John Menzies plc

INTERIM RESULTS
for the period ended 1 July 2006

Highlights:

- Revenue - up 6% to £707.4m (2005: £668.6m)
- Profit before taxation - up 26% to £19.5m (2005: £15.5m)
- Underlying profit before taxation* - down 7% to £15.6m (2005: £16.8m)
- Underlying operating profit**
  - Distribution - down 15% to £12.5m (2005: £14.7m)
  - Aviation - up 11% to £5.1m (2005: £4.6m)
- Underlying earnings per share*** - down 7% to 20.1p (2005: 21.6p)
- Interim dividend - up 5% to 6.1p (2005: 5.8p)

Commenting on trading, Patrick Macdonald, Chief Executive, said:
"The Group's performance during the six month period reflects solid results from Menzies Aviation, our ground handling and cargo division, where we have developed an increasingly robust business model with many opportunities to expand. This good performance is countered by the effects of a rapid reduction in consumer demand for monthly magazines and partworks at Menzies Distribution.

Addressing this demand change, our strong management team is actively remodelling Menzies Distribution to ensure we not only improve productivity but also position ourselves to meet the challenges ahead. It remains a strongly cash generative business.

Menzies Aviation has demonstrated good organic growth, driven by several contract wins and new station openings. In addition, we have made 6 acquisitions this year. These include 2 we are announcing today, both in the USA. The division is positioned to grow rapidly on the back of our successful integration of these additions to our network.

In the short term, the strong performance from Menzies Aviation is not yet sufficient to offset Menzies Distribution's reduced trading. The Group's underlying performance for the full year is therefore likely to be somewhat behind our expectations. Looking forward, with a focused operational strategy in place, we are positioning the Group to best address the future challenges within Distribution and drive the strong growth opportunities we see for Menzies Aviation."

*Underlying profit before tax is defined as profit before taxation, goodwill and exceptional items.
**Underlying operating profit includes each Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.
***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.

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NOTES TO EDITORS

1. John Menzies plc, the time-critical logistics company, is one of Scotland's largest companies. The company has two operating divisions, Menzies Distribution and Menzies Aviation. Both divisions operate in distinct B2B sectors where success depends on providing an efficient, high quality, time-critical service to their customers and partners.

2. In the year ended 31 December 2005 under UK GAAP, John Menzies reported turnover of £1,390.0m (2004 - £1,369.2m) and headline profit before tax of £39.4m (2004 – £33.6m). Turnover at the Distribution division was £1,104.3m (2004 - £1,109.4m) whilst operating profit was £30.7m (2004 - £30.5m). In the Aviation division turnover was £285.7m (2004 - £259.8m) and operating profit was £13.3m against £10.3m in 2004.

3. The company was established in 1833 and its head office is in Edinburgh, Scotland. Today the company is an international operation with businesses in Europe, North and South America, South East Asia, Australasia and Africa.

4. Menzies Distribution is a leading provider of added value distribution and marketing services to the newspaper and magazine supply chain in the UK. The division handles 4.5 million newspapers (6 million on Sundays) and 2.5 million magazines (covering 3,000 magazine titles) each day, with deliveries to more than 21,300 customers.

   Its success in 2005 in achieving high standards is evidenced by winning the 'Wholesaler of the Year' award from the National Federation of Retail Newsagents and the Gold award at the Association of Circulation Executives awards. It also won the Orange Award for Bright Business at the National Business Awards for Scotland for its Launch Factory marketing initiative to maximise sales of new titles.

5. Menzies Aviation is one of the world's major independent suppliers of ground handling services to the aviation market providing passenger, ramp and cargo services for many of the world's leading airlines and some of the busiest international airports. The division employs over 12,000 people across the world, at 105 airports in 24 countries servicing more than 500 aviation customers.

   The Division won various awards in 2005, including the 'BA Way' award for the handler which most closely matches the way BA wants its outsourced handling performed and the 'Most Responsive Handler' award also from BA for the way in which it helped restart their operations at Houston after Hurricane Wilma.

6. Further information on John Menzies plc can be found at: www.johnmenziesplc.com, www.menziesdistribution.com and www.menziesaviation.com.

Group Results

£m	H1 2006	H1 2005	Growth
Revenue	707.4	668.6	6%
Profit before taxation	19.5	15.5	26%
Underlying profit before taxation[1]	15.6	16.8	(7)%
Free cash flow[2]	(3.0)	8.5	
Basic earnings per share	25.1p	20.1p	25%
Underlying earnings per share[3]	20.1p	21.6p	(7)%
Interim dividend	6.1p	5.8p	5%

We have achieved revenue growth of 6% to £707.4m in the half year to 1 July. Both our businesses have grown through a mix of contract wins, geographic expansion and selective acquisitions.

Profit before taxation has increased by 26% to £19.5m including exceptional gains.

