Development Plan assessments. Leadership Development Programmes were introduced in September 2006, together with trials of pilot schemes for the introduction of 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. Each division has resources made available to it to ensure the training needs of its staff carrying out particular functions and tasks are fully met.

Managers are also encouraged to foster a work-based culture based on values espoused as part of a campaign launched in 2005, promoting and providing guidance on ethical business practices and professional conduct concerning dealings with all our stakeholder groups such as customers, suppliers and of course employees. These "Integrity Guidelines" are supported by Board policies and reinforced in workshops and for example through our employee communication programme.

Communication and Consultation
A comprehensive internal communication programme exists to ensure that all 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's final and interim results are communicated to all employees, supplemented by presentations being made during location visits by the Chief Executive, the Group Finance Director, or divisional management.

The results of the Group-wide survey carried out in the second half of 2005, involving all 14,800 employees, was communicated to staff early in 2006. Staff feedback and the action points identified by management were shared with employees through video broadcasts, location visits by management and briefings by local managers.

Environment

Environmental Policy
The Board acknowledges its responsibilities for ensuring that environmental risks arising from the activities of its businesses are properly identified, managed and controlled, and that its businesses are compliant with all local laws, as well as with best practice – the latter where it is practicable.

Each of our two divisions has its own environmental policy, which has been approved by the divisional boards and is integrated within existing management structures and implemented through normal business practices and procedures.

These environmental policies address the following areas:

- allocating roles, responsibilities and resources;
- complying with legislation and best practice;
- monitoring, verification and auditing of compliance;
- data collection, analysis and reporting;
- risk identification, assessment and management;
- communication and dissemination of information;
- adopting technology and working practices that are modern, environmentally friendly and energy efficient;
- working with customers and suppliers to address environmental issues affecting our businesses.

At Group level, environmental issues affecting the businesses are reported by each Managing Director to the Executive Committee and by the Chief Executive to the Board. Environmental risks associated with new businesses are always assessed as part of our due diligence process on all acquisitions. Our operating procedures are reviewed following reporting of any significant actual or near miss incidents involving safety issues or environmental hazards. Operational management also have to certify periodically compliance with local environmental regulations. There were no incidents last year which posed a significant environmental risk to the Group's operations, and systems are in place to prevent their occurrence. These systems are reviewed periodically.

Fuel

Menzies Aviation

The division operates various vehicles in connection with its activities. Typically, these are on and off airport activities and include: bussing, trucking (cargo between airports) and air freight couriering by AMI.

The on airport activities involve use of specialist Ground Servicing Equipment ("GSE") for both our ground and cargo handling businesses. Other than passenger steps and baggage or cargo carts ("dollies"), which need to be towed, most GSE can be driven and run on diesel or LPG. These include: hydraulic loaders, aircraft push back tugs, conveyor belt loaders, and tow tractors which pull passenger steps and dollies. This equipment is not designed to travel long distances so the mileage is low.

We also operate a fleet of forklift trucks for warehouse activity in our cargo handling operations. Of these forklift trucks, 84% run on LPG. As an estimate, our cargo handling operations at Manchester airport in the UK (a typical station) produced 10 tonnes of CO_2 emissions in 2006. If replicated across our stations with cargo handling operations, this equates to 480 tonnes of CO_2 in total for this part of our business. Our ground handling operations worldwide are estimated to have produced 440 tonnes of CO_2 emissions in total last year.

Our "Connect" bussing operation at London Heathrow has a fleet of 68 single deck passenger buses that transport some 20,000 workers daily to and from off airport sites to the airport, including Terminal 5 construction workers. This service is under contract to BAA who supply our buses with fuel. Accordingly, these figures and associated CO_2 emission levels are disclosable for CSR purposes by BAA. For information, however, the volume of CO_2 emitted from this operation in 2006 was 3,250 tonnes.

Our UK trucking operation involves a fleet of twenty 38 tonne articulated units with trailers which transport cargo between airports, mainly in the UK and Ireland. Total mileage for 2006 was c. 2,200,000 miles, equivalent to 2,700 tonnes of CO_2 emission (including those for AMI – see below). The division also has trucking operations in the USA and in Sweden, most of which are provided through subcontractors. Estimated CO_2 emissions from these operations total c. 1,170 tonnes.

AMI's business consists of mainly forwarder handling and courier and air freight wholesaling. The transfer of freight and courier packages to and from airports is handled by our UK trucking operations.

Menzies Aviation – CO_2 emissions in 2006 (tonnes)

Ground and cargo handling	920
Trucking	3,870
Total	4,790

Menzies Distribution

The business operates 437 vehicles ranging from transit vans to 26 tonne articulated commercial vehicles. 47% of our fleet are transit vans. A further 1,147 vehicles are operated by contractors in the newspaper and magazine distribution process. Our fleet comprises diesel only vehicles and is supplied by 6 suppliers, the largest being Ford who supplies 47% of our fleet on a leased basis. Lease terms typically run for between 3 and 5 years, so we operate a modern fleet. All new additions to our fleet since January 2007 run on Euro IV engines.

Third party contractors carry out some 66% of our delivery mileage. The same focus on costs and health and safety, which influences Distribution's own choice of vehicles, affects its choice of subcontractor. Those who can optimise delivery mileages and have modern, well-maintained vehicles that are most suitable for the task are selected.

Fuel cost is a significant overhead in our Distribution business and we have over the years looked at ways to minimise this: for example, by looking at the way we plan our delivery routes and run patterns, and also investing in driver training. These initiatives have been a success – both have received industry recognition and awards.

Menzies Distribution – CO_2 emissions in 2006 (tonnes)

	Own fleet	Contractors	Total
Nos. of vehicles	437	1,147	1,584
Delivery mileage (miles)	13.5m	26.5m	40m
CO_2 emissions (tonnes)	8,087	12,960	21,046

Energy consumption

At Menzies Distribution, energy consumption during the year amounted to 29,292,104 kWh, down 7% on 2005. Some 25% of supply is from "green" sources. Due to the international spread of operations at Menzies Aviation, comparable figures are not yet available.

Corporate Social Responsibility (continued)

Waste
At Menzies Distribution, packaging waste, namely cardboard and polythene, and office paper are by-products of our activities. We have waste compactors installed in 17 hub branches. The total volume of waste uplifted in 2006 was 5,460 tonnes (2005: 3,466 tonnes) of which 11% (2005: 0.3%) is recycled and the remainder sent to landfill.

In terms of unsold or "returned" products handled, under our contracts with newspaper and magazine publishers, we are responsible for the collection of unsold copies from retail outlets. For magazine publishers, we are further responsible for recycling unsold magazines, whereas newspaper publishers retain the responsibility for managing the flow to recycling of unsold newspaper copies.

Newspaper publishers outsource the physical uplift and recycling from our premises via third party agents with whom we work closely to integrate an efficient transition from our processes to their collection. In 2006, we facilitated the consignment to recycling of 104,000 tonnes of newsprint.

For magazines, we are responsible for cleansing the unsold copies of polythene wrapping and cover mounted gifts where this is required to facilitate the subsequent de-inking process. Thereafter we manage a logistics service to consolidate unsold copy from all of our branches, primarily feeding into UPM Shotton for conversion into future newsprint. All unsold magazine products which are not required for re-sale are consigned for paper recycling. In 2006, some 60,000 tonnes of unsold magazines were processed for recycling.

The division also handles unsolds of other products such as collectible partworks and sticker collections. These are sent back to publishers for subsequent reuse.

The waste elements stripped from magazines to cleanse pre recycling are currently consigned to landfill. Menzies Distribution is active in industry initiatives aimed at reducing the volumes of such material to landfill and supporting initiatives to increase consumer awareness of the magazine recycling opportunity.

Case Study: Charitable giving

"Like ourselves our JV partner, Menzies Aviation, truly believes that we can make a difference helping young, poor children overcome their disadvantages in life from neglect and abuse through a better education, proper diet and health care. Our joint sponsorship of the San Miguel Parish School, which has properly equipped classrooms, a library, chapel and dining, computing and sports facilities, has helped give more than 300 children in Lima a better start in life. Menzies' generous financial sponsorship over the years has helped make this possible."

Señor Oswaldo Sandoval, Chairman of the Board, Sandoval S.A. – our JV ground and cargo handling partner in twelve locations throughout Peru

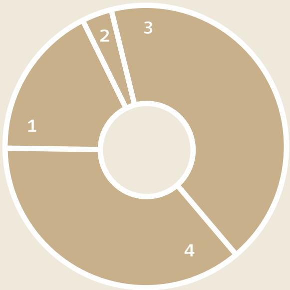
we helped over 100 charities in the UK and overseas in 2006

Community Investment

The Group employs more than 15,000 people in 23 countries all around the world, many of whom participate in various forms of charitable, voluntary and other community related work. We are therefore supportive of these initiatives, and encourage and support these through the work of our Community Investment team.

Each year the Board approves a budget for charitable donations of around one percent of gross dividends for the previous financial year, which in 2006 was £112,000. Donations are made through either the John M. Menzies Community Fund or the Charities Fund.

The John M. Menzies Community Fund supports the work of our employees whether engaging in voluntary work or other charitable or community-related projects. It makes individual cash awards of up to £350 per employee, or £700 per team of employees, undertaking a charitable or community project. Such awards are made in consultation with the Managing Directors of each business. During 2006, some 22 projects were supported by this Fund.



Breakdown of Charities Fund donations in 2006

1. Sport & Arts 18%
2. Environment & heritage 3%
3. Health, education and research 44%
4. Care, welfare, children and poverty 35%

The Charities Fund is the Company's main channel for supporting charitable causes or investing in community projects. Its activities are managed by a Charities Committee, which is chaired by the Chief Executive and meets quarterly each year. Altogether, the Charities Fund receives over three hundred applications every year from very diverse charities and projects, both local and international.

Applications are received throughout the year and donations are approved by the Charities Committee. In 2006, some 91 organisations benefited from charitable donations made.

1. The San Miguel Parish School, which we co-sponsor, welcomes Patrick Macdonald during a visit to our operations in Peru last year.
2. More than 300 boys and girls have benefited from the programme known as the Educado project.
3. Some of the charities we supported last year.
4. A selection of certificates of appreciation received last year from charities.

1.


2.


4.


3.

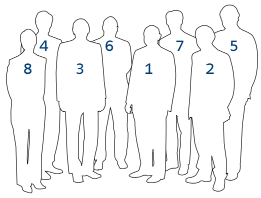
scottish spina bifida association

Hospice of Hope Romania

ROYAL BOTANIC GARDEN EDINBURGH

EDU.MAS

Board of Directors



1 **Patrick Macdonald** See biography on opposite page.

2 **Paul Dollman** See biography on opposite page.

3 **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 66.

4 **Ian Harrison** (Notes 1,2) was appointed a non-executive director in 1987. He is a director of Record Currency Management Ltd, an institutional investment management company specialising in currency management for pension funds worldwide. Age 50.

5 **David Coltman** (Notes 1,3,4) was appointed a non-executive director in 2001 and Senior Independent Director in 2006, and chairs the Remuneration Committee. 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 64.

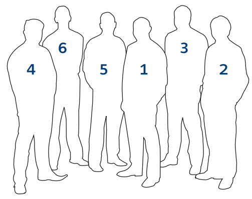
6 **Iain Robertson** (Notes 1,2) was appointed a non-executive director in 2004 and chairs the Audit Committee. Previously a director of The Royal Bank of Scotland Group plc, he is Chairman of British Empire Securities and General Trust plc, Cairn Capital Ltd and BT Scotland. He is a chartered accountant. Age 61.

7 **Dermot Jenkinson** (Notes 1,3,4) was appointed to the Board in 1986 and held various executive responsibilities before assuming a non-executive role in 1999. He is 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 52.

8 **Octavia Morley** (Notes 1,2,3) was appointed a non-executive director in 2006. She was previously executive director, marketing director and commercial director at Woolworths plc, and held positions as managing director, ecommerce at Asda Stores Ltd and as buying and merchandising director at Laura Ashley plc. Age 38.

Notes:
1. Non-executive
2. Member of Audit Committee
3. Member of Remuneration Committee
4. Member of Nominations Committee

Executive Committee



1 **Patrick Macdonald** was appointed to the Board 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 44.

2 **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 50.

