

# **NATS Limited**

Financial statements

for the year ended 31 March 2008

Company Number: 3155567

## Report of the directors

The directors present their report and audited accounts for the company for the year ended 31 March 2008.

### Principal activities

The company is a wholly owned subsidiary of NATS Holdings Limited and holds investments in the group's principal operating subsidiaries; NATS (En Route) plc (NERL) and NATS (Services) Limited (NSL). The company acts as employer to all staff within the NATS group and incurs these expenses and others on behalf of subsidiary companies which it recharges through Management Services Agreements (MSA). On 6 April 2006, the company changed its name from National Air Traffic Services Limited to NATS Limited.

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of NATS Limited to NERL and NSL. In addition, the company entered into two MSAs with NERL and NSL on 25 July 2001. These agreements provide for the provision by the company of personnel and central services to NERL and NSL. The cost of central services is recharged on the basis of a fair allocation of costs taking into account the most important drivers for the services provided. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the

employment of the personnel together with appropriate staff related costs and expenses and disbursements.

### Business review and results

The results for the year ended 31 March 2008 are shown in the income statement on page 7 and reflect the results of the company under the MSAs explained above. The company reported an operating profit of £nil (2007: £nil). The company recognised a £107.6m dividend from NERL (2007: £nil), a £12.1m dividend from NSL (2007: £nil), incurred interest charges of £8.0m (2007: £8.7m) and received interest of £1.1m (2007: £0.8m).

The company repaid its shareholder loan notes in March 2008, together with accrued interest. This was funded by the dividend received from NERL.

The directors consider that the year-end financial position was satisfactory and that the company is well placed to develop its activities in the foreseeable future.

A full description of the NATS group's principal activities and business review is contained in the accounts of NATS Holdings Limited.

**Dividends**

An interim dividend of £2.4m was paid in the year (2007: £nil) and the Board recommends no final dividend is paid (2007: £nil).

**Charitable donations**

The company made aggregate donations of £6,600 (2007: £3,300).

**Employees**

The company continues its commitment to the involvement of employees in the decision making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company work groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as unit and corporate performance and business plans. The Chief Executive Officer maintains high visibility with staff through an annual 'roadshow' to each NATS location, where he briefs them on current business issues and takes questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS); the recognised unions on all matters affecting employees. This is further enhanced through the 'Working Together' programme aimed at working towards partnership principles as the basis for our relationship. Formal

arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trade Unions.

It is the company's policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

The company is an equal opportunities employer. Its policy is designed to ensure that no applicant or employee receives less favourable treatment than any other on the grounds of sex, disability, marital status, colour, race, ethnic origin, religious belief or sexual orientation, nor is disadvantaged by conditions or requirements applied to any post which cannot be shown to be fair and reasonable under relevant employment law or codes of practice.

The company is also committed to improving employment opportunities for disabled people. The group will continue to promote policies and practices which provide suitable training and retraining and development opportunities for disabled staff, including any individuals who become disabled, bearing in mind their particular aptitudes and abilities and the need to maintain a safe working environment.

The company strives to maintain the health and safety of employees through an appropriate culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained; responsibility for ensuring compliance with both legal requirements and company policy rests with the HR Director.

### **Policy and practice on payment of creditors**

It is the company's policy to pay suppliers within the payment terms of the contract, which is normally 30 to 60 days, based upon the timely receipt of an accurate invoice.

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 1985 is 18 days (2007: 25 days).

### **Directors and their interests**

The directors of the company who served during the year and to the date of this report are set out below:

John Devaney

Paul Barron

Nigel Fotherby

Derek Stevens

Barry Humphreys

Ian Hall

Lawrence Hoskins

Ian Mills (appointed 28 February 2008)

None of the directors had any interests in the share capital of the company. The following directors held interests in

ordinary shares of the company's parent undertaking NATS Holdings Limited: Paul Barron – 634; Nigel Fotherby - 1,777 and Ian Hall - 1,777.

None of the directors has, or has had, a material interest in any contract of significance in relation to the company's business.

### **Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the accounts. The Directors have prepared the accounts for the company in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- ◆ properly select and apply accounting policies;
- ◆ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ◆ provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- ◆ prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which comply with the requirements of the Companies Act 1985.

Each of the Directors at the date of approval of this report confirms that so

far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

#### **Auditors**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board



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Andrew Picton  
Secretary  
26 June 2008

Registered office

5<sup>th</sup> Floor, Brettenham House South,  
Lancaster Place, London WC2E 7EN

Registered in England and Wales

Company Number: 3155567

### Independent auditors' report to the members of NATS Limited

We have audited the financial statements of NATS Limited for the year ended 31 March 2008 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### ***Respective responsibilities of directors and auditors***

The directors' responsibilities for preparing the annual 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 in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

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 read other information contained in the directors' report and the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

#### ***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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

## Independent auditors' report

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### **Opinion**

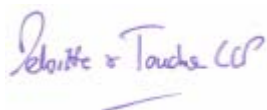
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

### **Separate opinion in relation to IFRS**

As explained in note 2 to the financial statements, the company in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended.



### **Deloitte & Touche LLP**

*Chartered Accountants and Registered Auditors  
Southampton, United Kingdom  
26 June 2008*

**Income statement**

for the year ended 31 March 2008

	Notes	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Revenue	4	393.1	356.3
Staff costs	8	(374.4)	(335.8)
Services and materials		(2.3)	(1.2)
Repairs and maintenance		(0.1)	(0.1)
Depreciation, amortisation and impairment	7	-	(0.1)
Loss on disposal of non-current assets		-	(0.6)
Other operating charges		(16.3)	(18.5)
<b>Net operating costs</b>		<b>(393.1)</b>	<b>(356.3)</b>
<b>Operating profit</b>	7	<b>-</b>	<b>-</b>
Investment revenue	9	120.8	0.8
Finance costs	10	(8.0)	(8.7)
<b>Profit/(Loss) before tax</b>		<b>112.8</b>	<b>(7.9)</b>
Tax	11	-	(0.2)
<b>Profit/(Loss) for the year attributable to equity shareholders</b>		<b>112.8</b>	<b>(8.1)</b>

All revenue and profit from operations have been derived from continuing operations.