Underlying profit before taxation has reduced by 7% to £15.6m. Menzies Aviation has continued to deliver strong results through a mixture of organic and acquisitive growth with profits up 11% to £5.1m. Menzies Distribution has experienced particularly tough trading conditions and, despite an accelerated cost reduction programme, profitability has reduced with profits down 15% to £12.5m.

These trends have also been reflected in our basic and underlying earnings per share performance.

Exceptional items

Group profit before taxation and basic earnings per share have benefited from a net £5.3m of exceptional gains. One-off items comprise a £2.5m gain on the sale of an investment in an independent wholesaler and a £5.8m benefit from a change to the calculations of pension liability accruals, partly offset by £3.0m costs relating to the integration of acquisitions and to restructuring. Other charges include goodwill impairment and the share of tax on joint ventures and associates, totalling £1.4m.

Cash Flow and Investment

Operating cash flow in the period totalled £13.8m. After £12.8m investment in equipment, and other movements, mainly tax and interest, of £4.0m, there was a £3.0m free cash outflow.

The Group spent a further £25.0m on acquisitions which have extended each Division's geographic footprint. Menzies Aviation acquired Aeroground, Inc for £16.3m. Menzies Distribution acquired two businesses - Chester Independent Wholesale Newsagents Ltd and North West Wholesale News Ltd - for a net £8.7m.

The Group has further strengthened its pension fund with a payment of £5.7m, the first instalment of a £10.0m special payment being made in addition to our expected annual employer contribution of approximately £5m.

The Group's net debt at the half year totalled £71.5m, an increase in the period of £38.7m.

Interim Dividend
The Board has declared an interim dividend of 6.1p, 5% up on 2005 reflecting its confidence in the underlying strength of the Group. The dividend will be paid on 30 November to shareholders on the register on 3 November 2006.

Menzies Distribution

£m	H1 2006	H1 2005	Growth
Revenue	560.5	542.6	3%
Underlying operating profit[4]	12.5	14.7	(15)%

Performance
Revenue in the period increased by 3% to £560.5m. This increase reflects acquisitions and contract wins, with like for like[5] sales showing a marginal decline. Newspaper sales were up 0.6%. Magazine sales were down 5.9% due to weak sales of monthly titles and partworks.

The magazine sector includes weekly, monthly and partwork sales. Sales of monthly titles were 9.0% down in the period, and partworks sales declined by 35.3%. Sales of weekly titles were up 2.2% in the period.

While newspaper volumes have continued to decline slowly, the overall sales increase of 0.6% reflects cover price increases in weekend and regional titles. Stickers have performed well, boosted by the World Cup.

Volumes of product handled continues to rise as publishers seek to ensure maximum availability on retailer shelves. High levels of returns and high fuel costs have led to some cost pressure.

Underlying operating profit was also affected by the anticipated margin pressure from contract renewals. The combined impact of these factors, despite close control of costs, was a 15% fall in underlying operating profit to £12.5m. This profit does not include an exceptional gain of £2.5m from the sale of an investment in an independent wholesaler in exchange for certain magazine distribution rights in the southwest London area.

Office of Fair Trading
The OFT published on 31 May a further draft opinion which sets out a framework for assessing whether newspaper and magazine agreements comply with competition law. In this opinion, the OFT considers that each of the publishers' current contracts in each territory may need to be reviewed. It set a consultation period which ends on 30 September 2006, and intends to publish its final opinion by 31 March 2007.

The OFT also announced a fresh review of the industry's Code of Practice to be concluded by 31 March.

Menzies Distribution, as the second largest wholesaler, is strongly positioned to provide an effective service should the structure of this industry change.

Cost Reduction Programme
In response to the current downturn in magazine sales, our focus on cost control and on productivity remains our priority. Our trials of new magazine packing equipment in Sheffield have been successful and will be extended. We are developing further the hub/spoke structure of our branch network, and have rolled out our centralised magazine copy allocation system, iMag. We have also resited our dedicated magazine-handling York branch.

Menzies Aviation

£m	H1 2006	H1 2005	Growth
Revenue	146.9	126.0	17%
Underlying operating profit[4]	5.1	4.6	11%

Performance
Menzies Aviation is successfully driving revenue and profit growth through a mix of contract wins, geographic expansion and acquisitions.

Revenue increased by 17% to £146.9m and underlying operating profit by 11% to £5.1m.

Americas
In the USA, Aeroground, which was acquired in May, is trading above our expectations. Its integration is proceeding well and this business will make a strong contribution to this region. Our existing ground handling operations have achieved significant profit improvements through cost savings and contract wins. Our major ground handling operation at Alaska Airlines' Seattle hub has completed its first year. Overall, our US operations are now expected to be profitable for the full year.

Since the period end, we have bought two further businesses in the USA - Catamount Cargo Services, a Chicago-based cargo handler and Integrated Airline Services Alliance, a Florida-based ground handling operation. These complement our USA structure further and strengthen our platform for growth in this, the largest market in the world.