3 **Craig Smyth** was a founder executive of the Aviation division and has worked for Menzies Aviation for 14 years. In 2003, he moved from being the Chief Financial Officer into the operational & commercial role as Vice President, Americas and was appointed the Managing Director of Menzies Aviation in February 2004. He is a chartered accountant. Age 39.

4 **Ellis Watson** was appointed Managing Director of Menzies Distribution in September 2005. Prior to this he was Managing Director of National Newspapers at Trinity Mirror plc and of Celador International. His media career began with 9 years at News International, where latterly he was Marketing Director. He was also previously Chairman of the Newspaper Publishers Association, the trade body for daily national newspapers. Age 39.

5 **Alastair Couper** was appointed Group Financial Controller in 2002. Prior to his current role, he worked in the Aviation business for 5 years as finance director of UK cargo. Before that, he worked for 5 years for BP in their oil exploration business and for 7 years with KPMG. Age 44.

6 **John Geddes** was appointed as Company Secretary in 2006. A chartered secretary, he joined the Group in 1997 and was previously Company Secretary of Menzies Aviation plc. His career has also included posts at Bank of Scotland and Guinness plc. Age 38.

Corporate Governance

Corporate Governance Statement
The Board is committed to maintaining high standards of corporate governance.

The Company has applied throughout the year under review all the provisions of Section 1 of the Combined Code of Corporate Governance 2003 (the "Code"), other than the provisions concerning committee independence explained below.

The Board
Composition
The Board currently consists of eight directors, six of whom are non-executive (including the Chairman) 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
Three of the non-executive directors, David Coltman, Iain Robertson and Octavia Morley, are independent under the terms of the Code, where the number required for smaller companies is two. Michael Walker retired as a director and as Senior Independent Director on 25 May 2006, and David Coltman was appointed Senior Independent Director in his place.

Dermot Jenkinson and Ian Harrison are not independent under the terms of the Code due to their shareholding and length of service. However, they continue to provide an invaluable source of advice and support to the Board and its committees. They not only represent the continuing involvement of the founding Menzies family, but also contribute effectively to the Board and the work of its committees. They bring to the Board a breadth of skills and experience from their knowledge of the Company, and from their backgrounds in business and general management.

At least two of the members on each of the Audit and Remuneration Committees are independent (being a majority) including the chairman of these committees. The Nominations Committee only has one independent member and in this respect it is not fully compliant with the Code. However, the Board feels that given the current challenges faced by, and the continuing changing shape of, the Company, the current structure and composition of the Board and of the Nominations Committee is appropriate.

Board and Committee meetings and attendance in 2006

	Board	Nominations Committee	Audit Committee	Remuneration Committee
W R E Thomson	10/10	2/2	–	–
P J Macdonald	10/10	–	–	–
P B Dollman	10/10	–	–	–
D A Coltman	10/10	1/1	–	3/3
D J Jenkinson	10/10	2/2	2/2	2/2
I C L Harrison	10/10	–	4/4	1/1
O K Morley	8/8	–	2/2	2/2
I S Robertson	10/10	–	4/4	–
M J Walker (ret'd)	4/4	1/1	–	0/1

A description of the Board's committees is provided below, and the chairman and membership of each committee can be found in the Directors' biographies on pages 28 and 29.

The Board met ten times in 2006 and has 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. New directors receive an 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.

Board Performance Evaluation
The Board is supportive of the principles and provisions of the Code on Board Performance Evaluation, and first undertook a rigorous process of performance evaluation of the whole Board and of its individual members in December 2004/January 2005, with the assistance of external consultants.

The Board's policy is to conduct performance evaluations internally on an annual basis, using external consultants to refresh the process every 3 – 5 years.

A formal performance evaluation was undertaken during 2006 using specially designed questionnaires, and the process was extended to include its committees. The results of the questionnaires were reviewed by the Board and the Chairman also met with Board members individually.

The non-executive directors held one meeting last year without the Chairman being present at which his performance was reviewed.

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 Annual General Meeting 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, are 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.

Board Committees
The Board has established committees with defined terms of reference. The Board's policy on the membership of its committees is that all non-executive directors should contribute and to keep membership fresh one member of each committee be changed every two years. Accordingly, no change to existing committee membership is proposed for 2007. The Nominations, Remuneration and Audit Committees each consist of three non-executive directors. The chairmen of the Audit and Remuneration Committees will be chosen from directors who are independent under the terms of the Code, and it is the Board's intention that they will serve for three years. The inclusion of Dermot Jenkinson on the Remuneration and Nominations Committees and of Ian Harrison on the Audit Committee respectively does not comply with the Code and an explanation is given above.

The Board has also delegated operational matters to an Executive Committee.

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. The Chief Executive normally attends each meeting. A copy of the terms of reference is available on the Company's website.

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.

Corporate Governance (continued)

The Committee at one of its meetings held in 2006 reviewed the structure, balance and composition of the Board and its committees, and concluded that these remained appropriate.

Remuneration Committee
The Report on Directors' Remuneration on pages 35 to 40 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to directors' remuneration have been applied.

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. The Group Finance Director and certain senior financial executives as appropriate, together with representatives from the internal and external audit teams, attend each meeting. A copy of the terms of reference is available on the Company's website.

A full description of the work of the committee, including details of how it has discharged its responsibilities, appears below.

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 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 29.

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 and consider that it accords with revised guidance. There were no material weaknesses in the Group's system of internal control relating to financial control during the year.

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, both financial and non financial (the latter including environmental, social and governance "ESG" 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 (described further on page 33). 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, as well as to monitor and manage the Group's exposure to interest rate and currency movements. Further details on how the Board manages ESG risks in particular is given in the Corporate Social Responsibility report on pages 21 to 27.

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 plays a critical role within the Company's system of internal control and risk management and a full description of its work is given below.

A description of the remit and work of the Audit Committee

The members of this committee, together with biographical information, are identified on page 28.

The Committee has delegated authority from the Board for ensuring adherence to the Code provisions and related guidance concerning the following matters which it is responsible for:

- monitoring the integrity of the financial statements and reviewing significant accounting policies, judgements and estimates contained within them;
- reviewing the effectiveness of the internal control and risk management systems, including control over financial reporting;
- reviewing the effectiveness of the internal audit function, including the business risk programme;
- reviewing the Group's policies and practices concerning business conduct, ethics and integrity and on whistleblowing; and
- overseeing all aspects of the relationship with the external auditors, including their appointment, the audit process, the supply of non audit services and monitoring their effectiveness and independence.

The Committee met four times in 2006 and a full report of its activities and of findings and recommendations from each meeting is given to the Board.

During the year, the Committee formally reviewed and approved (prior to the Board) draft annual and interim reports (including the statements on internal control and the work of the Committee), associated preliminary and interim results announcements and the two trading statements made by the Company. This aspect of its work focused on key accounting policies, estimates and judgements, including on significant or unusual transactions or changes to these. In doing so the Committee reviewed the reports of management and the controls assurance (internal audit) provider and took into account the views of the external auditors.

The Committee also reviewed the Group's internal control structure, approved the scope of work of and fees for the controls assurance provider and debated whether the internal audit function should be brought in-house. It concluded that due to the complexity of the Group's business and the international nature of the aviation business, the internal audit function was best served by continuing to outsource to Deloitte, given their global spread and resources.

Findings from the internal audit programme (on financial and key non financial risks) and areas identified for improvement are reviewed by the Committee and prioritised for action by management. The Committee reviews follow-up reports from management to ensure that any weaknesses identified in internal audit reports submitted to it are fully addressed and that improved procedures are adopted.

The Committee also reviewed the work of management on updating the Group's Business Risk register, which involved assessing key risks at Group and Divisional level according to their significance, likelihood and impact, as well as the Company's exposure to and management of these risks. After taking into account reports from the controls assurance provider, the Committee was satisfied that management had appropriate risk management strategies and systems in place to address these.

Corporate Governance
(continued)

The Committee reviewed and approved the audit plan as well as the findings of the external auditors from its review of the interim announcement and its audit of the annual financial statements. It also assessed the effectiveness of the external auditors and of the audit process through meetings and interviews with management and key finance staff. 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.

Report on Directors' Remuneration

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.

The Committee's membership is shown on page 28 and no change is proposed for 2007. David Coltman will therefore continue to chair the Committee until the expiry of his three year term, subject to the requirement to retire by rotation. The Company Secretary is the secretary of the Committee.

Patrick Macdonald, Chief Executive, attends meetings as appropriate. Paul Dollman, Group Finance Director, who also has responsibility for executive remuneration, attends meetings as appropriate. Research commissioned from Kepler Associates was used by the Committee in its determination of executive bonus payments and review of executive remuneration. No legal advice was sought by the Committee during the year.

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 extended its review of its own performance to the performance of the Committee during the year. The evaluation questionnaires from each Committee member indicated that there were no significant matters concerning the operation of the Committee that needed addressing.

Annual General Meeting
A resolution to approve this report will be tabled at the AGM. 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 into the remuneration package through incentives designed to share with these directors any increasing profitability of the Group and increased wealth generated for shareholders.

The Company introduced new incentive arrangements, including various share incentive plans, in 2005. 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, using research findings as described above.

The Committee was asked to review the Company's remuneration and incentive structures for executive directors and other senior executives towards the end of last year. It was felt by the Board that the Company's existing incentive schemes did not operate as well as was intended. On the Committee's recommendation, the Board is proposing to adopt a new 2007 Divisional Performance Share Plan ("DPSP") to augment the Company's existing share incentive plans as part of the Company's policy of ensuring that its remuneration practices remain competitive. Executive directors and other senior executives will only be awarded conditional shares either under this new plan or the 2005 Performance Share Plan and not both.

Report on Directors' Remuneration
(continued)

The DPSP is the same in practically all respects as the 2005 Performance Share Plan, except that the performance conditions are based on the achievement of targeted Divisional Financial Results ("DFR"), rather than Total Shareholder Return. The DFR are set at threshold and stretch level; at the stretch level, the performance target has been externally verified by Kepler Associates as being equivalent to achieving upper quartile performance. For Menzies Distribution, the DFR are based on operating profit, reduction in operating costs and income from new revenue streams, and for Menzies Aviation the DFR are based on operating profit.

Further details of the DPSP are set out on pages 88 to 89, with a summary provided on page 86.

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 discretionary 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.

The 2006 bonus scheme contained performance targets that 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 the other executive director, 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.

Bonus awards for 2006 performance were made to Patrick Macdonald (£40,500) and Paul Dollman (£28,800).

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 2006 Plan is for real 3%-8% per annum EPS growth above the Group's 2005 EPS over the three years to December 2008, with the number of shares vesting being calculated on a straight-line basis from a nil award at 3% to a full award at 8%. Any dividends accrued on shares which vest are paid in cash on vesting.

Patrick Macdonald and Paul Dollman purchased shares under the Plan in 2006, 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 ("PSP") as determined by the Committee. The number of shares involved is reviewed each year but has not changed since the plan was introduced in 2005. 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 2006 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 2008. 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.

Executive directors and the managing directors of each division will only be awarded a number of conditional shares under either the proposed Divisional Performance Share Plan or the existing PSP and not both.

The John Menzies Employee Benefit Trust holds sufficient shares to cover any shares which may vest under both this PSP and the proposed new 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 which have now been fully met.

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.

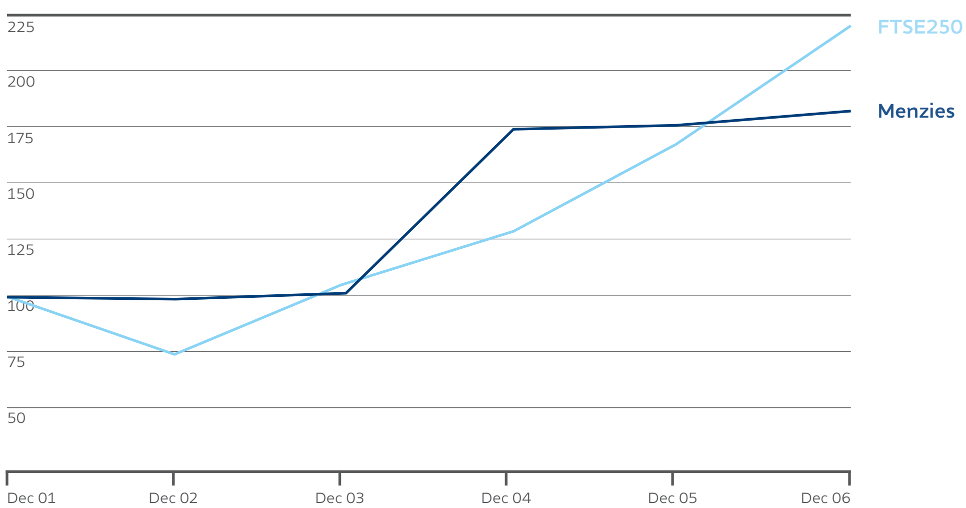
The Remuneration Committee considers that the notice periods stated above are reasonable and in the interests of shareholders having due regard to prevailing market conditions and practice among companies of comparable size.