**Statement of recognised income and expense**

for the year ended 31 March 2008

		Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Actuarial gain on defined benefit pension scheme net of tax	18, 24b	6.6	1.5
<b>Net income recognised directly in equity</b>		<b>6.6</b>	<b>1.5</b>
Profit/(Loss) for the year	20	112.8	(8.1)
<b>Total recognised income and expense for the year</b>		<b>119.4</b>	<b>(6.6)</b>



**Balance sheet**  
 at 31 March 2008

	Notes	2008 £m	2007 £m
<b>Non-current assets</b>			
Property, plant and equipment	13	-	-
Investments	26	244.6	244.6
Retirement benefit asset	24	19.3	11.2
Trade and other receivables	14	0.4	0.3
		<u>264.3</u>	<u>256.1</u>
<b>Current assets</b>			
Trade and other receivables	14	39.0	28.0
Cash and cash equivalents	16	19.5	18.2
		<u>58.5</u>	<u>46.2</u>
<b>Total assets</b>		<u>322.8</u>	<u>302.3</u>
<b>Current liabilities</b>			
Trade and other payables	17	(39.7)	(36.0)
<b>Net current assets</b>		<u>18.8</u>	<u>10.2</u>
<b>Non-current liabilities</b>			
Borrowings	15	-	(102.3)
Deferred tax liability	18	(5.3)	(3.2)
		<u>(5.3)</u>	<u>(105.5)</u>
<b>Total liabilities</b>		<u>(45.0)</u>	<u>(141.5)</u>
<b>Net assets</b>		<u>277.8</u>	<u>160.8</u>
<b>Equity</b>			
Called up share capital	19	141.0	141.0
Other reserves	20	(50.0)	(50.0)
Retained earnings	20	186.8	69.8
<b>Total equity</b>		<u>277.8</u>	<u>160.8</u>

The financial statements were approved by the Board of directors on 26 June 2008 and signed on its behalf by

Chairman



John Devaney

Finance Director



Nigel Fotherby

**Cash flow statement**

for the year ended 31 March 2008

	Notes	Year ended 31 March 2008	Year ended 31 March 2007
		£m	£m
<b>Net cash flow from operating activities</b>	21	<u>0.1</u>	<u>3.8</u>
<b>Cash flows from investing activities</b>			
Interest received		1.0	0.8
Contributions to property, plant and equipment		0.2	1.7
Sales of property, plant and equipment		-	1.0
Dividends received		119.7	-
		<u>120.9</u>	<u>3.5</u>
<b>Net cash inflow from investing activities</b>		<u>120.9</u>	<u>3.5</u>
<b>Cash flows from financing activities</b>			
Interest paid		(15.0)	(8.9)
Unsecured loan notes repaid		(53.6)	(0.4)
Secured loan notes repaid		(48.7)	(1.3)
Dividends paid		(2.4)	(2.5)
		<u>(119.7)</u>	<u>(13.1)</u>
<b>Net cash outflow from financing activities</b>		<u>(119.7)</u>	<u>(13.1)</u>
<b>Increase/(decrease) in cash and cash equivalents during the year</b>		1.3	(5.8)
Cash and cash equivalents at 1 April		<u>18.2</u>	<u>24.0</u>
<b>Cash and cash equivalents at 31 March</b>		<u>19.5</u>	<u>18.2</u>
<b>Cash/(net debt - representing borrowings net of cash)</b>		<u>19.5</u>	<u>(84.1)</u>

## 1 General information

NATS Limited is a private company limited by shares, incorporated under the Companies Act 1985 and domiciled in the United Kingdom. The address of the registered office is on page 4. The nature of the company's operations and its principal activities are set out in the Report of the Directors.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

## 2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### *Basis of preparation*

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

In the current year, the company has adopted IFRS 7 Financial Instruments: Disclosures, and the related changes to IAS 1 Presentation of financial statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital (See note 16).

Five interpretations issued by the International Financial Reporting Interpretations Committee become effective for this period. These are: IFRIC 7: Applying the Restatement approach under IAS 29, Financial reporting in Hyperinflationary Economies; IFRIC 8: Scope of IFRS 2; IFRIC 9: Reassessment of Embedded Derivatives; IFRIC 10:

Interim Financial Reporting and Impairment and IFRIC 11: Group and treasury Share Transaction. The adoption of these Interpretations has not led to any changes in the company's accounting policies.

In addition, the company has elected to adopt IFRS 8: Operating Segments in advance of the effective date. The impact of adoption of IFRS 8 has been an additional disclosure provided in note 5. There have been no further changes to the basis of reporting as the company's business segments as reported to management are the same as the primary segments required to be reported under IAS 14 the previous standard. The following Interpretations have also been adopted in advance of their effective date and have had no effect on the accounting policies of the company: IFRIC 12: Service Concession Arrangements and IFRIC 13: Customer Loyalty Programmes.

IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IAS 23 (revised): Borrowing costs, which were in issue but not yet effective, have not been applied in these financial statements. The impact of IAS 23 is to remove the option, which the company adopts, that enable borrowing costs on qualifying capital assets to be expensed as incurred. The company does not expect the adoption of this standard to have a material impact on its results. The interpretation and standard are not effective until the year ending 31 March 2010.

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of National Air Traffic Services Ltd (now NATS Limited) to two wholly owned operating subsidiary companies; NATS (En Route) plc (NERL), and NATS (Services) Ltd (NSL).

In addition the company entered into two Management Services Agreements (MSA) with NERL and NSL on 25 July 2001. These agreements provide for the provision by the company of personnel and central services to NERL and NSL. The cost of central services is recharged on the

basis of a fair allocation of costs taking into account the most important drivers for the services provided. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company's parent undertaking - NATS Holdings Limited - draws up the accounts for the group for the year ended 31 March 2008 which are filed with the UK Registrar of companies together with the company's accounts.

The financial information has been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

#### *Operating profit*

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is recognised as follows:

- ◆ Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NATS (En Route) plc's air traffic services licence and airports and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence.
- ◆ Sales of goods are recognised when they are delivered and title has passed.
- ◆ Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the

expected life of the financial asset to that asset's net carrying amount.

- ◆ Dividend income is recognised when the shareholder's rights to receive payment have been established.
- ◆ Turnover is recognised in accordance with the Management Services Agreements.