Our Mexican stations are also performing better than anticipated thanks to the rapid progress being made in their recovery from last year's hurricane. Peru is benefiting from strong cargo volumes. In line with our strategy we have closed our loss-making Panama and Brazil stations.

Europe
Our European operations have maintained a solid performance. In the UK we have won major new contracts from easyJet and Aer Lingus. We are expanding our Spanish operations rapidly. Our passenger handling contracts at three stations with easyJet have started well. Our consortium bid with Ferrovial has won 6 licences, and these are expected to come on stream by the end of 2006.

Our cargo handling operations have seen some reduction in volume due to contract churn, although these will be broadly offset by gains which will benefit the second half year. Our margins at Heathrow continue to benefit from the cargo shed rationalisation we completed in 2005. Our wholesale freight forwarding business, AMI, has shown good profit growth under new leadership.

Since the period end, we have acquired Malmö Main Air Cargo, a cargo handling operation which establishes our first presence in Sweden.

Asia Pacific
Our Australian operations continue to improve. We acquired Australian Airsupport Pty Ltd at Brisbane in April. This expansion in our network helped us win a significant multi-station cargo and ground handling contract with Thai Airways, which has increased our scale in this region.

We have recently entered the rapidly growing Indian market, where we have secured two important exclusive ten-year joint venture contracts for cargo handling at the new Hyderabad and Bangalore airports being built as part of India's airport renewal and privatisation programme. These are scheduled to commence operations in 2008.

Outlook
Over the summer Menzies Distribution has seen a deterioration in underlying trading relative to our expectations. On a like for like basis, our most profitable categories, partworks and monthly magazines, are trading well behind last year; weekly magazines currently remain ahead. Weekday newspaper sales revenues continue to decline while weekend newspapers trade ahead, in line with established trends.

We believe the changes in the magazine market represent a structural shift driven in part by the increase in digital media choices available to consumers. We are taking a prudent view of future trading and have therefore accelerated our operational strategy to remodel our cost base, improve productivity and enhance our service offering to best meet the challenges from changes in demand going forward. The division remains strongly cash generative.

Menzies Aviation is growing rapidly, and since the end of the period has made a number of acquisitions. These, together with recent contract wins, new station openings and the strength of our existing operations, increase the Board's confidence in the future of this business. We are consequently raising our expectations for the full year for this division.

In the short term, the strong performance from Menzies Aviation is not yet sufficient to offset Menzies Distribution's reduced trading. The Group's underlying performance for the full year is therefore likely to be somewhat behind our expectations. Looking forward, with a focused operational strategy in place, we are positioning the Group to best address the future challenges within Distribution and drive the strong growth opportunities we see for Menzies Aviation.

Patrick Macdonald
Chief Executive

[1] Underlying profit before tax 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, tax, and before special pension contribution, acquisitions, disposals, ordinary dividends 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 each Division's share of pre tax profit from joint ventures and associates, and excludes exceptional items and goodwill.
[5] Like for like sales exclude acquisitions and contracts in new territories, and have also been measured against the comparable weeks of 2005.

GROUP INCOME STATEMENT (unaudited)
for the half year to 1 July 2006

	Notes	**Half year to 1 July 2006 £m**	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Revenue	3	**707.4**	668.6	1,362.1
Net operating costs		**(689.0)**	(653.7)	(1,327.7)
Operating profit		**18.4**	14.9	34.4
Share of post tax results of joint ventures and associates		**1.3**	1.1	3.2
Operating profit after joint ventures and associates	3	**19.7**	16.0	37.6
Analysed as:				
Underlying operating profit		15.8	17.3	40.3
Pension credit	4	5.8	-	-
Gain on exchange of contract rights	4	2.5	-	-
Rationalisation and integration costs	4	(3.0)	-	-
Goodwill	4	(0.9)	(0.9)	(2.1)
Share of tax on joint ventures and associates	5	(0.5)	(0.4)	(0.6)
Operating profit after joint ventures and associates		19.7	16.0	37.6
Interest payable		**(1.6)**	(1.9)	(4.4)
Interest receivable		**0.2**	0.8	2.3
Finance income	12b	**6.8**	5.8	11.5
Finance charges	12b	**(5.6)**	(5.2)	(10.3)
Profit before taxation		**19.5**	15.5	36.7
Taxation	5	**(4.8)**	(3.8)	(8.7)
Profit for the period		**14.7**	11.7	28.0
Attributable to equity shareholders		**14.6**	11.5	27.7
Attributable to minority interests		**0.1**	0.2	0.3
		14.7	11.7	28.0
Earnings per ordinary share	7			
Basic		**25.1p**	20.1p	48.2p
Diluted		**24.9p**	19.8p	47.7p

STATEMENT OF RECOGNISED INCOME AND EXPENSE (unaudited)