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 2006 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.



Report on Directors' Remuneration
(continued)

The following sections of this Report have been audited.

Directors' Emoluments

Directors' emoluments for the year to 30 December 2006 (31 December 2005) were:

	Date of appointment (a)	Salary/fees 2006 £'000	Salary/fees 2005 £'000	Benefits 2006 £'000	Benefits 2005 £'000	Bonus 2006 £'000	Bonus 2005 £'000	Total 2006 £'000	Total 2005 £'000
Chairman									
W R E Thomson	25.5.06	**122**	116	**–**	–	**–**	–	**122**	116
Executive Directors									
P J Macdonald (b)	25.8.02	**371**	362	**80**	73	**41**	53	**492**	488
P B Dollman	8.8.02	**257**	250	**17**	15	**29**	43	**303**	308
Non-executive Directors									
D J Jenkinson	25.5.06	**31**	29	**–**	–	**–**	–	**31**	29
I C L Harrison	25.5.06	**33**	35	**–**	–	**–**	–	**33**	35
D A Coltman	30.4.04	**49**	47	**–**	–	**–**	–	**49**	47
I S Robertson	28.4.05	**36**	33	**–**	–	**–**	–	**36**	33
O K Morley (first appointed 1.4.06)	25.5.06	**23**	–	**–**	–	**–**	–	**23**	–
M J Walker (retired 25.5.06)	28.4.05	**13**	31	**–**	–	**–**	–	**13**	31
		935	903	**97**	88	**70**	96	**1,102**	1,087

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 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 £57,111 (2005: £55,630) which is included in his total of benefits.

Share Plans

	At 31 Dec 2005	Granted during year	Exercised during year (a)	Market price at date of exercise (pence)	Lapsed during year	At 30 Dec 2006	Exercise price (pence)	Date exercisable from	Expiry date
P J Macdonald	360,577	–	–	–	–	**360,577(b)**	312	13/05/06	12/05/13
	97,856	–	–	–	–	**97,856(c)**	418	07/05/07	06/05/14
	45,000	45,000(d)	–	–	–	**90,000**			
	9,886	5,906(e)	–	–	–	**15,792**			
	2,683*	–	2,683	490	–	**–**	286	01/12/06	01/06/07
	410*	–	–	–	–	**410***	388	01/12/07	01/06/08
P B Dollman	205,166	–	–	–	–	**205,166(b)**	329	08/11/05	07/11/12
	58,714	–	–	–	–	**58,714(c)**	418	07/05/07	06/05/14
	30,000	30,000(d)	–	–	–	**60,000**			
	11,559	4,816(e)	–	–	–	**16,375**			
	2,680*	–	2,680	510.5	–	**–**	275	01/11/05	01/05/06
	606*	–	606	470	–	**–**	286	01/12/06	01/06/07
	78*	–	–	–	–	**78***	388	01/12/07	01/06/08
	1,561*	–	–	–	–	**1,561***	467	01/12/08	01/06/09
	–	510*	–	–	–	**510***	348	01/12/09	01/06/10

Notes

(*) Other than where indicated, all the above options were granted under the Company's executive share option schemes with the exception of those items marked * which have been granted under the savings-related share option scheme. The cost to the Company of these employee share-based plans is shown in note 20 to the accounts.

(a) The gain, measured as the difference between the option exercise price and the closing market value of the shares involved on the day of exercise, made by Patrick Macdonald on exercise of his 2,683 savings-related options was £5,473, and that made by Paul Dollman on exercise of his 2,680 and 606 savings-related options was £7,426 in aggregate.

(b) The performance conditions attaching to these options have been met in full. The 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.

(c) The performance conditions attaching to these options have been met in full. The 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.

(d) Award of conditional shares during the year under the Performance Share Plan, subject to performance conditions as noted above, at a market price of 530p (2005: 582p), vesting on the day on which the Company announces its preliminary results for the year to December 2008 (2005 share awards: December 2007).

(e) Award of conditional matching shares during the year under Bonus Co-investment Plan, subject to performance conditions as noted above, at a market price of 530p (2005: 595p), vesting on the day on which the Company announces its preliminary results for the year to December 2008 (2005 share awards: December 2007).

(f) The market price for shares in John Menzies plc ranged from 425p to 599p during the year and was 506p at 30 December 2006.

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:

Director	Age	Increase in accrued pension during year £'000 pa	Total accrued pension entitlement at 30 Dec 2006 (a) £'000 pa	Transfer Value (b)(c) 30 Dec 2006 £'000	Transfer Value (b)(c) 31 Dec 2005 £'000	Transfer Value (b)(c) Increase excl members' contributions £'000
P J Macdonald	44	4	**15**	128	88	32
P B Dollman (d)	50	8	**37**	406	295	95

Notes:

(a) Accrued pension entitlements are the amounts which would be paid at normal retirement date if the director left service as at 30 December 2006, 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.

Report on Directors' Remuneration

(continued)

(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 30 December 2006 relating to Paul Dollman, calculated on a cash equivalent transfer value basis, totalled £244,700.

(e) The total of the transfer values for unfunded pension entitlements as above, held on the Company's balance sheet at 30 December 2006 for current and former directors, calculated on an IAS 19 basis, totalled £710,114, from which an annual pension of £15,915 p.a. is paid to former directors.

By order of the Board

J F A GEDDES
SECRETARY
19 March 2007

Directors' Report

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 ground and cargo handling services at airports.

Business Review
The Company is required to produce a statutory business review of Group operations. A review of the Group's business performance, developments during the year and its position at the year end for the 52 weeks to 30 December 2006 is contained on pages 6 to 20. The review incorporates a commentary on likely future developments, and on principal risks and uncertainties. A separate review summarising the Group's approach to employee, health and safety, and community and environmental matters is contained in the Corporate Social Responsibility report on pages 21 to 27.

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 page 28. Their interests in the ordinary shares of the Company were as follows:

		30 December 2006	31 December 2005
W R E Thomson	Beneficial	**4,000**	4,000
P J Macdonald	Beneficial	**21,578**	13,693
P B Dollman	Beneficial	**14,623**	8,929
D J Jenkinson	Beneficial	**2,098,360**	2,098,360
	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
D A Coltman	Beneficial	**15,000**	15,000
O K Morley (appointed 1.4.06)		**0**	n/a
I S Robertson	Beneficial	**20,000**	20,000
M J Walker (retired 25.5.06)	Beneficial	**n/a**	1,000

Note: These holdings are joint beneficial interests.

In addition to the above holdings, William Thomson and Iain Robertson, 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 19 March 2007.

No director had any material interest in any contract, other than a service contract as set out on page 37.

Under the Company's Articles of Association, a third of the Board, or a number nearest to a third, must retire by rotation. Additionally, the Combined Code requires non-executive directors serving for more than 9 years to offer themselves up for annual re-election. The directors who retire and, being eligible, offer themselves for re-election at the Annual General Meeting ("AGM") are William Thomson, David Coltman, Dermot Jenkinson and Ian Harrison.

All four 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.William Thomson, who is Chairman, has extensive leadership skills and experience, and provides highly valued advice and support to the executive management team. David Coltman, who is Senior Independent Director, has international experience and commercial expertise and knowledge particularly in the aviation sector. Dermot Jenkinson contributes from his breadth of experience gained from his knowledge of the Company and through a wide range of general management roles. Ian Harrison provides counsel and support to the Board and brings particular skills relating to pension investment and currency management. The latter two also represent the interests of our major shareholder.

The Board recommends to shareholders re-elections of William Thomson, David Coltman, Dermot Jenkinson and Ian Harrison.

Directors' Report

(continued)

Directors' and Officers' Liability Insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. No director or officer was in receipt of any indemnity from the Company during the 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 19 March 2007.

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co. Ltd	5,190,000	8.7
The estate of the late Mr J M Menzies	4,189,650	7.1
Ameriprise Financial Inc and its group (Threadneedle Asset Management Ltd)	3,419,800	5.9
Mr D F Ramsay	2,589,878	4.4
Mrs S J Speke	2,039,920	3.4
Mrs K P Slater	1,981,552	3.3
Legal & General Group plc	1,802,931	3.0

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 69 to 73.

Dividends

The directors recommend the payment of a final dividend of 14.4p per ordinary share, payable on 29 June to members on the Register as at the close of business on 1 June 2007. The shares will be quoted as ex-dividend on 30 May 2007.

This final dividend, together with the interim dividend of 6.1p per ordinary share paid on 30 November 2006, makes a total dividend of 20.5p per ordinary share for the year ended 30 December 2006.

Directors' Responsibilities and Going Concern

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 International Financial Reporting Standards as adopted by the European Union;
- prepare the financial statements on a going concern basis.

The directors are satisfied that, after making appropriate enquiries, 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 and detection of fraud and other irregularities.

Disclosure of information to and reappointment of Auditors
The directors have confirmed that they are confident that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have confirmed that they have taken all steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 the 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 32.8 days (2005: 34.0 days) of purchases from suppliers.

Donations
It is the Company's policy not to make political donations, and no political donations were made during the year (2005: nil).

Details of charitable donations made by the Group are contained in the Corporate Social Responsibility report on page 27. The total amount donated in 2006 was £112,000 (2005: £125,000).

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 24 May at the Roxburghe Hotel, Edinburgh can be found on pages 85 to 92 of this Annual Report.

By order of the Board

J F A GEDDES
SECRETARY
19 March 2007

Independent Auditors' Report

To the Members of John Menzies plc

We have audited the Group and Parent Company financial statements (the "financial statements") of John Menzies plc for the year ended 30 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 Combined Code (2003) 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 Chairman's Statement, the Chief Executive's Review, the Business Review, the Corporate Governance Statement, the Directors' Report and the unaudited part of the Directors' Remuneration Report. 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 judgements 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 December 2006 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 December 2006 and cash flows for the year then ended;
- 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and the information given in the Directors' Report is consistent with the financial statements.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
EDINBURGH
19 March 2007

Notes:

(a) The maintenance and integrity of the John Menzies plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Income Statement

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

	Notes	2006 £m	2005 £m
Revenue	2	**1,450.4**	1,362.1
Net operating costs	3	**(1,416.4)**	(1,327.7)
Operating profit	2	**34.0**	34.4
Share of post-tax results of joint ventures and associates		**2.7**	3.2
Operating profit after joint ventures and associates	2	**36.7**	37.6
Analysed as:			
Underlying operating profit		**36.9**	40.3
Exceptional items	5	**3.0**	–
Intangible amortisation	5	**(2.2)**	(2.1)
Share of tax on joint ventures and associates		**(1.0)**	(0.6)
Operating profit after joint ventures and associates		**36.7**	37.6
Finance income	7	**15.6**	13.8
Finance charges	7	**(16.7)**	(14.7)
Profit before taxation		**35.6**	36.7
Taxation	8	**(8.4)**	(8.7)
Profit for the year		**27.2**	28.0
Attributable to equity shareholders		**27.0**	27.7
Attributable to minority interests		**0.2**	0.3
		27.2	28.0
Earnings per ordinary share	10		
Basic		**46.4p**	48.2p
Diluted		**46.1p**	47.7p

Statement of Recognised Income and Expense

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

	Notes	2006 £m	2005 £m
Profit for the year		**27.2**	28.0
Actuarial gain / (loss) on defined benefit pensions	4	**23.4**	(9.6)
Deferred tax associated with defined benefit pensions		**(7.0)**	2.9
Net exchange adjustments		**(1.7)**	0.1
Net gains / (losses) not recognised in Income Statement		**14.7**	(6.6)
Total recognised income for the year		**41.9**	21.4
Attributable to equity shareholders		**41.7**	21.1
Attributable to minority interests		**0.2**	0.3
		41.9	21.4