#### *Leases*

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value. The cost of property, plant and equipment includes internal and contracted labour costs directly attributable to bringing the assets into working condition for their intended use. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of property plant and equipment over their estimated useful lives as follows:

- ◆ Systems: 8-15 years.
- ◆ Plant and other equipment: 3-10 years.
- ◆ Furniture, fixtures and fittings: 10 years.
- ◆ Vehicles: 5 years.

Assets in the course of construction and installation are not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

#### *Deferred grants and other contributions to tangible fixed assets*

Government grants as contributions to non-current assets are treated as deferred income which is

credited to the income statement by equal annual instalments over the expected useful economic lives of the related assets.

Grants of a revenue nature are credited to income in the period to which they relate.

*Internally-generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development activities is recognised only if all of the following conditions are met:

- ◆ an asset is created that can be identified (such as software and new processes);
- ◆ it is probable that the asset created will generate future economic benefits; and
- ◆ the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 12 years. Assets in the course of construction are not amortised. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

*Impairment of tangible and intangible assets*

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets, including those in the course of construction, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of net realisable value less costs to sell and the value in use. In

assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax nominal regulated rate of return.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss on an intangible or tangible asset subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

*Share based payments*

The company has applied the requirements of IFRS 2 *Share-based payments*.

In 2001, the company established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by The Airline Group for £nil consideration and NESL was gifted cash of £279,264 to acquire additional shares to maintain the Plan's interest at 5% of the share capital of NATS Holdings Limited. The Plan is administered by NESL, a trustee company. The employee ordinary shares may only be owned by employee shareholders and can only be sold to the trust company.

The cost of performance related awards to employees that take the form of rights to acquire or receive shares is recognised over the period of the employees' related performance. Where there

are no performance criteria, the cost is recognised over the period from gift or grant to when the employee becomes unconditionally entitled to the shares. In respect of the award schemes and certain share option grants, the company provides finance to NESL to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The costs of running the employee share trust are charged to the income statement.

#### *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the

period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax in the income statement tax is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### *Foreign currency translation*

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period.

#### *Retirement benefit costs*

The company has entered into a deed of Pension Fund adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme whereby the company was admitted to participate in the Civil Aviation Authority Pension Scheme from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS has become a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the Pension Scheme. The Pension Scheme has been divided into two sections to accommodate this and a series of common investment funds established in which both sections participate for investment purposes.

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Pension costs are assessed in accordance with the advice of a qualified actuary using the Projected Unit Credit Method. Actuarial

valuations are carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents that proportion, not relating to staff seconded to NERL and NSL, of the fair value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

#### *Financial instruments*

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

#### *Financial Assets*

Financial assets, other than hedging instruments, can be divided into the following categories;

- Loans and receivables
- Financial assets at fair value through the profit and loss
- Available for sale financial assets
- Held to maturity investments

Financial assets are assigned to different categories on initial recognition. The classification depends upon the nature and purpose of the financial asset. A financial instrument's category is relevant to the way it is measured and whether the resulting income is recognised through the income statement or directly in equity. Subsequent to initial recognition financial assets are measured at

either fair value or at amortised cost according to the category in which they are classified.

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value plus transaction costs.

#### *Loans and receivables*

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Receivables are measured at amortised cost using the effective interest method, less any impairment.

#### *Impairment of financial assets*

Financial assets are rigorously assessed for indicators of impairment at half year and year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Impairment losses on trade receivables are recognised using allowance accounts. When a trade receivable is considered irrecoverable, it is written off against the allowance account, any subsequent recoveries are credited to the allowance account. Changes in the allowance account are recognised in the income statement.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities are either financial liabilities at "fair value through the profit and loss" or "other financial liabilities".

*Fair value through the profit and loss*

Financial liabilities at fair value through the profit and loss are measured initially at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

*Other Financial assets: including bank, other borrowings, loan notes and debt securities*

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

*Equity instruments*

Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**3. Critical judgements and key sources of estimation uncertainty.***Retirement benefits*

The company accounts for its defined benefit pension scheme such that the net pension scheme asset is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of recognised

income and expense. The pension asset assumes economic benefit will arise, at least to the extent shown, from contributions to the pension scheme at a rate below the future cost of pension benefits.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet asset and the company's reserves and income statement. Refer to note 24

of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.



**4. Revenue**

An analysis of the company's revenue is provided as follows:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Services provided to NATS (En Route) plc	298.0	273.7
Services provided to NATS (Services) Limited	95.1	82.6
	<u>393.1</u>	<u>356.3</u>

All revenue is derived from continuing operations. Note 5 summarises the source of revenues by business and geographical segment. Other revenue is described on the face of the income statement and included in note 9.

**5. Business and geographical segments****Business segments**

For management reporting purposes, the company is currently organised into one business area.

**Principal activities are as follows:**

The company acts as employer of all staff within the group. The company second staff to the two principal operating companies within the group (NERL and NSL). It also provides central services to these two companies. The provision of these services is governed by Management Services Agreements (MSA) between the two operating companies and NATS Limited. In accordance with the MSA, NERL and NSL pay fees to NATS Limited for the provision of the company's services.

Segment information about the provision of these services is presented below.

	Year ended 31 March 2008 Total £m	Year ended 31 March 2007 Total £m
<b>Revenue</b>		
Revenue from internal customers	<u>393.1</u>	<u>356.3</u>
<b>Segmental operating profit</b>		
Investment revenue	120.8	0.8
Finance costs	<u>(8.0)</u>	<u>(8.7)</u>
<b>Profit/(Loss) before tax</b>	112.8	(7.9)
Tax	-	<u>(0.2)</u>
<b>Profit/(Loss) for the year</b>	<u>112.8</u>	<u>(8.1)</u>
<b>Other information</b>		
Capital expenditure	-	-
Depreciation and amortisation	-	0.1
<b>Balance Sheet</b>		
Segmental assets	<u>322.8</u>	<u>302.3</u>
Segmental liabilities	<u>(45.0)</u>	<u>(141.5)</u>

**Geographical segments**

The company's two customers (NERL and NSL) are both located in the UK and all capital expenditure and company assets are also all located within the UK.