	Notes	**Half year to 1 July 2006 £m**	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Profit for the period		**14.7**	11.7	28.0
Actuarial gain/(loss) on defined benefit pensions	12b	**5.5**	(2.4)	(9.6)
Deferred tax associated with defined benefit pensions		**(1.7)**	0.7	2.9
Net exchange adjustments		**(1.9)**	(1.3)	0.1
Net gains/(losses) not recognised in income statement		**1.9**	(3.0)	(6.6)
Total recognised income for the period		**16.6**	8.7	21.4
Attributable to equity shareholders		**16.5**	8.5	21.1
Attributable to minority interests		**0.1**	0.2	0.3
		16.6	8.7	21.4

GROUP BALANCE SHEET (unaudited)
as at 1 July 2006

	Notes	**As at 1 July 2006 £m**	As at 25 June 2005 £m	As at 31 December 2005 £m
Assets				
Non-current assets				
Intangible assets	8	**48.3**	25.7	25.6
Property, plant and equipment		**127.9**	116.8	121.1
Investments	8	**20.6**	20.2	22.8
Derivative financial assets		**0.4**	0.2	0.1
Deferred tax assets		**8.5**	12.0	13.8
		205.7	174.9	183.4
Current assets				
Inventories		**9.1**	9.9	13.0
Trade and other receivables		**110.6**	96.8	97.9
Derivative financial assets		**0.8**	1.2	0.6
Cash and cash equivalents	9	**8.2**	22.2	22.0
		128.7	130.1	133.5
Liabilities				
Current Liabilities				
Borrowings	9	**(47.4)**	(26.4)	(21.3)
Derivative financial liabilities		**(0.2)**	(0.1)	(0.5)
Trade and other payables		**(148.1)**	(140.8)	(145.9)
Current income tax liabilities		**(13.3)**	(14.0)	(14.1)
		(209.0)	(181.3)	(181.8)
Net current liabilities		**(80.3)**	(51.2)	(48.3)
Total assets less current liabilities		**125.4**	123.7	135.1
Non-current liabilities				
Borrowings	9	**(32.7)**	(39.5)	(33.2)
Other		**-**	(0.1)	-
Derivative financial liabilities		**(0.6)**	(0.1)	(0.5)
Provisions		**(8.6)**	(8.9)	(9.3)
Retirement benefit obligations	12	**(14.1)**	(26.2)	(32.6)
		(56.0)	(74.8)	(75.6)
Net assets		**69.4**	48.9	59.5
Shareholders' equity				
Ordinary shares	13	**14.7**	14.5	14.7
Share premium account	13	**11.9**	9.5	10.9
Investment in own shares	13	**(3.5)**	(3.2)	(3.5)
Retained earnings	13	**26.1**	7.2	15.4
Capital redemption reserve	13	**21.6**	21.6	21.6
Currency reserve	13	**(1.8)**	(1.3)	0.1
Total shareholders' equity		**69.0**	48.3	59.2
Minority interest in equity	13	**0.4**	0.6	0.3
Total equity		**69.4**	48.9	59.5

GROUP CASH FLOW STATEMENT (unaudited)
for the half year to 1 July 2006

	Notes	**Half year to 1 July 2006 £m**	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Cash flows from operating activities				
Cash generated from operations	10	**5.9**	19.6	47.5
Interest received		**0.2**	0.8	2.5
Interest paid		**(1.6)**	(1.8)	(4.5)
Tax paid		**(3.1)**	(2.1)	(4.6)
Net cash from operating activities		**1.4**	16.5	40.9
Cash flows from investing activities				
Acquisition of subsidiaries		**(26.0)**	(0.1)	(0.8)
Cash acquired with subsidiaries		**1.0**	-	-
Purchase of property, plant and equipment		**(12.8)**	(10.8)	(22.1)
Intangible asset additions		**(0.3)**	(0.3)	(0.6)
Proceeds from sale of property, plant and equipment		**0.8**	1.0	1.6
Dividends received		**2.2**	2.1	4.0
Net cash used in investing activities		**(35.1)**	(8.1)	(17.9)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**1.0**	1.9	3.5
Proceeds from sale of own shares		**-**	0.1	-
Net borrowing movements		**28.3**	-	(7.9)
Dividends paid to ordinary shareholders		**(8.0)**	(7.5)	(10.9)
Dividends paid to minority interests		**-**	-	(0.2)
Net cash from/(used in) financing activities		**21.3**	(5.5)	(15.5)
(Decrease)/increase in net cash and cash equivalents	9	**(12.4)**	2.9	7.5
Opening net cash and cash equivalents		**18.7**	11.2	11.2
Closing net cash and cash equivalents*	9	**6.3**	14.1	18.7

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

Notes to the Interim Accounts

1. **Introduction**

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

The Group now presents its first 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. Pro forma IFRS statements, including UK GAAP reconciliations, were presented in the Report and Accounts for the year ended 31 December 2005.