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

Group and Company Balance Sheets

as at 30 December 2006 (31 December 2005)

		Group		Company	
	Notes	2006 £m	2005 £m	2006 £m	2005 £m
Assets					
Non-current assets					
Intangible assets	11	**59.0**	25.6	**–**	–
Property, plant and equipment	12	**133.3**	121.1	**39.0**	36.8
Investments	13	**18.9**	22.8	**99.8**	98.8
Derivative financial assets	16	**0.3**	0.1	**0.3**	0.1
Deferred tax assets	19	**3.8**	13.8	**–**	9.8
Retirement benefit obligations	4	**5.4**	–	**5.4**	–
		220.7	183.4	**144.5**	145.5
Current assets					
Inventories		**12.0**	13.0	**–**	–
Trade and other receivables	14	**110.8**	97.9	**152.6**	108.0
Derivative financial assets	16	**1.5**	0.6	**1.5**	0.6
Cash and cash equivalents		**18.8**	22.0	**0.5**	7.5
		143.1	133.5	**154.6**	116.1
Liabilities					
Current liabilities					
Borrowings	16	**(8.8)**	(21.3)	**(4.9)**	(19.4)
Derivative financial liabilities	16	**(0.4)**	(0.5)	**(0.4)**	(0.5)
Trade and other payables	15	**(153.1)**	(145.9)	**(94.3)**	(105.0)
Current income tax liabilities		**(9.8)**	(14.1)	**(3.0)**	(2.1)
		(172.1)	(181.8)	**(102.6)**	(127.0)
Net current (liabilities) / assets		**(29.0)**	(48.3)	**52.0**	(10.9)
Total assets less current liabilities		**191.7**	135.1	**196.5**	134.6
Non-current liabilities					
Borrowings	16	**(88.3)**	(33.2)	**(88.2)**	(33.1)
Other payables	15	**(0.9)**	–	**–**	–
Derivative financial liabilities	16	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Provisions	19	**(7.0)**	(7.2)	**–**	–
Deferred tax liabilities	19	**(3.2)**	(2.1)	**(2.4)**	(0.5)
Retirement benefit obligations	4	**–**	(32.6)	**–**	(32.6)
		(99.5)	(75.6)	**(90.7)**	(66.7)
Net assets		**92.2**	59.5	**105.8**	67.9
Shareholders' equity					
Ordinary shares	20	**14.8**	14.7	**14.8**	14.7
Share premium account	21	**12.6**	10.9	**12.6**	10.9
Investment in own shares	21	**(3.5)**	(3.5)	**–**	–
Retained earnings	21	**46.3**	15.5	**56.8**	20.7
Capital redemption reserve	21	**21.6**	21.6	**21.6**	21.6
Total shareholders' equity		**91.8**	59.2	**105.8**	67.9
Minority interest in equity	22	**0.4**	0.3	**–**	–
Total equity		**92.2**	59.5	**105.8**	67.9

The accounts were approved by the Board of Directors on 19 March 2007 and signed on its behalf by:

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

Group and Company Cash Flow Statements

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

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash flows from operating activities					
Cash generated from operations	23	**29.7**	47.5	**(14.5)**	(5.6)
Interest received		**2.1**	2.5	**1.7**	1.7
Interest paid		**(5.5)**	(4.5)	**(5.4)**	(3.8)
Tax paid		**(8.5)**	(4.6)	**(3.3)**	(2.3)
Net cash from operating activities		**17.8**	40.9	**(21.5)**	(10.0)
Cash flows from investing activities					
Loan repaid by joint venture		**0.1**	–	**–**	–
Acquisition of subsidiaries	25	**(38.1)**	(0.8)	**–**	–
Net cash acquired with subsidiaries	25	**1.1**	–	**–**	–
Purchase of property, plant and equipment		**(25.4)**	(22.1)	**–**	–
Intangible asset additions		**(0.5)**	(0.6)	**–**	–
Proceeds from sale of property, plant and equipment		**1.1**	1.6	**–**	–
Dividends received		**4.1**	4.0	**–**	–
Net cash used in investing activities		**(57.6)**	(17.9)	**–**	–
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**1.8**	3.5	**1.8**	3.5
Finance lease additions		**0.1**	–	**–**	–
Repayment of borrowings	24	**(15.3)**	(11.3)	**(15.2)**	(12.2)
Proceeds from borrowings	24	**58.9**	3.4	**58.9**	20.1
Dividends paid to ordinary shareholders		**(11.6)**	(10.9)	**(11.6)**	(10.9)
Dividends paid to minority interests		**(0.1)**	(0.2)	**–**	–
Amounts provided to subsidiaries		**–**	–	**(20.2)**	(0.2)
Net cash from / (used in) financing activities		**33.8**	(15.5)	**13.7**	0.3
(Decrease) / increase in net cash and cash equivalents	24	**(6.0)**	7.5	**(7.8)**	(9.7)
Effects of exchange rate movements		**(0.2)**	–	**(0.2)**	–
Opening net cash and cash equivalents		**18.7**	11.2	**5.9**	15.6
Closing net cash and cash equivalents*	24	**12.5**	18.7	**(2.1)**	5.9

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

Notes to the Accounts

1. Introduction and accounting policies

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

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

In accordance with Section 230 of the Companies Act 1985 no income statement is presented for the Company.

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

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

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

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

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

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

Accounting policies

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

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

The Group has elected to take the following permitted exemptions:

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

In addition, the Group has adopted 'Amendments to IAS 19 Employee Benefits'. The Group has selected the option available within this standard, similar to FRS 17 under UK GAAP, for immediate recognition of all actuarial gains and losses outside of the Income Statement in the Statement of Recognised Income and Expense.

Notes to the Accounts

(continued)

1. Introduction and accounting policies (continued)

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

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

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

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

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

Pensions
The operating and financing costs of pensions are charged to the income statement in the period in which they arise and are recognised separately. The 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, is recognised in the statement of recognised income and expense.

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

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

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

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

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

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

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

Any impairment is recognised immediately in the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Accounts
(continued)

1. Introduction and accounting policies (continued)

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

All derivatives are initially recorded on the balance sheet at fair value either on transition from UK GAAP at 26 December 2004 or on the date they are entered into if that is a later date. All derivatives are subsequently measured at fair value, which is calculated as the present value of all future cash flows from the derivative discounted at prevailing market rates.

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

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

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

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

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

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

Financial risk factors
The Group is exposed to financial risks: liquidity risk, interest rate fluctuations, foreign exchange exposures and credit risk. These are more fully discussed in the Business Review on pages 18 and 19.

2. Segmental analysis

Primary business segments

2006	Distribution £m	Aviation £m	Corporate £m	**Group £m**
Revenue	1,132.0	318.4	–	**1,450.4**
Operating profit / (loss)	28.0	8.9	(2.9)	**34.0**
Share of post-tax results of joint ventures	–	1.0	–	**1.0**
Share of post-tax results of associates	–	1.7	–	**1.7**
Operating profit / (loss) after joint ventures and associates	28.0	11.6	(2.9)	**36.7**

Analysed as:				
Underlying operating profit / (loss) *	23.7	16.6	(3.4)	**36.9**
Pension credit	4.0	1.3	0.5	**5.8**
Gain on exchange of contract rights	2.5	–	–	**2.5**
Rationalisation and integration costs	(2.2)	(3.1)	–	**(5.3)**
Contract amortisation (Note 11)	–	(0.4)	–	**(0.4)**
Goodwill impairment (Note 11)	–	(1.8)	–	**(1.8)**
Share of tax on joint ventures and associates	–	(1.0)	–	**(1.0)**
Operating profit / (loss) after joint ventures and associates	28.0	11.6	(2.9)	**36.7**

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

Analysed as:				
Underlying operating profit / (loss) *	30.7	13.3	(3.7)	40.3
Goodwill impairment (Note 11)	–	(2.1)	–	(2.1)
Share of tax on joint ventures and associates	–	(0.6)	–	(0.6)
Operating profit / (loss) after joint ventures and associates	30.7	10.6	(3.7)	37.6

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

Notes to the Accounts
(continued)

2. Segmental analysis (continued)

2006	Distribution £m	Aviation £m	Corporate £m	Group £m
Segment assets	148.9	182.6	3.4	**335.8**
Unallocated assets				**28.0**
Total assets				**363.8**
Segment liabilities	(98.3)	(46.9)	(16.3)	**161.5**
Unallocated liabilities				**(110.1)**
Total liabilities				**(271.6)**
Segment net assets / (liabilities)	50.6	135.7	(12.0)	**174.3**
Unallocated net liabilities				**(82.1)**
Net assets				**92.2**

2005	£m	£m	£m	£m
Segment assets	129.3	150.1	1.7	281.1
Unallocated assets				35.8
Total assets				316.9
Segment liabilities	(96.9)	(41.6)	(15.6)	(154.1)
Unallocated liabilities				(103.3)
Total liabilities				(257.4)
Segment net assets / (liabilities)	32.4	108.5	(13.9)	127.0
Unallocated net liabilities				(67.5)
Net assets				59.5

2006	£m	£m	£m	£m
Capital expenditure	**9.2**	**15.9**	**–**	**25.1**
Depreciation	**5.2**	**11.7**	**1.0**	**17.9**
Amortisation of intangible assets	**0.5**	**0.8**	**–**	**1.3**
Goodwill impairment	**–**	**1.8**	**–**	**1.8**
Gain on disposal of property, plant and equipment	**–**	**0.2**	**–**	**0.2**

2005	£m	£m	£m	£m
Capital expenditure	6.7	15.2	–	21.9
Depreciation	4.6	10.7	0.9	16.2
Amortisation of intangible assets	0.6	0.3	–	0.9
Goodwill impairment	–	2.1	–	2.1
Gain on disposal of property, plant and equipment	–	0.5	–	0.5

Secondary geographic segments

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

3. Net operating costs

	2006 £m	2005 £m
Goods for resale and consumables	**1,086.9**	1,036.8
Other operating charges	**59.3**	51.6
Employment costs (Note 4)	**251.0**	221.9
Intangible assets amortisation (Note 11)	**1.3**	0.9
Goodwill impairment (Note 11)	**–**	0.3
Depreciation (Note 12)	**17.9**	16.2
	1,416.4	1,327.7

Other operating charges include:		
Operating leases and hire charges – plant and machinery	**9.7**	8.4
Rent of properties	**23.9**	20.3
Gain on disposal of property, plant and equipment	**(0.2)**	(0.5)

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

Audit services		
Audit of parent company and consolidated accounts	**0.2**	0.2
Audit of the company's subsidiaries pursuant to legislation	**0.4**	0.4
Non-audit services		
Corporate finance services	**0.2**	0.2
Other services	**0.2**	–

4. Employees

	2006 £m	2005 £m
Wages and salaries	**219.6**	194.2
Share-based payments	**0.7**	0.7
Social security costs	**22.1**	19.5
	242.4	214.4
Pension charge	**8.6**	7.5
	251.0	221.9

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

	2006 number	2005 number
Distribution	**3,573**	3,670
Aviation	**10,374**	7,982
Corporate	**31**	40
	13,978	11,692

The numbers above include 7,909 full-time equivalent persons employed outside the UK (2005: 5,731).

Notes to the Accounts
(continued)

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 income statement 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 income statement charge for defined contribution schemes represents the contributions made.