All revenue is derived from the company's two customers (NERL and NSL).

**6. Restructuring costs**

These costs are included in arriving at operating profit (see note 8a).

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Voluntary redundancy costs	0.2	0.4
Payment for changes in redundancy terms	0.2	-
Included in amounts receivable from other group companies (revenue)	<u>(0.4)</u>	<u>(0.4)</u>
	<u>-</u>	<u>-</u>

**7. Operating profit for the year**

Operating profit for the year has been arrived at after charging:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Depreciation of property, plant and equipment	-	0.1
Auditors remuneration for audit services (see below)	<u>-</u>	<u>-</u>

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**8 Staff costs**

The company is responsible for employing the staff engaged in the activities carried out by both NERL and NSL. Under the terms of the respective Management Services Agreements (MSA) dated 25 July 2001 the services of certain employees are seconded to NERL and NSL by the company. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the seconded employees (including all taxes and social security and pension costs) together with appropriate staff related costs and expenses and disbursements. The total staff costs incurred by the company were:

**a Staff costs**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	324.5	290.1
Social security costs	29.9	29.0
Pension costs (note 8b)	54.8	53.5
	<u>409.2</u>	<u>372.6</u>
Less: amounts capitalised	(34.8)	(36.8)
	<u>374.4</u>	<u>335.8</u>

\* Includes redundancy costs (note 6), share based payment charges, other allowances and holiday pay.

The staff costs for the company net of the staff costs for those staff seconded to NERL and NSL under the respective MSAs were as follows:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	14.6	12.6
Social security costs	1.3	1.4
Pension costs (note 8b)	2.3	2.0
	<u>18.2</u>	<u>16.0</u>

\* Includes redundancy costs, share based payment charges, other allowances and holiday pay.

**b Pension costs**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Pension scheme costs for year (note 24(a))	54.8	53.5

The pension costs for the company net of the pension costs for those staff seconded to NERL and NSL under the respective MSAs were as follows:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Pension scheme costs for year (note 24(b))	2.3	2.0

**c Staff numbers**

	Year ended 31 March 2008 No.	Year ended 31 March 2007 No.
The monthly average number of employees (including secondments to NERL and NSL under MSA) was:		
Air traffic controllers	2,024	1,978
Air traffic service assistants	1,056	1,095
Engineers	1,159	1,182
Others	919	902
	<u>5,158</u>	<u>5,157</u>

The monthly average number of employees excluding secondments to NERL and NSL was:

	No.	No.
Air traffic controllers	6	1
Air traffic service assistants	2	1
Engineers	6	5
Others	220	201
	<u>234</u>	<u>208</u>

**9 Investment revenue**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest on bank deposits	1.1	0.8
Income from shares in group undertakings	119.7	-
	<u>120.8</u>	<u>0.8</u>

**10 Finance costs**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest payable on other loans and similar charges	8.0	8.7

**11 Tax**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Current tax	-	-
Deferred tax (note 18)	-	(0.2)
	-	(0.2)

Corporation tax is calculated at 30% (2007: 30%) of the estimated assessable profit for the year.

The tax credit for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 March 2008 £m	%	Year ended 31 March 2007 £m	%
Profit/(Loss) on ordinary activities before tax	112.8		(7.9)	
Tax on profit/(loss) on ordinary activities at standard rate in the UK of 30%	(33.8)	(30%)	2.4	(30%)
Tax effect of dividend income not assessed in determining taxable profit	35.9	32%	-	0%
Tax effect of group relief surrendered for nil consideration	(2.1)	(2%)	(2.2)	28%
Tax effect of prior year adjustments	-	0%	(0.4)	5%
Tax effect of corporation tax rate change from 30% to 28%	(0.1)	(0%)	-	
Other permanent differences	0.1	0%	-	0%
Tax credit/(charge) for year at an effective tax rate of 0.0% (2007: 2.9%)	-	0%	(0.2)	(3%)
Deferred tax charge taken directly to equity (see note 18)	(2.1)		(0.7)	

**12. Dividends**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year of 1.67 pence per ordinary share (2007: nil).	2.4	-

**13. Property, plant and equipment**

	Air traffic control systems, plant and equipment £m	Vehicles, furniture & fittings £m	Assets in course of construction and installation £m	Total £m
<b>Cost</b>				
At 1 April 2006	1.1	0.5	0.1	1.7
Disposals and transfers during the year	(0.1)	(0.5)	(0.1)	(0.7)
At 1 April 2007	1.0	-	-	1.0
Disposals and transfers during the year	-	-	-	-
<b>At 31 March 2008</b>	1.0	-	-	1.0
<b>Accumulated depreciation and impairment</b>				
At 1 April 2006	1.1	0.5	-	1.6
Provided during the year	0.1	-	-	0.1
Disposals and transfers during the year	(0.2)	(0.5)	-	(0.7)
At 1 April 2007	1.0	-	-	1.0
Provided during the year	-	-	-	-
Disposals and transfers during the year	-	-	-	-
<b>At 31 March 2008</b>	1.0	-	-	1.0
<b>Carrying amount</b>				
At 31 March 2008	-	-	-	-
At 31 March 2007	-	-	-	-

**14 Financial and other assets**

The company had balances in respect of financial and other assets as follows:

**Trade and other receivables**

	2008	2007
	£m	£m
<b>Non-current</b>		
Other debtors	0.4	0.3
	<u>0.4</u>	<u>0.3</u>
<b>Current</b>		
Other debtors	0.8	1.2
Intercompany debtors	36.7	24.6
Prepayments	1.4	2.2
Accrued interest	0.1	-
	<u>39.0</u>	<u>28.0</u>

The company does not have any external customers. Its principal customers are fellow subsidiaries. No allowance has been made for irrecoverable amounts on the outstanding balances. The company's subsidiaries have procedures in place to mitigate against market and financial risk and their financial positions are monitored to ensure that amounts due to the company are recoverable. The company supplies management services to other group companies under the Management Services Agreement.

Overall, the maximum credit risk for the items discussed above would be £58.9m (2007: £46.5m).

**Cash and cash equivalents**

Cash and cash equivalents comprise cash held by the company at year end. The directors consider that the carrying amount of the asset approximates to its fair value.