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

2. **Basis of preparation**

These interim consolidated financial statements are for the 26 weeks ended 1 July 2006. They were approved by the Board on 4 September 2006 and are unaudited. The Group Accounts for the year to 31 December 2005 prepared in accordance with UK GAAP, which carried an unqualified Auditors' Report, have been filed with the Registrar of Companies.

The Group has not applied IAS 34 "Interim financial reporting", which is not mandatory for UK groups, in the preparation of these interim financial statements. For the reasons outlined above, it is possible that the information presented in this report, and the accounting policies used, may be subject to change before their inclusion in the Group's first complete financial statements prepared in accordance with IFRS.

A summary of the more significant accounting policies is set out below. These have been consistently applied to all periods presented.

Accounting policies

Basis of consolidation
The consolidated accounts incorporate the accounts of the Company and its subsidiaries, joint ventures and associates from the effective date of acquisition or to the date of deemed disposal.

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

The Group has elected to take the following permitted exemptions:

- The acquisition accounting of business combinations completed prior to the transition date has not been restated. The net book value of goodwill as at the transition date has been treated as the deemed cost of goodwill under IFRS.

- The net book value at the transition date of those tangible fixed assets that were revalued prior to the transition date has been treated as deemed cost.

- IFRS requires the tracking of all cumulative foreign exchange adjustments taken to reserves. These amounts are reversed upon any subsequent disposal of the business to which it relates. The cumulative translation differences at the transition date are assumed to be zero.

- The provisions of IFRS 2 "Share based payment" have been applied only to awards made after 7 November 2002.

- IAS 32 "Financial instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and measurement" have been applied prospectively from 1 January 2005.

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

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

Property, plant and equipment

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

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

Inventories

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

Pensions

Under UK GAAP pensions were accounted for under FRS 17 "Retirement benefits", the operating and financing costs of pensions being charged to the profit and loss account in the period in which they arose and were recognised separately. The costs of past service benefit enhancements, settlements and curtailments were also recognised in the period in which they arose. The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, were recognised in the statement of total recognised gains and losses.

Under IAS 19 "Employee benefits", the fair value of assets is required to be based on a fair value basis (typically "bid") whereas under FRS 17 the mid market price was used. As a result the value of defined benefit pension scheme assets has reduced.

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.

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 3 years.

Computer software

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

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. Amortisation periods are business stream dependent and vary from 0 to 10 years. Separate values are not attributed to internally generated customer relationships.

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.

Derivative financial instruments and hedging activities

In accordance with IFRS 1 the Group has adopted IAS 32 "Financial instruments: disclosure and presentation" and IAS 39 "Financial instruments: recognition and measurement" as from 1 January 2005.

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

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

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

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

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

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

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

3. SEGMENTAL ANALYSIS

Primary business segments

(a) Interim 2006

	Distribution £m	Aviation £m	Corporate £m	**Group £m**
Revenue	560.5	146.9	-	**707.4**
Operating profit/(loss)	16.8	2.9	(1.3)	**18.4**
Share of post tax results of joint ventures	-	0.5	-	**0.5**
Share of post tax results of associates	-	0.8	-	**0.8**
Operating profit/(loss) after joint ventures and associates	16.8	4.2	(1.3)	**19.7**

Analysed as:				
Underlying operating profit/(loss)*	12.5	5.1	(1.8)	**15.8**
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)	(0.8)	-	**(3.0)**
Joint venture and associate taxation	-	(0.5)	-	**(0.5)**
Goodwill	-	(0.9)	-	**(0.9)**
Operating profit/(loss) after joint ventures and associates	16.8	4.2	(1.3)	**19.7**

(b) Interim 2005	Distribution £m	Aviation £m	Corporate £m	Group £m
Revenue	542.6	126.0	-	668.6
Operating profit/(loss)	14.6	2.3	(2.0)	14.9
Share of post tax results of joint ventures	-	0.2	-	0.2
Share of post tax results of associates	0.1	0.8	-	0.9
Operating profit/(loss) after joint ventures and associates	14.7	3.3	(2.0)	16.0

Analysed as:				
Underlying operating profit/(loss)*	14.7	4.6	(2.0)	17.3
Joint venture and associate taxation	-	(0.4)	-	(0.4)
Goodwill	-	(0.9)	-	(0.9)
Operating profit/(loss) after joint ventures and associates	14.7	3.3	(2.0)	16.0

(c) Full year 2005	Distribution £m	Aviation £m	Corporate £m	Group £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
Joint venture and associate taxation	-	(0.6)	-	(0.6)
Goodwill	-	(2.1)	-	(2.1)
Operating profit/(loss) after joint ventures and associates	30.7	10.6	(3.7)	37.6

* Underlying operating profit is defined as operating profit excluding goodwill and exceptional items but including the pre tax share of results from joint ventures and associates.