The pension charge to the income statement is analysed as follows:	**2006 £m**	2005 £m
Menzies Pension Fund	**4.7**	5.1
Other schemes	**3.9**	2.4
	8.6	7.5

The Actuary undertook a valuation of the Menzies Pension Fund as at 30 December 2006 (2005: 31 December) under IAS 19. In deriving the results the Actuary used the projected unit method and the following financial assumptions:

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

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

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

	2006	2005
Male	**18.3**	18.3
Female	**21.1**	21.1

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

	2006	2005
Male	**19.2**	19.2
Female	**22.0**	22.0

Fair value of assets (and expected return on assets)

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

Components of pension expense

Amounts charged to the Income Statement

	2006 £m	2005 £m
Current service cost	4.7	5.1
Past service credit	(5.8)	–
Total amount (credited) / charged to the Income Statement	(1.1)	5.1

Amounts included in finance costs

	£m	£m
Expected return on pension scheme assets	13.4	11.5
Interest on pension liabilities	(11.0)	(10.3)
Net financial return	2.4	1.2
Pension (income) / expense	(3.5)	3.9

Amounts recognised in the Statement of Recognised Income and Expense

	£m	£m
Gain on assets	12.0	17.4
Actuarial gain / (loss) on defined benefit obligation	11.4	(27.0)
Actuarial gain / (loss)	23.4	(9.6)

Change in scheme assets during the year

	£m	£m
Fair value of assets at start of year	208.5	178.2
Expected return on assets	13.4	11.5
Company contributions	11.1	5.3
Employee contributions	1.5	1.2
Benefits and expenses paid	(9.3)	(7.5)
Gain on assets	12.0	19.8
Fair value of assets at end of year	237.2	208.5

Change in defined benefit obligation during the year

	£m	£m
Defined benefit obligation at start of year	241.1	202.6
Current service cost	4.7	5.1
Past service credit	(5.8)	–
Interest cost	11.0	10.3
Employee contributions	1.5	1.2
Benefits and expenses paid	(9.3)	(7.5)
Actuarial (gain) / loss on defined benefit obligation	(11.4)	29.4
Defined benefit obligation at end of year	231.8	241.1

History of experience gains and losses

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

Notes to the Accounts
(continued)

5. Underlying performance

(a) Exceptional items – £3m

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

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

Rationalisation and integration costs – £5.3m
Costs of rationalising excess capacity, comprising asset write-downs and staff costs, and integration costs for new businesses.

(b) Intangible amortisation – £2.2m

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

Contract amortisation – £0.4m
A new charge for 2006 (Note 11) on the application of IFRS to acquisitions.

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

6. Directors

A detailed analysis of Directors' remuneration, together with shareholdings and options, is provided on pages 35 to 40.

7. Finance costs

	2006 £m	2005 £m
Finance income:		
Bank deposits	**2.2**	2.3
Expected return on pension scheme assets (Note 4)	**13.4**	11.5
	15.6	13.8
Finance charges:		
Bank loans and overdrafts	**(5.6)**	(4.3)
Preference dividends	**(0.1)**	(0.1)
Interest on pension liabilities (Note 4)	**(11.0)**	(10.3)
	(16.7)	(14.7)
Net finance costs	**(1.1)**	(0.9)

8. Taxation

(a) Analysis of charge in year

	2006 £m	2005 £m
Current tax		
UK corporation tax on profits for the year	**5.5**	7.2
Overseas tax	**1.5**	1.8
Adjustments to prior years' liabilities	**(3.1)**	(2.4)
Total current tax	**3.9**	6.6
Deferred tax		
Origination and reversal of temporary differences	**0.1**	1.5
Adjustments to prior years' liabilities	**–**	0.2
	0.1	1.7
Retirement benefit obligations	**4.4**	0.4
Total deferred tax	**4.5**	2.1
Tax on profit on ordinary activities	**8.4**	8.7

(b) Current and deferred tax related to items charged / (credited) directly to equity

	2006 £m	2005 £m
Deferred tax on actuarial gain / (loss) on retirement benefit obligations	**7.0**	(2.9)
Current tax on net exchange adjustments	**0.4**	0.1
Tax charge / (credit) reported in equity	**7.4**	(2.8)

(c) Reconciliation between tax charge and the product of accounting profit multiplied by the Group's domestic tax rate for the years ended 30 December 2006 and 31 December 2005 is as follows:

	2006 £m	2005 £m
Profit before tax	**35.6**	36.7
Profit before tax multiplied by standard rate of corporation tax in the UK (30%)	**10.7**	11.0
Non-deductible expenses	**0.9**	(0.5)
Depreciation on non-qualifying assets	**0.3**	0.5
Tax-exempt gain on exchange of contracts	**(0.8)**	–
Unrelieved overseas losses	**2.6**	2.2
Profits covered by losses forward	**(1.5)**	(2.5)
Recognition of overseas losses in deferred tax	**–**	(0.4)
Higher tax rates on overseas earnings	**0.1**	1.3
Adjustments to prior years' liabilities	**(3.1)**	(2.2)
Deferred tax on undistributed reserves of associate	**–**	0.3
Joint venture and associate post-tax result (included in profit before tax) at 30%	**(0.8)**	(1.0)
At the effective corporation tax rate of 23.6% (2005: 23.7%)	**8.4**	8.7

Notes to the Accounts
(continued)

8. Taxation (continued)

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

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

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

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

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

9. Dividends

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

Dividends of £0.1m (2005: £0.1m) were waived by employee share trusts (Note 21) during the year.

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

Preference share dividends have been reclassified as interest payable.

10. Earnings per share

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

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

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

Notes to the Accounts
(continued)

11. Intangible assets

	Goodwill £m	Contracts £m	Computer software £m	Total £m
Cost				
At 31 December 2005	23.6	–	4.2	27.8
Acquisitions (Note 25)	15.5	18.0	–	33.5
Exchange of contract rights (Note 5)	–	2.5	–	2.5
Additions	–	–	0.5	0.5
Disposals	–	–	(0.3)	(0.3)
Currency translation	(1.6)	(0.4)	–	(2.0)
At 30 December 2006	**37.5**	**20.1**	**4.4**	**62.0**
Amortisation				
At 31 December 2005	0.4	–	1.8	2.2
Amortisation charge	–	0.4	0.9	1.3
Disposals	–	–	(0.3)	(0.3)
Currency translation	(0.2)	–	–	(0.2)
At 30 December 2006	0.2	0.4	2.4	3.0
Net book value				
At 30 December 2006	**37.3**	**19.7**	**2.0**	**59.0**
At 31 December 2005	23.2	–	2.4	25.6

	£m	£m	£m	£m
Cost				
At 25 December 2004	22.3	–	4.4	26.7
Acquisitions	0.6	–	–	0.6
Additions	–	–	0.6	0.6
Disposals	–	–	(0.8)	(0.8)
Currency translation	0.7	–	–	0.7
At 31 December 2005	23.6	–	4.2	27.8
Amortisation				
At 25 December 2004	–	–	1.7	1.7
Amortisation charge	–	–	0.9	0.9
Impairment charge (Note 5)	0.3	–	–	0.3
Disposals	–	–	(0.8)	(0.8)
Currency translation	0.1	–	–	0.1
At 31 December 2005	0.4	–	1.8	2.2
Net book value				
At 31 December 2005	23.2	–	2.4	25.6
At 25 December 2004	22.3	–	2.7	25.0

Impairment test for goodwill and contracts

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

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

12. Property, plant and equipment

	Group					Company				
	Freehold property £m	Long leasehold property £m	Short leasehold property £m	Plant and equipment £m	Total £m	Freehold property £m	Long leasehold property £m	Short leasehold property £m	Plant and equipment £m	Total £m
Cost										
At 31 December 2005	39.6	0.7	36.4	124.1	200.8	37.6	0.6	0.3	1.7	40.2
Acquisitions (Note 25)	3.2	0.9	–	3.7	7.8	–	–	–	–	–
Additions	0.3	–	0.5	24.3	25.1	–	–	–	–	–
Transfers / inter-group additions	–	–	(0.1)	0.1	–	3.2	–	–	–	3.2
Disposals	(0.2)	(0.1)	–	(7.5)	(7.8)	–	–	–	–	–
Currency translation	(0.1)	–	–	(2.9)	(3.0)	–	–	–	–	–
At 30 December 2006	**42.8**	**1.5**	**36.8**	**141.8**	**222.9**	**40.8**	**0.6**	**0.3**	**1.7**	**43.4**
Depreciation										
At 31 December 2005	5.4	0.2	11.6	62.5	79.7	1.5	0.2	0.2	1.5	3.4
Charge for the year	0.8	–	2.0	15.1	17.9	0.9	–	0.1	0.1	1.1
Accelerated write-down	–	–	–	0.2	0.2	–	–	–	–	–
Disposals	–	–	–	(6.9)	(6.9)	–	–	–	(0.1)	(0.1)
Currency translation	–	–	(0.1)	(1.2)	(1.3)	–	–	–	–	–
At 30 December 2006	**6.2**	**0.2**	**13.5**	**69.7**	**89.6**	**2.4**	**0.2**	**0.3**	**1.5**	**4.4**
Net book value										
At 30 December 2006	**36.6**	**1.3**	**23.3**	**72.1**	**133.3**	**38.4**	**0.4**	**–**	**0.2**	**39.0**
At 31 December 2005	34.2	0.5	24.8	61.6	121.1	36.1	0.4	0.1	0.2	36.8
Cost										
At 25 December 2004	39.3	0.7	36.1	108.2	184.3	34.0	0.6	0.3	–	34.9
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	0.7	36.4	124.1	200.8	37.6	0.6	0.3	1.7	40.2
Depreciation										
At 25 December 2004	4.8	0.2	10.7	53.5	69.2	0.7	0.2	0.2	–	1.1
Charge for the year	0.8	–	2.0	13.4	16.2	0.8	–	–	0.1	0.9
Disposals	(0.2)	–	(1.1)	(5.3)	(6.6)	–	–	–	–	–
Transfers / inter-group additions	–	–	–	–	–	–	–	–	1.4	1.4
Currency translation	–	–	–	0.9	0.9	–	–	–	–	–
At 31 December 2005	5.4	0.2	11.6	62.5	79.7	1.5	0.2	0.2	1.5	3.4
Net book value										
At 31 December 2005	34.2	0.5	24.8	61.6	121.1	36.1	0.4	0.1	0.2	36.8
At 25 December 2004	34.5	0.5	25.4	54.7	115.1	33.3	0.4	0.1	–	33.8

Notes to the Accounts
(continued)

13. Investments

	Group						Company
	Shares in joint ventures £m	Loans to joint ventures £m	Shares in associates £m	Loans to associates £m	Other £m	Total £m	Subsidiaries £m
Cost excluding goodwill							
At 31 December 2005	1.0	0.3	6.4	0.1	0.2	8.0	98.8
Transfers / New investments	–	–	(0.2)	–	0.2	–	1.0
Share of profits after tax	1.0	–	3.5	–	–	4.5	–
Dividends received	(1.0)	–	(3.1)	–	–	(4.1)	–
Loan repayment	–	(0.1)	–	–	–	(0.1)	–
Impairment provision	–	–	(0.2)	–	–	(0.2)	–
Currency translation	–	–	(0.4)	–	–	(0.4)	–
At 30 December 2006	**1.0**	**0.2**	**6.0**	**0.1**	**0.4**	**7.7**	**99.8**
Goodwill							
At 31 December 2005	–	–	14.8	–	–	14.8	–
Impairment provision	–	–	(1.8)	–	–	(1.8)	–
Currency translation	–	–	(1.8)	–	–	(1.8)	–
At 30 December 2006	**–**	**–**	**11.2**	**–**	**–**	**11.2**	**–**
At 30 December 2006	**1.0**	**0.2**	**17.2**	**0.1**	**0.4**	**18.9**	**99.8**
At 31 December 2005	1.0	0.3	21.2	0.1	0.2	22.8	98.8

The Group's share of the results, assets and liabilities of joint ventures and associates:

	Country of Incorporation	% Interest held	Revenue £m	Profit after tax £m	Assets £m	Liabilities £m
Joint ventures						
Talma Menzies SRL	Peru	50	7.3	0.9	1.7	(0.9)
Freshport BV	Netherlands	50	0.5	0.1	0.5	(0.3)
Associates						
Menzies Macau Airport Services Ltd	Macau	29	8.0	3.2	4.7	(1.1)
Worldwide Magazine Distribution Ltd	UK	31.67	2.4	–	1.2	(0.4)
Menzies Chengdu Aviation Services Ltd	China	40	2.4	0.3	1.9	(0.3)
			20.6	4.5	10.0	(3.0)

14. Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade receivables	**82.8**	75.7	**–**	–
Other receivables	**13.6**	11.1	**4.9**	5.1
Prepayments	**14.4**	11.1	**0.7**	1.7
Amounts owed by Group companies	**–**	–	**147.0**	101.2
	110.8	97.9	**152.6**	108.0

15. Trade and other payables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Due within one year				
Trade payables	**97.7**	96.7	**–**	–
Other payables	**49.8**	44.1	**10.8**	12.2
Other taxes and social security costs	**5.6**	5.1	**0.2**	0.2
Amounts owed to Group companies	**–**	–	**83.3**	92.6
	153.1	145.9	**94.3**	105.0
Due after more than one year				
Other payables	**0.9**	–	**–**	–

16. Financial instruments

The objectives, policies and strategies pursued by the Group in relation to financial instruments are described within the Business Review on pages 18 and 19.