**15. Borrowings**

	2008	2007
	£m	£m
<b>Unsecured loans</b>		
Fixed rate unsecured shareholder loan notes (8.5% interest rate, repayable 2031)	-	53.6
	<u>-</u>	<u>53.6</u>
<b>Secured loans</b>		
Fixed rate secured shareholder loan notes (8.5% interest rate, repayable 2031)	-	48.7
	<u>-</u>	<u>48.7</u>
Gross borrowings	<u>-</u>	<u>102.3</u>

Repayments of the 8.5% fixed rate unsecured and secured shareholder loan notes of £0.1m and £1.0m, respectively, were made in June 2007. The remaining balance of £53.5m of the 8.5% fixed rate unsecured shareholder loan notes together with accrued interest of £3.4m and the remaining balance of £47.7m of the 8.5% fixed rate secured shareholder loan notes together with accrued interest of £3.0m were repaid in March 2008.

**16. Financial instruments****Capital Risk management**

The company manages its capital to ensure that it is able to continue as a going concern.

The capital structure of the company consists of cash and cash equivalents and equity attributable to shareholders as disclosed in notes 19 and 20.

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**Categories of financial instrument**

The carrying values of financial instruments by category at 31 March was as follows:

	2008	2007
	£m	£m
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents and short term investments)	<u>57.4</u>	<u>44.3</u>
<b>Financial liabilities</b>		
Amortised cost	<u>(10.0)</u>	<u>(112.0)</u>

**Financial risk management objectives**

The NATS Group treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets, monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets quarterly to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (cash flow interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2008.

**Market risk**

The company's activities expose it to the financial risk of changes in interest rates on cash deposits. It has no risk as a result of changes in foreign currency exchange rates as it does not generate revenues or make purchases in foreign currencies.

The company is not exposed to interest rate risk on borrowings. The shareholder loan notes, that were repaid in the year, were at fixed rates.

**16. Financial instruments (continued)****Interest rate risk management**

The company held fixed interest rate borrowings at 31 March 2007. The company had no debt at 31 March 2008.

**Economic interest rate exposure**

The company's cash and short term deposits were as follows:

2008				2007			
Currency	Amount	Cash		Currency	Amount	Cash	
		Interest rate	Average maturity			Interest rate	Average maturity
	£m	%	days		£m	%	days
Sterling	<u>19.5</u>	5.4	3	Sterling	<u>18.2</u>	5.3	7

The economic interest rate exposure of the company's loans that existed at 31 March 2007 were as follows:

	Total £m	Variable rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2007					
Sterling:					
8.5% unsecured shareholder loan notes	53.6	-	53.6	8.50%	24
8.5% secured shareholder loan notes	<u>48.7</u>	-	<u>48.7</u>	8.50%	24
Total	<u>102.3</u>	-	<u>102.3</u>		

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates on floating rate assets and liabilities. The analysis is prepared assuming the amount of assets or liabilities at the balance sheet date was in place for the whole year. A 1% increase or decrease is considered to represent management's assessment of the reasonably possible change in interest rates.

The following table shows the effect of a 1% increase in interest rates on the company's cash deposits on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity, there would be an equal and opposite impact on profit and equity if interest rates fall by 1%.

	2008 Impact £m	2007 Impact £m
Cash On Deposit (2008: £19.5m, 2007: £18.2m)	<u>0.2</u>	<u>0.2</u>

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by its fellow subsidiaries and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by fellow subsidiaries and the mitigations against this risk are explained in note 14. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's and Moody's Investors Service.

The NATS Group policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's and Moody's rating agencies. Where there is a difference in the rating then the lower of the two ratings is applied.

Currently, the company's investments take the form of bank time deposits. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's and A3 and A1 respectively from Moody's.

**16. Financial instruments (continued)**

The table below sets out the group's limits that are applied to each institution based on credit rating and the balances held at 31 March with those institutions:

Rating (Standard and Poor's/Moody's)	Limit per Institution £m	
AAA/Aaa	50.0	
AA+/Aa1	40.0	
AA/Aa2	30.0	
AA-/Aa3	20.0	
A+/A1	15.0	
A/A2	10.0	
A-/A3	7.5	

Rating (Standard & Poor's)	Number of institutions	2008		By credit rating %	Number of institutions	2007		By credit rating %
		£m				£m		
AA	1	11.5	59.0%	1	9.1	50.0%		
AA-	-	-	0.0%	-	-	0.0%		
A+	1	8.0	41.0%	-	-	0.0%		
A	-	-	0.0%	1	9.1	50.0%		
		<u>19.5</u>	<u>100.0%</u>		<u>18.2</u>	<u>100.0%</u>		

**Liquidity risk management**

The responsibility for liquidity management rests with the Board with oversight provided by the Treasury Committee. The company manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. The company had no debt at the year end.

**Maturity of financial liabilities**

The following table sets out the remaining contractual maturity of the company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to repay. The table includes both interest and principal cash flows.

	2008				2007			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less or on demand	-	-	10.0	-	4.8	4.3	9.7	18.8
Between one and two years	-	-	-	-	4.9	4.4	-	9.3
Due between two and five years	-	-	-	-	15.1	13.1	-	28.2
Due in more than five years	-	-	-	-	<u>228.9</u>	<u>148.1</u>	-	<u>377.0</u>
	-	-	10.0	-	253.7	169.9	9.7	433.3
Effect of interest and discount	-	-	-	-	<u>(200.1)</u>	<u>(121.2)</u>	-	<u>(321.3)</u>
	-	-	10.0	-	<u>53.6</u>	<u>48.7</u>	<u>9.7</u>	<u>112.0</u>

**Fair values of financial instruments**

The fair value of shareholder loan notes is stated at amortised cost.

The book values of other financial assets and liabilities approximate to their fair value because of their short maturities.