3. SEGMENTAL ANALYSIS (continued)

(a) Interim 2006	Distribution £m	Aviation £m	Corporate £m	**Group £m**
Segment assets	145.7	169.9	2.1	**317.7**
Unallocated assets				**16.7**
Total assets				**334.4**
Segment liabilities	(99.2)	(44.0)	(12.5)	**(155.7)**
Unallocated liabilities				**(109.3)**
Total liabilities				**(265.0)**
Segment net assets/(liabilities)	46.5	125.9	(10.4)	**162.0**
Unallocated net liabilities				**(92.6)**
Net assets				**69.4**

(b) Interim 2005	Distribution £m	Aviation £m	Corporate £m	Group £m
Segment assets	122.1	145.6	3.1	270.8
Unallocated assets				34.2
Total assets				305.0
Segment liabilities	(96.4)	(37.7)	(14.5)	(148.6)
Unallocated liabilities				(107.5)
Total liabilities				(256.1)
Segment net assets/(liabilities)	25.7	107.9	(11.4)	122.2
Unallocated net liabilities				(73.3)
Net assets				48.9

(c) Full year 2005	Distribution £m	Aviation £m	Corporate £m	Group £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

3. SEGMENTAL ANALYSIS (continued)

Secondary geographic segments	Turnover			Segment assets		
	Interim 2006 £m	Interim 2005 £m	Full year 2005 £m	**Interim 2006 £m**	Interim 2005 £m	Full year 2005 £m
United Kingdom	**622.6**	600.3	1,213.7	**203.9**	185.9	187.4
Continental Europe	**33.9**	31.3	68.6	**36.8**	30.2	32.0
Americas	**32.2**	22.2	47.6	**41.6**	22.9	26.5
Rest of the World	**18.7**	14.8	32.2	**35.4**	31.8	35.2
	707.4	668.6	1,362.1	**317.7**	270.8	281.1

4. EXCEPTIONAL ITEMS

Pension credit
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
During the period 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 southwest 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
Costs of rationalising excess capacity, comprising asset write downs and staff costs and the cost of integrating new businesses.

Goodwill
As permitted under the transitional requirement of IFRS 1, the acquisition accounting of business combinations completed prior to the transition date has not been restated. As a result, assets which were previously capitalised as goodwill have not been reclassified as intangible assets. Accordingly, these financial statements include a recurring goodwill charge of £0.9m for the half year to June 2006 (June 2005: £0.9m, December 2005: £1.8m) reflecting the unexpired life of the current license at MASC-Ogden Aviation Services (Macau) Limited. A further charge of £0.3m in the full year to December 2005 relates to an IFRS adjustment under IAS 12 for tax loss utilisation in the Netherlands.

5. TAXATION

The share of results from joint ventures and associates is after taxation of £0.5m (2005: £0.4m). The overall effective rate is 24.6% (2005: 24.5%).

6. DIVIDENDS

		Half year to 1 July 2006 £m	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Dividends on equity shares:				
Ordinary	- Interim paid, 5.8p per share	**-**	-	3.4
	- Final paid, 13.7p (2005: 13.0p) per share	**8.0**	7.5	7.5
		8.0	7.5	10.9

In addition, the directors are proposing an interim dividend in respect of the half year to 1 July 2006 of 6.1p per Ordinary share which will absorb an estimated £3.6m of shareholders' funds. Payment will be made on 30 November 2006 to shareholders on the register at the close of business on 3 November 2006.

On transition to IFRS, dividends on non-equity shares have been reclassified as interest payable.

7. EARNINGS PER SHARE

	Basic			Underlying*		
	Half year to 1 July 2006 £m	Half year to 25 June 2005 £m	Full year to 31 Dec 2005 £m	**Half year to 1 July 2006 £m**	Half year to 25 June 2005 £m	Full year to 31 Dec 2005 £m
Operating profit	**18.4**	14.9	34.4	**18.4**	14.9	34.4
add back: rationalisation and integration costs	**-**	-	-	**3.0**	-	-
goodwill	**-**	-	-	**0.9**	0.9	2.1
share of tax on joint ventures and associates	**-**	-	-	**0.5**	0.4	0.6
less: pension credit	**-**	-	-	**(5.8)**	-	-
gain on exchange of contract rights	**-**	-	-	**(2.5)**	-	-
Finance costs	**(0.2)**	(0.5)	(0.9)	**(0.2)**	(0.5)	(0.9)
Share of post tax results of joint ventures and associates	**1.3**	1.1	3.2	**1.3**	1.1	3.2
Profit before taxation	**19.5**	15.5	36.7	**15.6**	16.8	39.4
Taxation	**(4.8)**	(3.8)	(8.7)	**(3.8)**	(4.2)	(9.3)
Minority interests	**(0.1)**	(0.2)	(0.3)	**(0.1)**	(0.2)	(0.3)
Earnings for the period	**14.6**	11.5	27.7	**11.7**	12.4	29.8
Basic						
Earnings per ordinary share (pence)	**25.1**	20.1	48.2			
Diluted earnings per ordinary share (pence)	**24.9**	19.8	47.7			
Underlying*						
Earnings per ordinary share (pence)				**20.1**	21.6	51.9
Diluted earnings per ordinary share (pence)				**20.0**	21.3	51.3
Number of ordinary shares in issue (millions)						
Weighted average	**58.110**	57.316	57.462			
Diluted weighted average	**58.600**	58.154	58.079			