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Maturity profile				
Borrowings due within one year:				
Bank loans and overdrafts	**8.6**	21.2	**4.9**	19.4
Finance lease creditor	**0.1**	–	**–**	–
Unsecured loan stock	**0.1**	0.1	**–**	–
	8.8	21.3	**4.9**	19.4
Net derivative assets	**(1.1)**	(0.1)	**(1.1)**	(0.1)
Total borrowings due within one year	**7.7**	21.2	**3.8**	19.3
Borrowings due after one year:				
Loans repayable between one and two years	**1.4**	1.2	**1.3**	1.1
Loans repayable between two and five years	**61.2**	4.5	**61.2**	4.5
Loans repayable after five years	**23.8**	25.6	**23.8**	25.6
Preference shares	**1.4**	1.4	**1.4**	1.4
Finance lease creditor	**0.5**	0.5	**0.5**	0.5
	88.3	33.2	**88.2**	33.1
Net derivative (assets) / liabilities	**(0.2)**	0.4	**(0.2)**	0.4
Total borrowings due after one year	**88.1**	33.6	**88.0**	33.5
Total borrowings	**95.8**	54.8	**91.8**	52.8
Less: Cash at bank and in hand and short-term deposits	**18.8**	22.0	**0.5**	7.5
Net debt	**77.0**	32.8	**91.3**	45.3

Other than trade receivables and payables, there are no financial assets or liabilities excluded from the above analysis. No financial assets or liabilities were held or issued for trading purposes.

The Company has issued 1,394,587 cumulative preference shares of £1 each. These shares are not redeemable and pay an interest coupon of 9% semi-annually.

Notes to the Accounts
(continued)

16. Financial instruments (continued)

Borrowing facilities

At 30 December 2006, the Group had undrawn committed facilities of £42.5m (2005: £32.9m) with the following expiry profile:

	2006 £m	2005 £m
Less than one year	**23.8**	32.9
Between one and two years	**18.7**	–
	42.5	32.9

In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £10m (2005: £15.1m).

Fair values

Set out below is an analysis of the fair and book value of the Group's financial instruments as at 30 December 2006.

	2006 Book value £m	2006 Fair value £m	2005 Book value £m	2005 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	**7.7**	**7.7**	21.2	21.3
Medium-term borrowings	**62.6**	**62.7**	5.7	6.1
Long-term borrowings	**25.5**	**26.0**	27.9	29.7
	95.8	**96.4**	54.8	57.1
Cash and deposits	**18.8**	**18.8**	22.0	22.0

Derivative financial instruments

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Assets				
Forward foreign exchange contracts (non-current)	**0.3**	0.1	**0.3**	0.1
Forward foreign exchange contracts (current)	**1.5**	0.6	**1.5**	0.6
Liabilities				
Forward foreign exchange contracts (current)	**(0.4)**	(0.5)	**(0.4)**	(0.5)
Forward foreign exchange contracts (non-current)	**(0.1)**	(0.5)	**(0.1)**	(0.5)
	1.3	**(0.3)**	**1.3**	**(0.3)**

The fair values of the derivative financial instruments were determined by reference to quoted market prices. The derivative financial instruments are classified as current or non-current based on the remaining maturity of the related hedged item.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts are:

		Group		Company	
		2006 million	2005 million	2006 million	2005 million
Euro	EUR	**29.6**	25.8	**29.6**	25.8
US dollar	USD	**47.5**	51.5	**47.5**	51.5
Czech crown	CZK	**319.2**	319.2	**319.2**	319.2
Australian dollar	AUD	**8.1**	8.1	**8.1**	8.1
New Zealand dollar	NZD	**2.9**	2.9	**2.9**	2.9

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

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 receivables and trade payables) at 30 December 2006 is shown below.

Currency	**Floating rate financial assets £m**	**Fixed rate financial assets £m**	**2006 Total financial assets £m**	Floating rate financial assets £m	Fixed rate financial assets £m	2005 Total financial assets £m
Sterling	**6.3**	**1.2**	**7.5**	10.7	1.6	12.3
Euro	**3.1**	**–**	**3.1**	4.4	–	4.4
US dollar	**4.0**	**0.2**	**4.2**	2.4	–	2.4
Hong Kong dollar	**0.4**	**–**	**0.4**	0.9	–	0.9
Australian dollar	**2.2**	**–**	**2.2**	0.9	–	0.9
Other	**1.4**	**–**	**1.4**	1.1	–	1.1
	17.4	**1.4**	**18.8**	20.4	1.6	22.0

The floating rate financial assets of £17.4m (2005: £20.4m) are at interest rates linked to Base rates and LIBID. The fixed rate financial assets of £1.4m (2005: £1.6m) are one-month fixed sterling deposits at rates between 5% and 5.2%, and a one-month fixed US dollar deposit at 5.21% (2005: six-month fixed deposit at 4.4%).

Currency	**Floating rate financial liabilities £m**	**Fixed rate financial liabilities £m**	**2006 Total financial liabilities £m**	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	2005 Total financial liabilities £m
Sterling	**27.4**	**33.1**	**60.5**	2.7	34.1	36.8
Euro	**0.1**	**–**	**0.1**	0.3	–	0.3
US dollar	**36.5**	**–**	**36.5**	17.4	–	17.4
Net derivative (assets) / liabilities	**(1.3)**	**–**	**(1.3)**	0.3	–	0.3
	62.7	**33.1**	**95.8**	20.7	34.1	54.8

Floating rate financial liabilities of £62.7m (2005: £20.4m) comprise bank loans, overdrafts, unsecured loan stock, cross-currency basis swaps and forward contracts. 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 2007 and 2020 of £31.1m (2005: £32.2m) on which interest is at a fixed rate of 6.23% (2005: 6.23%), preference shares of £1.4m (2005: £1.4m) and finance lease creditors of £0.6m (2005: £0.5m). This loan has a weighted average maturity of 8 years (2005: 8.8 years).

17. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group				Company	
	Property		Other		Property	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
within one year	**21.9**	19.1	**6.3**	7.2	**0.8**	0.8
within two to five years	**68.5**	74.1	**6.5**	7.3	**2.4**	3.2
after five years	**39.3**	7.7	**0.4**	1.9	**1.9**	1.9
	129.7	100.9	**13.2**	16.4	**5.1**	5.9

Notes to the Accounts
(continued)

18. Capital commitments

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Contracted but not provided – property, plant and equipment	**4.9**	4.5	**–**	–

19. Provisions

Deferred tax	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Assets				
Accelerated capital allowances and other temporary differences	**3.8**	4.0	**–**	–
Retirement benefit obligations	**–**	9.8	**–**	9.8
	3.8	13.8	**–**	9.8
Liabilities				
Accelerated capital allowances and other temporary differences	**1.6**	2.1	**0.8**	0.5
Retirement benefit obligations	**1.6**	–	**1.6**	–
	3.2	2.1	**2.4**	0.5
Net deferred tax (assets) / liabilities	**(0.6)**	(11.7)	**2.4**	(9.3)
Movement in year:				
Income Statement – retirement benefit obligations	**4.4**	0.4	**4.4**	–
– other	**0.1**	1.7	**0.3**	–
Statement of Recognised Income and Expense	**7.0**	(2.9)	**7.0**	–
Transfer from current tax	**–**	0.7	**–**	–
Acquired with / transfer from subsidiary	**(0.4)**	–	**–**	0.5
	11.1	(0.1)	**11.7**	0.5

Other – property related	2006 £m	2005 £m
At beginning of year	**7.2**	8.5
Provided during year	**3.1**	1.3
Utilised during year	**(3.3)**	(2.6)
At end of year	**7.0**	7.2

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

	2006 £m	2005 £m
Authorised		
73,056,248 ordinary shares of 25p each	**18.3**	18.3
Allotted, called up and fully paid		
Opening – 58,708,035 ordinary shares of 25p each	**14.7**	14.4
Allotted under share option schemes*	**0.1**	0.3
Closing – 59,255,537 ordinary shares of 25p each	**14.8**	14.7

As a result of options being exercised, 547,502 (2005: 944,601) ordinary shares having a nominal value of £0.1m (2005: £0.3m) were issued during the year at a share premium of £1.7m (2005: £3.2m).

*Included in this total are nil (2005: 132,458) ordinary shares of 25p each allotted to directors under the executive share option scheme and 606 (2005: 2,680) ordinary shares of 25p each allotted to the directors under the savings-related share option scheme with a nominal value of £152 (2005: £33,785).

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 193,227 shares were exercised in 2006 and 42,177 options lapsed.

Date of grant	Exercise price (pence)	Exercise period	2006 Number	2005 Number
Mar-96	520	1999-2006	–	17,500
Oct-96	540	1999-2006	–	2,500
Feb-97	461	2000-2007	**15,000**	27,500
Apr-98	492	2001-2008	**32,500**	115,300
Feb-99	348	2002-2009	**5,000**	10,000
Jan-00	391	2003-2010	**19,437**	36,937
Apr-02	331	2005-2012	**32,207**	39,242
Nov-02	329	2005-2012	**205,166**	205,166
May-03	312	2006-2013	**403,915**	452,759
May-04	418	2007-2014	**278,801**	320,526
			992,026	1,227,430

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 354,275 shares were exercised in 2006 and 233,032 options lapsed.

Year of grant	Exercise price (pence)	Exercise period	2006 Number	2005 Number
2002	275	2005-2006	–	81,559
2003	286	2006-2007	**35,210**	353,762
2004	388	2007-2008	**271,566**	343,736
2005	467	2008-2009	**266,992**	375,386
2006	348	2009-2010	**489,275**	–
			1,063,043	1,154,443

Notes to the Accounts
(continued)

20. Share capital (continued)

Company Share Option Schemes
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 three years upon which they become exercisable. The exercise period is usually seven 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 three-year growth targets set by the Board are achieved. Growth is typically measured by growth in underlying earnings per share ("EPS") as compared to RPI plus between 3% and 8% per annum over three years, adjusted to normalise pension and tax charges.

(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 six months of maturity. Special provisions apply to employees who leave their employment due to ill health, redundancy or retirement.

(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 FTSE250 Index by 30% or more, then the percentage of the award vesting is 100%. If the growth is greater than the TSR for the FTSE250 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 FTSE250 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 10 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 underlying EPS reaches targets set by the Board. If the percentage real EPS growth in the Company's underlying EPS for three financial years is greater than RPI + 8% p.a. 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% p.a., then the percentage of the award vesting will be calculated on a straight-line basis. If EPS growth is RPI + 3% p.a. or less, then the percentage of the award vesting is nil. There will be no retesting of performance targets.

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

The Plan 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 Plan 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 Plan.

Performance targets are based on real growth in earnings measured over three financial years. If the percentage growth in the Company's EPS is RPI + 8% or more, then the number of matching shares that will vest is 2. For EPS growth of between RPI + 3% p.a. and RPI + 8% p.a., 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% p.a. 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 three years. The period for exercising was restricted to six 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 three year real earnings growth. The 2004 shadow options are exercisable in 2007 if the percentage EPS growth exceeds RPI + 3%-8% p.a., with any gain capped at 300p per shadow option.

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-06	Oct-05	Oct-04	Oct-03	May-04
Share price at grant date (pence)	418	312	329	450	555.5	485	357	418
Exercise price (pence)	418	312	329	348	467	388	286	418
Number of employees	10	8	1	723	773	892	891	15
Shares under option	278,801	403,915	205,166	489,275	266,992	271,566	35,210	222,600
Vesting period (years)	3	3	3	3	3	3	3	3.5
Expected volatility	25.0%	24.5%	25.0%	25.0%	25.0%	25.0%	24.5%	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%	4.5%	4.7%	4.2%	4.7%
Expected dividends expressed as a dividend yield *	4.0%	4.5%	5.2%	3.8%	3.8%	3.9%	4.0%	3.8%
Fair value per option (pence)	76	49	50	104	132	126	88	104
IFRS 2 charge per option **	70	45	50	63	81	77	54	75

Notes to the Accounts
(continued)

20. Share capital (continued)

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 IFRS 2 charge per option is due to adjustments for forfeiture risk.