	2008		2007	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	<u>57.4</u>	<u>57.4</u>	<u>44.3</u>	<u>44.3</u>
<b>Financial liabilities</b>				
Fixed rate unsecured shareholder loan notes (8.5% interest rate, repayable 2031)	-	-	(53.6)	(53.6)
Fixed rate secured shareholder loan notes (8.5% interest rate, repayable 2031)	-	-	(48.7)	(48.7)
Amortised cost	<u>(10.0)</u>	<u>(10.0)</u>	<u>(9.7)</u>	<u>(9.7)</u>
	<u>(10.0)</u>	<u>(10.0)</u>	<u>(112.0)</u>	<u>(112.0)</u>

**17 Financial and other liabilities****Trade and other payables**

The company had balances in respect of non-interest bearing financial and other liabilities as follows:

	2008 £m	2007 £m
<b>Current</b>		
Trade payables	0.4	0.6
Other payables	0.2	0.2
Tax and social security	9.4	8.9
Accruals and deferred income	<u>29.7</u>	<u>26.3</u>
	<u>39.7</u>	<u>36.0</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 18 days (2007: 25 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

**18. Deferred tax**

The following are the major deferred tax assets and liabilities recognised by the company, and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation £m	Retirement benefit asset £m	Other £m	Total £m
At 1 April 2006	(0.4)	2.9	(0.2)	2.3
Charge/(credit) to income	0.2	(0.2)	0.2	0.2
Charge to equity	-	0.7	-	0.7
At 31 March 2007	<u>(0.2)</u>	<u>3.4</u>	<u>-</u>	<u>3.2</u>
Charge/(credit) to income	0.1	-	(0.1)	-
Charge to equity	-	2.1	-	2.1
At 31 March 2008	<u>(0.1)</u>	<u>5.5</u>	<u>(0.1)</u>	<u>5.3</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2008 £m	2007 £m
Deferred tax liabilities	(5.5)	(3.4)
Deferred tax assets	<u>0.2</u>	<u>0.2</u>
	<u>(5.3)</u>	<u>(3.2)</u>

**19. Share capital**

	Authorised:		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2007 and 31 March 2008	<u>150,000,100</u>	<u>150.0</u>	<u>141,000,005</u>	<u>141.0</u>

**20. Reserves**

	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2006	(50.0)	76.4	26.4
Movement in statement of recognised income and expense	-	1.5	1.5
Net loss for the year	-	(8.1)	(8.1)
Balance at 31 March 2007	<u>(50.0)</u>	<u>69.8</u>	<u>19.8</u>
Movement in statement of recognised income and expense	-	6.6	6.6
Net profit for the year	-	112.8	112.8
Dividends paid	-	(2.4)	(2.4)
Balance at 31 March 2008	<u>(50.0)</u>	<u>186.8</u>	<u>136.8</u>

Other reserves arose on completion of the PPP transaction in July 2001.

**21. Notes to the cash flow statement**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating profit from continuing operations	-	-
Adjustments for:		
Depreciation of property, plant and equipment	-	0.1
Loss on disposal of property, plant and equipment	-	0.6
Non-cash element of charge for pensions cost	0.5	0.8
	<hr/>	<hr/>
Operating cash flows before movements in working capital	0.5	1.5
Decrease in trade and other receivables	1.1	0.2
(Decrease)/increase in trade and other payables	(1.5)	2.1
	<hr/>	<hr/>
Cash generated from operations	0.1	3.8
Tax paid	-	-
	<hr/>	<hr/>
Net cash flow from operating activities	0.1	3.8
	<hr/> <hr/>	<hr/> <hr/>

Cash and cash equivalents, which are presented as a single class of asset on the face of the balance sheet, comprise cash at bank and short term highly liquid investments with a maturity of three months or less.

**22. Financial commitments**

	2008 £m	2007 £m
Capital commitments contracted but not provided for in the accounts.	-	-
	<hr/>	<hr/>
Minimum lease payments under operating leases recognised in income for the year.	0.5	0.4
	<hr/>	<hr/>
At the balance sheet date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	-	0.1
In the second to fifth years inclusive	0.1	0.2
After five years	1.1	1.2
	<hr/>	<hr/>
	1.2	1.5
	<hr/> <hr/>	<hr/> <hr/>

Operating lease payments represent rentals payable by the company for certain of its properties, equipment and vehicles. Leases are negotiated on varying terms depending on the type of asset leased.



**23. Share based payments**

The company operates an All-Employee Share Ownership Plan for the benefit of employees to hold 5% of the share capital of the company. The plan is administered by NATS Employee Sharetrust Limited. The scheme allows for free shares to be awarded to employees. The shares have a vesting period of 3 years from date of award and may be cash-settled from this date. The shares may be forfeited if the employee leaves within 3 years of the date of award, depending on conditions of departure.

A liability is recognised for the current fair value of shares in issue at each balance sheet date. Changes in fair value of the liability are charged or credited to the income statement. The number of shares outstanding at the balance sheet date was:

Date of share awards	No. shares awarded to employees	No. employee shares outstanding
21 September 2001	3,353,742	1,881,615
20 October 2003	2,459,000	1,974,000
10 September 2004	1,966,000	1,646,800
11 January 2008	1,070,740	1,064,800
		6,567,215
Dividend shares issued on 28 June 2005		214,990
Total employee shares in issue at 31 March 2008		6,782,205

These shares are valued every six months by independent valuers. As at 31 March 2008 the price of an employee share was valued at £2.45 (2007: £1.33). The effect of the movement in share valuation for the year was to charge £6.8m to the income statement (2007: £1.1m). The liability on the balance sheet for the employee shares at 31 March 2008 was £14.2m (2007: £8.2m), disclosed within accruals and deferred income.

**24 Retirement benefit scheme****Background**

The company has entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme whereby the company was admitted to participate in the Civil Aviation Authority Pension Scheme from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS has become a "non associated employer" which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the Pension Scheme. The Pension Scheme has been divided into two sections to accommodate this and a series of common investment funds established in which both sections will participate for investment purposes.

The Civil Aviation Pension Scheme is a fully funded benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Upon transfer of National Air Traffic Services Limited to the Secretary of State, two separate sections of the scheme were established, namely the CAA section and the NATS section. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001.

A Trustee's funding assessment of the NATS section is prepared at least every three years by the pension scheme actuary at the request of the Trustees in order to establish the financial position of the NATS section and to determine the level of contributions to be paid by NATS in future.

For the purpose of accounting for the scheme in these financial statements, the company obtains an updated valuation from a qualified independent actuary that is prepared in accordance with international accounting standards.