The weighted average number of fully paid ordinary shares in issue during the period excludes those held by the employee share trusts. The diluted weighted average is calculated by adjusting for those 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 period.

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

8. INTANGIBLE ASSETS

Intangible assets comprise goodwill of £31.4m (2005: £23.3m), contracts of £14.7m (2005: £nil) and capitalised software development costs of £2.2m (2005: £2.4m).

Investments also include goodwill in respect of joint ventures and associates of £12.8m (2005: £13.6m).

9. ANALYSIS OF CHANGES IN NET BORROWINGS

	As at 31 Dec 2005 £m	Half year cash flows £m	Currency translation £m	**As at 1 July 2006 £m**
Cash at bank and in hand	22.0	(13.8)	-	**8.2**
Bank overdrafts	(3.3)	1.4	-	**(1.9)**
Net cash and cash equivalents	18.7	(12.4)	-	**6.3**
Bank loans due within one year	(17.9)	(28.8)	1.3	**(45.4)**
Loan stock due within one year	(0.1)	-	-	**(0.1)**
Preference shares	(1.4)	-	-	**(1.4)**
Finance leases	(0.5)	-	-	**(0.5)**
Debt due after one year	(31.3)	0.5	-	**(30.8)**
Net derivative financial (liabilities)/assets	(0.3)	-	0.7	**0.4**
Net borrowings	(32.8)	(40.7)	2.0	**(71.5)**

10. CASH GENERATED FROM OPERATIONS

	Half year to 1 July 2006 £m	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Operating profit	**18.4**	14.9	34.4
Depreciation	**8.5**	7.8	16.2
Amortisation of intangible assets	**0.5**	0.5	0.9
Share based payments	**0.3**	0.3	0.7
Goodwill written off	**-**	-	0.3
Gain on exchange of contract rights	**(2.5)**	-	-
Gain on sale of property, plant and equipment	**(0.2)**	(0.4)	(0.5)
Pension charge	**2.4**	2.7	5.1
Part service pension credit	**(5.8)**	-	-
Pension contributions in cash	**(8.4)**	(2.7)	(5.4)
Decrease/(increase) in inventories	**3.8**	1.1	(1.9)
Increase in trade and other receivables	**(5.6)**	(3.2)	(3.2)
(Decrease)/increase in trade and other payables and provisions	**(5.5)**	(1.4)	0.9
	5.9	19.6	47.5

11. 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.

12. RETIREMENT BENEFIT OBLIGATIONS

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

	Half year to 1 July 2006 %	Half year to 25 June 2005 %	Full year to 31 December 2005 %
Rate of increase in salaries	**3.65**	3.25	3.50
Rate of increase in pensions (prior to 1 April 2006)	**3.40**	3.20	3.30
Rate of increase in pensions (on/after 1 April 2006)	**2.50**	-	-
Price inflation	**3.15**	2.75	3.00
Discount rate	**5.20**	5.05	4.80

The assets/(liabilities) in the scheme and the expected rates of return as at 1 July 2006 were as follows:

	Value at June 2006 £m	Value at June 2005 £m	Value at December 2005 £m
Total market value of assets	**216.4**	187.7	208.5
Present value of scheme liabilities	**(230.5)**	(213.9)	(241.1)
Deficit in scheme	**(14.1)**	(26.2)	(32.6)
Related deferred tax asset	**4.2**	7.5	9.8
Net pension liabilities	**(9.9)**	(18.7)	(22.8)

(b)

Amounts charged to the income statement	**Half year to 1 July 2006 £m**	Half year to 25 June 2005 £m	Full year to 31 December 2005 £m
Current service cost	**2.4**	2.7	5.1
Past service credit	**(5.8)**	-	-
Total amount (credited)/charged to the income statement	**(3.4)**	2.7	5.1
Amounts included in finance costs	**£m**	£m	£m
Expected return on pension scheme assets	**6.8**	5.8	11.5
Interest on pension liabilities	**(5.6)**	(5.2)	(10.3)
Net financial return	**1.2**	0.6	1.2
Movement in the deficit during the period	**£m**	£m	£m
Deficit in the Fund brought forward	**(32.6)**	(24.4)	(24.4)
Current service cost	**(2.4)**	(2.7)	(5.1)
Past service credit	**5.8**	-	-
Employer contributions	**8.4**	2.7	5.3
Net financial return	**1.2**	0.6	1.2
Actuarial gain/(loss)	**5.5**	(2.4)	(9.6)
Deficit in the Fund carried forward	**(14.1)**	(26.2)	(32.6)