	Performance Share Plan			Long-Term Incentive Scheme				Bonus Co-Investment Plan	
Grant date	Mar-06	Sep-05	Apr-05	Sep-06	Mar-06	Sep-05	Apr-05	Mar-06	Apr-05
Share price at grant date (pence)	530	583.5	582	476	541.5	583.5	582	530	595
Number of employees	4	1	3	1	22	1	22	3	2
Shares awarded	135,000	42,500	105,000	1,667	111,667	2,500	104,478	15,690	21,445
Contractual life (years)	3	3	3	3	3	3	3	3	3
Expected departure *	0%	0%	0%	27%	27%	27%	27%	14%	14%
Expected outcome of meeting performance criteria	41%	41%	41%	52%	52%	52%	52%	52%	52%
Fair value per share (pence)	217	238	237	541.5	541.5	583.5	582	530	595
IFRS 2 charge per share award **	217	238	237	205	205	220	219	237	264

* Risk of forfeiture
** Adjusted for forfeiture risk

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			
	2006 Number	**Weighted average exercise price (p)**	2005 Number	Weighted average exercise price (p)	**2006 Number**	**Weighted average exercise price (p)**	2005 Number	Weighted average exercise price (p)
Outstanding at start of year	**1,227,430**	**369**	1,843,031	389	**1,154,443**	**374**	1,340,465	315
Granted	**–**	**–**	–	–	**495,907**	**348**	380,228	467
Forfeited / Expired	**(42,177)**	**448**	(60,209)	418	**(233,032)**	**399**	(177,041)	337
Exercised	**(193,227)**	**422**	(555,392)	430	**(354,275)**	**286**	(389,209)	276
Outstanding at end of year	**992,026**	**356**	1,227,430	369	**1,063,043**	**386**	1,154,443	374
Exercisable	**713,225**	**331**	454,145	393	**35,210**	**286**	81,559	275

	Shadow Option Scheme				Performance Share Plan, Long-Term Incentive Scheme and Bonus Co-investment Plan			
	2006 Number	**Weighted average exercise price (p)**	2005 Number	Weighted average exercise price (p)	**2006 Number**	**Weighted average exercise price (p)**	2005 Number	Weighted average exercise price (p)
Outstanding at start of year	**557,600**	**359**	928,700	350	**289,445**	**584**	–	–
Granted	**–**	**–**	–	–	**273,357**	**535**	289,445	584
Forfeited	**(39,797)**	**358**	(60,459)	340	**(22,855)**	**565**	–	–
Exercised	**(295,203)**	**315**	(310,641)	335	**–**	**–**	–	–
Outstanding at end of year	**222,600**	**418**	557,600	359	**539,947**	**559**	289,445	584
Exercisable	**–**	**–**	–	–	**–**	**–**	–	–

Summary information on all outstanding options

	Executive Share Option Scheme		Savings-Related Option Scheme		Shadow Option Scheme		PSP, LTIS and Bonus Co-investment Plan	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Range of exercise prices (pence)	**312-540**	312-540	**286-467**	275-467	**418**	312-418	**476-595**	582-595
Weighted average exercise price (pence)	**356**	369	**386**	374	**418**	359	**559**	583
Number of shares	**992,026**	1,227,430	**1,063,043**	1,154,443	**222,600**	557,600	**539,947**	289,445
Weighted average remaining life (years)								
– expected	**1.2**	1.2	**2.1**	2.1	**1.2**	1.2	**2.2**	1.2
– contractual	**4.4**	4.4	**2.1**	2.1	**1.2**	1.2	**2.2**	1.2

The weighted average share price during the year for executive share options and savings-related options exercised over the year was 422p and 286p respectively (2005: 430p and 276p respectively).

Total IFRS 2 charge for share-based incentive schemes
The total charge for the year relating to employee share-based plans was £0.7m (2005: £0.9m), £0.7m (2005: £0.7m) of which related to equity-settled share based payment transactions. After tax, the total charge was £0.5m (2005: £0.6m).

21. Statement of changes in shareholders' equity

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

Notes to the Accounts
(continued)

21. Statement of changes in shareholders' equity (continued)

	Ordinary shares £m	Share premium account £m	Investment in own shares £m	Retained earnings £m	Capital redemption reserve £m	Total £m
Company						
At 31 December 2005	14.7	10.9	–	20.7	21.6	67.9
Profit for the year	–	–	–	31.1	–	31.1
Dividends	–	–	–	(11.6)	–	(11.6)
New share capital issued	0.1	1.7	–	–	–	1.8
Share-based payments	–	–	–	0.2	–	0.2
Actuarial gain (net of deferred tax)	–	–	–	16.4	–	16.4
At 30 December 2006	**14.8**	**12.6**	**–**	**56.8**	**21.6**	**105.8**
At 25 December 2004	14.4	7.7	–	15.1	21.6	58.8
Profit for the year	–	–	–	23.0	–	23.0
Dividends	–	–	–	(10.9)	–	(10.9)
New share capital issued	0.3	3.2	–	–	–	3.5
Share-based payments	–	–	–	0.2	–	0.2
Actuarial loss (net of deferred tax)	–	–	–	(6.7)	–	(6.7)
At 31 December 2005	14.7	10.9	–	20.7	21.6	67.9

The profit for the year for the company of £31.1m (2005: £23m) is the same under both IFRS and UK GAAP. Other than presentational changes there is no difference in the company balance sheet.

Investment in own shares
The Company's ordinary shares are held in trust for an employee share scheme. At 30 December 2006 the trusts held 714,082 (2005: 721,927) ordinary 25p shares with a market value of £3,615,040 (2005: £3,663,780).

22. Minority interests

	2006 £m	2005 £m
At beginning of year	**0.3**	0.5
Share of profit after tax	**0.2**	0.3
Dividend	**(0.1)**	(0.2)
Movement in the year	**–**	(0.3)
At end of year	**0.4**	0.3

23. Cash generated from operations

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

Cash generated from acquisitions during the year was not material.

24. Analysis of changes in net borrowings

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

Notes to the Accounts
(continued)

25. Acquisitions

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

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

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

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

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

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

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

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

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

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

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

26. 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	Purchases from related party £m	Amounts owed to related party at 30 December 2006 £m
Talma Menzies SRL (Peru)	50	0.6	–	0.1
Freshport BV	50	0.4	–	–
Menzies Chengdu Aviation Services Ltd	40	0.1	–	–

The amounts owed to / (due by) the parent company from dealings with subsidiary companies is disclosed in Notes 14 and 15.

Certain activities, including treasury, taxation, insurance, pension and legal matters are provided by the parent company to subsidiary companies and are recharged on a cost-plus basis.

Key management compensation	2006 £m	2005 £m
Salaries and other short-term employee benefits	**0.9**	0.6
Termination benefits	**0.2**	–
Share–based payments	**0.1**	0.1

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.

UK GAAP to IFRS Reconciliations

Group Income Statement
for the year ended 31 December 2005

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

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

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

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

Group Balance Sheet

as at 26 December 2004 (IFRS opening position)

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

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

Group Balance Sheet

as at 26 December 2004 (IFRS opening position) (continued)

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

as at 31 December 2005

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

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

Group Balance Sheet
as at 31 December 2005 (continued)

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

Group and Company Cash Flow Statements

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

Five Year Summary

	IFRS		UK GAAP		
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Revenue					
Distribution	**1,132.0**	1,093.5	1,086.6	1,033.5	936.9
Aviation	**318.4**	268.6	244.0	226.8	195.9
	1,450.4	1,362.1	1,330.6	1,260.3	1,132.8
Operating profit					
Distribution	**23.7**	30.7	30.5	26.2	28.7
Aviation	**16.6**	13.3	10.3	2.4	3.7
	40.3	44.0	40.8	28.6	32.4
Corporate	**(3.4)**	(3.7)	(4.3)	(4.8)	(7.0)
Pension credit – SSAP24	**–**	–	–	–	3.6
Underlying operating profit	**36.9**	40.3	36.5	23.8	29.0
Exceptional items	**3.0**	–	7.6	(17.2)	(4.7)
Intangible amortisation	**(2.2)**	(2.1)	(3.6)	(3.6)	(3.5)
Share of tax on joint ventures and associates	**(1.0)**	(0.6)	–	–	–
Profit before interest	**36.7**	37.6	40.5	3.0	20.8
Net finance costs	**(1.1)**	(0.9)	(2.9)	(3.1)	(3.1)
Profit / (loss) before taxation	**35.6**	36.7	37.6	(0.1)	17.7

Per ordinary share					
Dividends – payable	**20.5p**	19.5p	18.5p	18.1p	18.1p
Underlying earnings	**46.9p**	51.9p	44.0p	24.8p	32.9p
Basic earnings	**46.4p**	48.2p	51.0p	(11.4)p	18.2p

General Information

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 directed to the Company's Registrar and clearly state the shareholder's name, address and Shareholder Reference Number (SRN). The contact details are noted as follows:

The John Menzies plc Registrar
Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Tel: 0870 703 6303
Email: web.queries@computershare.co.uk
or visit www.computershare.com

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

Computershare's online Investor Centre also enables you to view your shareholding and update your address and payment instructions online. You can register at www.computershare.com/investor/uk. In order to register you will need your Shareholder Reference Number (SRN), which you can find on your share certificate or tax voucher. If you have an older share certificate issued by Capita IRG, your SRN is the 10 digit investor code.

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.

The provisional dates of dividend payments in the year, subject to their approval/recommendation, are:

Ordinary shares	Final dividend for 2006	29 June 2007
	Interim dividend for 2007	30 November 2007
9% Preference shares	30 March 2007	
	28 September 2007	

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 225 8555
Fax: 0131 226 3752
Email: info@johnmenziesplc.com

Annual General Meeting
Explanatory Notes to the Notice of Meeting

The Notice of Meeting appears on pages 90 to 92. The following information provides additional background to several of the resolutions proposed.

Resolution 3 – Appointment of Directors
The Board recommends that the following Directors be elected at this meeting:

Craig Smyth
As Craig has been appointed to the Board since the last Annual General Meeting ("AGM") he comes up for election at this meeting. He was appointed a Director on 20 March, was a founder executive of the Aviation division and has worked for Menzies Aviation for 14 years. In 2003, he moved from being the Chief Financial Officer into the operational and commercial role as Vice President, Americas and was appointed the Managing Director of Menzies Aviation in February 2004. He is a chartered accountant. Age 39.

Ellis Watson
Ellis was also appointed to the Board on 20 March and therefore also comes up for election at this meeting. Ellis was appointed Managing Director of Menzies Distribution in September 2005. Prior to this he was Managing Director of National Newspapers at Trinity Mirror plc and of Celador International. His media career began with 9 years at News International, where latterly he was Marketing Director. He was also previously Chairman of the Newspaper Publishers Association, the trade body for daily national newspapers. Age 39.

The Board recommends that the following Directors, who retire by rotation and offer themselves for re-election at this meeting, be re-elected:

William Thomson
William 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 66.

David Coltman
David was appointed a non-executive director in 2001 and Senior Independent Director in 2006, and chairs the Remuneration Committee. 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 64.

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 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 52.

Ian Harrison
Ian was appointed a non-executive director in 1987. He is a director of Record Currency Management Ltd, an institutional investment management company specialising in currency management for pension funds worldwide. Age 50.

William Thomson, who is Chairman, has extensive leadership skills and experience, and provides highly valued advice and support to the executive management team. David Coltman, who is Senior Independent Director, has international experience and commercial expertise and knowledge particularly in the aviation sector. Dermot Jenkinson contributes from his breadth of experience gained from his knowledge of the Company and through a wide range of general management roles. Ian Harrison provides counsel and support to the Board and brings particular skills relating to pension investment and currency management. The latter two also represent the interests of our major shareholder.

Each of these four directors retiring by rotation 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.

Annual General Meeting

Explanatory Notes to the Notice of Meeting (continued)

Resolution 7 – Adoption of a new Divisional Performance Share Plan
Following an in-depth review of our remuneration and incentive structures, we are recommending the adoption of a new divisional share incentive plan primarily for senior executives. The main features are set out below and a summary of the rules can be found on pages 88 to 89.