The two valuations differ in a number of critical respects, including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustee's funding assessment was prepared as at 31 December 2006, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustee's funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

**Trustee's funding assessment**

The Trustee's funding assessment of the NATS' section was carried out at 31 December 2006 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purpose of the Trustee's funding assessment, it was assumed that the annual investment returns will be 1.9% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and 1.5% higher than the annual increases in pensions.

The market value of the NATS' section's assets as at 31 December 2006 was £2,785.3m. For the purpose of the Trustee's funding assessment assets were taken at market value. The assets were sufficient to cover 112% of the benefits that had accrued to existing members.

**Company's accounting valuation under international accounting standards**

The pension cost under International Accounting Standard 19, Employee benefits, relating to the scheme is assessed in accordance with the advice of independent qualified actuaries.

The company is the employer of all staff in the group. Staff are seconded to NERL and NSL under the respective Management Services Agreements (MSA) with these companies (see note 2 above). Under the MSA, the company is obliged to pay all salaries and other benefits (including pension contributions) for the staff. NERL and NSL pay fees to the company for the services it provides including those of the staff. The pensions cost reported below show the costs for both the total staff employed by the company and for the staff who work directly for the company i.e. excluding staff seconded to NERL and NSL.

On transition to IFRS, NATS elected to adopt a 'clean start' approach which recognised all actuarial gains and losses at 1 April 2004, and NATS has reported under an immediate recognition approach in subsequent periods.

The Trustee's funding assessment carried out at 31 December 2006 was updated to 31 March 2008 for the company's accounting valuation under IAS 19 by an independent actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2008	2007	2006
Inflation	3.60%	3.20%	2.95%
Increase in:			
- salaries	4.80%	4.40%	4.15%
- deferred pensions	3.60%	3.20%	2.95%
- pensions in payment	3.60%	3.20%	2.95%
Expected return on:			
- equities	7.60%	7.50%	7.30%
- property	7.60%	7.50%	7.30%
- bonds	4.95%	4.73%	4.63%
Discount rate for scheme liabilities	6.20%	5.20%	4.95%

The mortality assumptions have been drawn from actuarial tables PMA92 and PFA92 medium cohort (2007: PXA92 short cohort). These tables assume that the life expectancy, from age 60, for a male pensioner is 26.3 years and a female pensioner is 29.2 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 27.0 years and for females to 29.9 years.

**24 Retirement benefit scheme (continued)****(a) The pensions costs of the total staff employed by NATS Limited were:**

Amounts recognised in income, in the staff costs line item, in respect of these defined benefit schemes are as follows:

	2008 £m	2007 £m
Current service cost	(110.3)	(110.8)
Past service cost	(3.9)	(1.6)
Expected return on scheme assets	196.0	182.4
Interest cost on scheme liabilities	(136.6)	(123.5)
Total defined benefit charge recognised in arriving at operating profit	<u>(54.8)</u>	<u>(53.5)</u>

Amounts taken to the statement of recognised income and expense are as follows:

	2008 £m	2007 £m
Actual return less expected return on scheme assets	(175.6)	(5.2)
Experience gains and losses arising on scheme liabilities	100.6	30.7
Changes in assumptions underlying the present value of the scheme liabilities	<u>267.0</u>	<u>27.0</u>
	<u>192.0</u>	<u>52.5</u>

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2008 £m	2007 £m
Fair value of scheme assets	2,846.2	2,833.1
Present value of defined benefit obligations	(2,432.7)	(2,594.5)
Surplus in scheme	<u>413.5</u>	<u>238.6</u>

Movements in the fair value of scheme assets during the year were as follows:

	2008 £m	2007 £m
At 1 April	2,833.1	2,668.6
Expected return on scheme assets	196.0	182.4
Actuarial gains and losses	(175.6)	(5.2)
Contributions from scheme members	15.8	15.3
Contributions from sponsoring companies	37.7	32.6
Benefits paid	(60.8)	(60.6)
At 31 March	<u>2,846.2</u>	<u>2,833.1</u>

Movements in the present value of the defined benefit obligations were as follows:

	2008 £m	2007 £m
At 1 April	(2,594.5)	(2,461.6)
Current service cost	(110.3)	(110.8)
Past service costs	(3.9)	(1.6)
Interest cost	(136.6)	(123.5)
Actuarial gains and losses	367.6	57.7
Contributions from scheme members	(15.8)	(15.3)
Benefits paid	<u>60.8</u>	<u>60.6</u>
At 31 March	<u>(2,432.7)</u>	<u>(2,594.5)</u>

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Fair value of assets		Expected return	
	2008 £m	2007 £m	2008	2007
Equity Instruments	1,716.80	1,799.3	7.60%	7.50%
Property	447.1	449.3	7.60%	7.50%
Bonds	653.4	573.8	4.95%	4.73%
Cash	<u>28.9</u>	<u>10.7</u>	<u>4.95%</u>	<u>4.73%</u>
	<u>2,846.2</u>	<u>2,833.1</u>	<u>6.97%</u>	<u>6.86%</u>

**24 Retirement benefit scheme (continued)**

The four year history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(2,432.7)	(2,594.5)	(2,461.6)	(2,008.8)
Fair value of scheme assets	<u>2,846.2</u>	<u>2,833.1</u>	<u>2,668.6</u>	<u>2,077.80</u>
Surplus in the scheme	<u>413.5</u>	<u>238.6</u>	<u>207.0</u>	<u>69.0</u>
Experience adjustments in scheme liabilities				
Amount (£m)	<u>100.6</u>	<u>30.7</u>	<u>27.8</u>	<u>70.1</u>
Percentage of scheme liabilities	<u>(4.1%)</u>	<u>(1.2%)</u>	<u>(1.1%)</u>	<u>(3.5%)</u>
Experience adjustments in scheme assets				
Amount (£m)	<u>(175.6)</u>	<u>(5.2)</u>	<u>428.1</u>	<u>95.7</u>
Percentage of scheme assets	<u>(6.2%)</u>	<u>(0.2%)</u>	<u>16.0%</u>	<u>4.6%</u>

The estimated amount of contributions including augmentations expected to be paid to the scheme during year ended 31st March 2009 is £64.5m.