13. STATEMENT OF CHANGES IN EQUITY

	Ordinary shares £m	Share Premium account £m	Investment in own shares £m	Retained earnings £m	Capital redemption reserve £m	Currency reserve £m	Total £m
As at 31 December 2005	14.7	10.9	(3.5)	15.4	21.6	0.1	59.2
Profit for the period	-	-	-	14.6	-	-	14.6
Dividends	-	-	-	(8.0)	-	-	(8.0)
New share capital issued	-	1.0	-	-	-	-	1.0
Share based payments	-	-	-	0.3	-	-	0.3
Actuarial gain (net of deferred tax)	-	-	-	3.8	-	-	3.8
Exchange adjustments	-	-	-	-	-	(1.9)	(1.9)
As at 1 July 2006	**14.7**	**11.9**	**(3.5)**	**26.1**	**21.6**	**(1.8)**	**69.0**
As at 25 December 2004	14.4	7.7	(3.3)	4.6	21.6	-	45.0
Profit for the period	-	-	-	11.5	-	-	11.5
Dividends	-	-	-	(7.5)	-	-	(7.5)
New share capital issued	0.1	1.8	-	-	-	-	1.9
Investment in own shares	-	-	0.1	-	-	-	0.1
Share based payments	-	-	-	0.3	-	-	0.3
Actuarial loss (net of deferred tax)	-	-	-	(1.7)	-	-	(1.7)
Exchange adjustments	-	-	-	-	-	(1.3)	(1.3)
As at 25 June 2005	14.5	9.5	(3.2)	7.2	21.6	(1.3)	48.3
As at 25 December 2004	14.4	7.7	(3.3)	4.6	21.6	-	45.0
Profit for the period	-	-	-	27.7	-	-	27.7
Dividends	-	-	-	(10.9)	-	-	(10.9)
New share capital issued	0.3	3.2	-	-	-	-	3.5
Investment in own shares	-	-	(0.2)	-	-	-	(0.2)
Share based payments	-	-	-	0.7	-	-	0.7
Actuarial loss (net of deferred tax)	-	-	-	(6.7)	-	-	(6.7)
Exchange adjustments	-	-	-	-	-	0.1	0.1
As at 31 December 2005	14.7	10.9	(3.5)	15.4	21.6	0.1	59.2

	Minority interest £m
As at 31 December 2005	0.3
Share of profit after tax	0.1
As at 1 July 2006	**0.4**
As at 25 December 2004	0.5
Dividends	(0.1)
Share of profit after tax	0.2
As at 25 June 2005	0.6
As at 25 December 2004	0.5
Share of profit after tax	0.3
Dividends	(0.2)
Movement in the year	(0.3)
As at 31 December 2005	0.3

14. ACQUISITIONS

On 2 May 2006 the Group acquired Aeroground Inc., a provider of air cargo services in the USA and Canada.

	£m
Purchase consideration	
Cash paid	15.1
Acquisition costs	1.2
Total purchase consideration	16.3
Fair value of net assets acquired	8.0
Goodwill	8.3

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

	Book value £m	Fair value adjustments £m	Provisional fair value* £m
Non-current assets			
Intangible assets (contracts)	-	4.1	4.1
Property, plant and equipment	0.9	-	0.9
Current assets	5.6	-	5.6
Current liabilities	(1.8)	-	(1.8)
Non-current liabilities	(0.8)	-	(0.8)
Net assets acquired	3.9	4.1	8.0

Further performance related payments of US$2m may become payable between the date of acquisition and April 2008.

During the period the Group also acquired 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.

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	9.5
Acquisition costs	0.2
Deferred consideration	0.8
Total purchase consideration	10.5
Fair value of net assets acquired	10.5
Goodwill	-

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

	Book value £m	Fair value adjustments £m	Provisional fair value* £m
Non-current assets			
Intangible assets (contracts)	-	8.1	8.1
Property, plant and equipment	3.6	-	3.6
Current assets	3.9	-	3.9
Cash	1.0	-	1.0
Current liabilities	(6.1)	-	(6.1)
Net assets acquired	2.4	8.1	10.5

*These figures remain provisional pending finalisation of the formal completion accounts process.

15. POST BALANCE SHEET EVENTS

Subsequent to the period end the Group acquired the following businesses:

- Malmö Main Air Cargo AB, a provider of cargo handling and trucking services at Malmö-Sturup airport in Sweden.
- Catamount Holdings LLC, a provider of air cargo services at Chicago airport.
- Integrated Airline Services Alliance LLC, a ramp and passenger handling business based in Florida.