It was felt by the Board that the Company's current incentive schemes did not operate as intended at the divisional level. Following a review by the Remuneration Committee, the Board is recommending that a new 2007 Divisional Performance Share Plan ("DPSP") be adopted to augment the Company's existing share incentive plans as part of the Company's policy of ensuring that its remuneration practices remain competitive. Executive directors and other senior executives receiving an award of conditional shares under this DPSP will not also receive awards under the existing 2005 Performance Share Plan.

The performance conditions are based on the achievement of targeted Divisional Financial Results ("DFR") at threshold and stretch level; at the stretch level, the performance target has been externally verified as being equivalent to achieving upper quartile performance. For Menzies Distribution, the DFR are based on operating profit, reduction in operating costs and income from new revenue streams, and for Menzies Aviation the DFR are based on operating profit.

The main features of the DPSP are as follows:

- Annual grants of conditional shares which vest if actual DFR of the relevant division outperform target DFR. For the first cycle of the plan the following vesting conditions are proposed:
  - No shares vest unless actual DFR for the final year of the 3-year performance period beat the threshold target.
  - 100% of shares vest for performance over the final year of the 3-year period exceeding the stretch target.
  - Pro rata vesting in between.
- The Remuneration Committee will review the appropriateness of these performance conditions at the beginning of each cycle.
- An amount equal to net dividends accrued over the performance period will be paid at vesting but only on shares which actually vest.

Copies of the Rules of the proposed 2007 Divisional Performance Share Plan will be available for inspection at the registered office of the Company, and at the offices of Maclay Murray & Spens LLP at 1 London Wall, London EC2Y 5AB, from 19 April 2007 to (and including) the date of the Annual General Meeting during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will also be available at the Roxburghe Hotel, 38 Charlotte Square, Edinburgh for at least 15 minutes before the Annual General Meeting until its conclusion.

Resolution 8 – Communications by Electronic Means and Amendment to Articles of Association
This resolution is being proposed in light of the new provisions about company communications, including electronic communications (for example via the Company's website or by email), which have recently been introduced by the Companies Act 2006 (the "2006 Act"). The Companies Act 1985 (as amended) (the "1985 Act") allowed companies to use electronic communications in certain contexts, for instance, to send annual accounts and notices of meetings to shareholders. Currently, following shareholder approval in 2000, the Company's Articles of Association permit the Company to communicate with shareholders by electronic means as permitted under the 1985 Act, although not by publishing documents on the Company's website.

The new provisions in the 2006 Act apply more generally to all types of company communications made pursuant to the 2006 Act. The authority that is being sought by Resolution 8 is consistent with the new arrangements under the 2006 Act and with the provisions of the UKLA's new Transparency Rules which contain additional requirements for listed companies in relation to electronic communications. The Resolution also seeks shareholder approval to changes to the Company's Articles of Association to reflect the new arrangements.

The authority and amendments to the Articles will not of themselves force either the Company or any individual shareholder to send or receive notices, documents or information by electronic means. They will, however, allow the Company to approach shareholders for their individual agreement to use electronic mail and/or publication on its website for Company communications.

Shareholders will at all times be able to request hard copies of any document published electronically and they will be able to revoke their consent to the Company communicating with them electronically at any time.

Copies of the existing Articles of Association of the Company and the proposed amended Articles of Association will be available for inspection at the Company's registered office, and at the offices of Maclay Murray & Spens LLP at 1 London Wall, London EC2Y 5AB, from 19 April 2007 to (and including) the date of the Annual General Meeting during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will also be available at the Roxburghe Hotel, 38 Charlotte Square, Edinburgh for at least 15 minutes before the Annual General Meeting until its conclusion.

Resolution 9 – 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 £740,694. The authority under this resolution would expire on the date of the next Annual General Meeting or 23 August 2008, whichever is earlier.

Resolutions 10 and 11 – 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 5,925,553 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 23 August 2008, whichever is earlier.

Proxy Form
A proxy form, which covers all resolutions to be proposed at the Annual General Meeting, is provided for use by holders of ordinary shares and should be read in conjunction with the Notice of Meeting. Completed forms of proxy should be returned as soon as possible but in any event no later than 12.15pm on Tuesday 22 May 2007. Completion of a proxy form will not prevent a shareholder from attending and voting at the Annual General Meeting if he/she so wishes.

Appointment of a proxy through CREST
To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35 (5) (a) of the Uncertificated Securities Regulations 2001.

Summary of the Principal Features
of the John Menzies plc 2007 Divisional Performance Share Plan

Introduction
The John Menzies plc 2007 Divisional Performance Share Plan offers executives the opportunity to benefit from the success of the Company, as measured by the achievement of target Divisional Financial Results ("DFR"). The DFR for Menzies Distribution are based on Operating Profits, Cost Savings and Income from New Revenue Streams, and for Menzies Aviation are based on Operating Profits. The DFR relate to the Division of the Company by which the executive who benefits through the award of shares is employed.

Shares will vest at the end of three years if DFR reaches targets set by the Board.

The following summarises the main features of the Plan and its operation.

1. Eligibility
Executive directors and senior employees of the Company or its subsidiaries who are selected by the Remuneration Committee (for Directors) or the Board (for other executives) are eligible to participate in the DPSP.

2. Grants of Awards
The Board may, normally within 42 days of the preliminary announcement of the Company's results, grant to executives an award of conditional shares under the rules of the DPSP. An Award Certificate will set out the number of conditional shares being awarded and the Performance Targets which will determine the extent to which the number of shares stated in the Award Certificate will vest.

3. Performance Targets
Performance Targets will normally relate to a period of three financial years ('the Performance Period'), and are intended to be challenging. A Threshold and a more demanding Stretch Performance Target for each set of DFR will be set by the Board before awards are made. The Stretch Performance Target for each Division has been verified by external remuneration consultants to be equivalent to upper quartile performance. Targets will normally be based on improvements to performance measured against DFR at the end of the period relative to the DFR at the beginning of the period. The Performance Targets for the first period will be:

DFR at the end of the third financial year to December 2009	Percentage award vesting
Less than the Threshold Performance Target	Nil
Equal to or greater than the Stretch Performance Target	100%
Greater than the Threshold Performance Target but less than the Stretch Performance Target	To be calculated on a straight line basis, with the total number of shares vesting rounded down to the nearest whole number.

4. Commencement, Duration and Amendment of the DPSP
The first award under the DPSP will be made 42 days after the adoption of the DPSP by shareholders at the 2007 Annual General Meeting. No award may be made more than 10 years after the adoption of the DPSP.

The DPSP may be altered at any time provided that no alteration is made which adversely affects the participants without their consent, and no amendments to the advantage of participants or to the definitions of those eligible, Performance Targets or Divisional Financial Results may be made without shareholder consent.

5. Vesting of Shares
The Remuneration Committee (for Directors) or the Board (for other executives) will notify each participant as soon as practicable after the end of the Performance Period of the extent to which the Performance Targets have been met and the number of shares which will be awarded or vest (if any) for the Performance Period. The Company will thereafter procure the transfer of the appropriate number of these vested shares which will represent the post-tax value of this award. The Company will pay the relevant income tax on the award, by sale on the participant's behalf if agreed of the appropriate number of the total vested shares.

The value of the vested shares shall be calculated using the quoted share price at the close of the day prior to which the above notification is dated, and the date of the transfer shall be the date of the notification for the purposes of any announcement of this dealing in the Company's shares.

6. Dividends
Within 42 days of the transfer of the vested shares, the Company will pay to each participant an amount equal to the net dividends which would have been paid during the Performance Period on those shares which actually vest.

7. Taxation
Income tax and national insurance contributions are due on any shares which vest, at the date of vesting, and on any dividend payment. All payments or transfers of shares under the DPSP will be made on a net of tax basis as appropriate.

8. Loss of or Limitations on Rights
If a participant leaves the employment of the Group, rights attaching to all shares held for him/her under the DPSP shall immediately lapse, although special rules apply on leaving due to ill health, retirement, redundancy, disposal/change of control of the Company, death, or in other circumstances where the Remuneration Committee (for Directors) or the Board (for other executives) deems it appropriate. Under these special rules, they may determine whether and if so, how many shares will vest, taking into account the Performance Targets and how much of the Performance Period has elapsed.

No share will be transferred to a participant while his/her employment is suspended on grounds of gross misconduct or where any statutory, regulatory or other legal provision restricts the Company or the executive from dealing in shares.

No award may be assigned or transferred (except to personal representatives on the participant's death).

9. Other Matters
9.1 Limit of awards
The maximum annual award for each participant will be limited to 100,000 shares. No more than 10% of the issued ordinary share capital of the Company shall be issued pursuant to the DPSP and any other employees' share scheme in a 10 year period, and no more than 5% of the issued ordinary share capital of the Company shall be issued pursuant to the DPSP and any other discretionary executive share option scheme in any 10 year period.

9.2 Rights
The inclusion of a participant in this Scheme or the terms of an Award shall not afford the participant any rights or additional rights to compensation or damages in consequence of the loss or termination of his/her office or employment with the Group for any reason whatsoever (including wrongful or unfair dismissal), or from the lapsing of any share awards. Awards will not be pensionable.

9.3 Variation of Share Capital
The number of shares in any award may be adjusted on any variation of the share capital of the Company in such manner as the Remuneration Committee deems to be fair and reasonable.

9.4 Change of Control
In the event of a takeover of the Company, awards will vest immediately subject to determination by the Remuneration Committee of the extent to which the Performance Targets have been met as at the date of change of control.

9.5 Interpretation
In the event that there is any difference in the interpretation of the Rules in this Summary and the Rules themselves, then the Rules take precedence. Participants may request a copy of the Rules at any time.

Notice of Annual General Meeting

The Annual General Meeting of John Menzies plc will be held in the Roxburghe Hotel, 38 Charlotte Square, Edinburgh on Thursday 24 May 2007 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 30 December 2006 and the Report of the Auditors thereon.

2. To declare a final dividend on the ordinary shares.

3. To elect as directors:
   (i) Craig Smyth
   (ii) Ellis Watson

   To re-elect as directors:
   (iii) William Thomson
   (iv) David Coltman
   (v) Dermot Jenkinson
   (vi) Ian Harrison

4. To approve the Report on Directors' Remuneration for the year ended 30 December 2006.

5. To re-appoint PricewaterhouseCoopers LLP as Auditors.

6. To authorise the directors to fix the Auditors' remuneration.

7. To approve and adopt the Rules of the John Menzies plc 2007 Divisional Performance Share Plan ("DPSP"), the main features of which are summarised on pages 88 to 89 of the Annual Report and Accounts 2006, in the form produced to the meeting and signed by the Chairman for the purposes of identification, subject to such modifications as the directors may consider necessary or desirable to take account of the requirements of the UK Listing Authority and the London Stock Exchange or for the purposes of implementing and giving effect to the DPSP.

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

8. That:
   (i) the Company be and is hereby permitted (subject to the requirements of the Companies Act 2006 and the Articles of Association of the Company) to send or supply notices, documents or information to members by making them available on a website or by other electronic means; and
   (ii) those amendments (as shown by text being underlined or deleted) contained in the printed document produced to the meeting and initialled by the Chairman for the purpose of identification be and are hereby approved as amendments to the Articles of Association of the Company.

9. 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 1985 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 £740,694, 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 that the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or on 23 August 2008 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.

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 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 23 August 2008, 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 5,925,553 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.

11. 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 23 August 2008, 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

J F A GEDDES
SECRETARY
19 April 2007

Notice of Annual General Meeting
(continued)

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 22 May 2007, 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 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.

For members of CREST who wish to appoint a proxy through the CREST system, please refer to the instructions on page 87.

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.

Copies of the Rules of the proposed 2007 Divisional Performance Share Plan and of the Company's existing and proposed amended Articles of Association will be available for inspection at the registered office of the Company and at the offices of Maclay Murray & Spens LLP at 1 London Wall, London EC2Y 5AB on weekdays during business hours (excluding public holidays) from the date of this notice until the end of the Annual General Meeting and also at the meeting until it ends.

Dividend
The final dividend on the ordinary shares, if approved, will be paid on 29 June 2007 to members whose names appear on the register at the close of business on 1 June 2007.

Principal Addresses and Advisers

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