**(b) The pensions costs of the staff who work directly for NATS Limited were:**

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2008 £m	2007 £m
Current service cost	(4.8)	(4.5)
Past service cost	(0.3)	(0.3)
Expected return on scheme assets	9.2	8.6
Interest cost on scheme liabilities	<u>(6.4)</u>	<u>(5.8)</u>
Total defined benefit charge recognised in arriving at operating profit	<u>(2.3)</u>	<u>(2.0)</u>

Amounts taken to the statement of recognised income and expense are as follows:

	2008 £m	2007 £m
Actual return less expected return on scheme assets	(8.1)	0.6
Experience gains and losses arising on scheme liabilities	5.9	1.3
Changes in assumptions underlying the present value of the scheme liabilities	<u>10.9</u>	<u>0.3</u>
	<u>8.7</u>	<u>2.2</u>

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2008 £m	2007 £m
Fair value of scheme assets	132.8	133.1
Present value of defined benefit obligations	<u>(113.5)</u>	<u>(121.9)</u>
Surplus in scheme	<u>19.3</u>	<u>11.2</u>

**24 Retirement benefit scheme (continued)**

Movements in the fair value of scheme assets during the year were as follows:

	2008 £m	2007 £m
At 1 April	133.1	126.2
Expected return on scheme assets	9.2	8.6
Actuarial gains and losses	(8.1)	0.6
Contributions from scheme members	0.6	0.6
Contributions from company	1.7	1.2
Benefits paid	<u>(3.7)</u>	<u>(4.1)</u>
At 31 March	<u>132.8</u>	<u>133.1</u>

Movements in the present value of the defined benefit obligations were as follows:

	2008 £m	2007 £m
At 1 April	(121.9)	(116.4)
Current service cost	(4.8)	(4.5)
Past service costs	(0.3)	(0.3)
Interest cost	(6.4)	(5.8)
Actuarial gains and losses	16.8	1.6
Contributions from scheme members	(0.6)	(0.6)
Benefits paid	<u>3.7</u>	<u>4.1</u>
At 31 March	<u>(113.5)</u>	<u>(121.9)</u>

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Fair value of assets		Expected return	
	2008 £m	2007 £m	2008	2007
Equity Instruments	80.1	84.5	7.60%	7.50%
Property	20.9	21.2	7.60%	7.50%
Bonds	30.5	27.0	4.95%	4.73%
Cash	<u>1.3</u>	<u>0.4</u>	<u>4.95%</u>	<u>4.73%</u>
	<u>132.8</u>	<u>133.1</u>	<u>6.97%</u>	<u>6.86%</u>

The four year history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(113.5)	(121.9)	(116.4)	(91.5)
Fair value of scheme assets	<u>132.8</u>	<u>133.1</u>	<u>126.2</u>	<u>98.3</u>
Surplus in the scheme	<u>19.3</u>	<u>11.2</u>	<u>9.8</u>	<u>6.8</u>
Experience adjustments in scheme liabilities				
Amount (£m)	<u>5.9</u>	<u>1.3</u>	<u>(4.4)</u>	<u>1.1</u>
Percentage of scheme liabilities	<u>(5.2%)</u>	<u>(1.1%)</u>	<u>3.8%</u>	<u>(1.2%)</u>
Experience adjustments in scheme assets				
Amount (£m)	<u>(8.1)</u>	<u>0.6</u>	<u>22.2</u>	<u>6.1</u>
Percentage of scheme assets	<u>(6.1%)</u>	<u>0.5%</u>	<u>17.6%</u>	<u>6.20%</u>

**25 Related party transactions**

Since 26 July 2001, the NATS group has had two major shareholders - the Crown and The Airline Group (AG). During the year transactions with the Crown have taken place with the Meteorological office, the Department for Transport (DfT) and the Ministry of Defence (MoD).

The Airline Group is a consortium of seven airlines: British Airways, British Midland, EasyJet, Monarch, My Travel, Thomsonfly and Virgin Atlantic. The Airline Group has a 42% stake in NATS Holdings Limited which it purchased through the PPP transaction in July 2001. The directors of NATS Holdings Limited are satisfied that the seven members of the AG have not exercised undue influence on the group either acting individually or in concert and therefore the individual transactions with each member of The Airline Group have not been disclosed in this set of accounts.

On 26 July 2001, NATS issued £50m of fixed rate unsecured loan notes, £15m to AG and £35m to HMG. On 19 March 2003, NATS issued £27.5m secured priority loan notes to each of BAA plc and the Crown. These loans, which were repaid during the year are described more fully in note 15.

**Remuneration of key management personnel**

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, Related party disclosures. Key management includes the board of directors of the company and the group's principal subsidiaries.

	2008 £m	2007 £m
Short-term employee benefits	4.4	3.5
Post-employment benefits	0.5	0.5
Termination benefits	0.1	-
	<u>5.0</u>	<u>4.0</u>

In addition to the above directly employed personnel, the company's key management also includes personnel employed as consultants who receive fees for their services. The aggregate amount of these fees was £nil (2007: £0.1m).

**Directors' transactions**

Paul Barron has disclosed a related party transaction in that his wife Dawn Barron of Human Alchemy had been engaged by the business during the financial year 2007/08 at a cost of £76,422 (2007: £29,844). This work was at the request of Philip James, HR Director and Ian Mills, Programmes Director who have utilised her skills and understanding in specific leadership tools and techniques being introduced across the company.

**26. Subsidiaries**

Name of Company	Principal activity	Proportion of ordinary shares held and voting rights	Country of Registration	Country of operation	
NATS (En Route) plc	En-route air traffic services	100%	England and Wales	United Kingdom	
NATS (Services) Limited	Airport air traffic services	100%	England and Wales	United Kingdom	
NATSNV Limited	Satellite based navigation	100%	England and Wales	United Kingdom	
					Total £m
Balance of investments at 1 April 2007 and 31 March 2008:					<u>244.6</u>

**27. Parent undertaking**

The company's ultimate parent undertaking and controlling party is NATS Holdings Limited a private company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that of which NATS Holdings Limited is the parent company. The consolidated accounts of NATS Holdings Limited can be obtained from the company's secretary, at its registered office, 5th Floor, Brettenham House South, Lancaster Place, London WC2E 7EN.