

NATS (Services) Limited
Financial statements
for the year ended 31 March 2008

Company Number: 4129270

Report of the directors

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

Principal activities and business review

The company's principal activities are the provision of airport air traffic services at UK and overseas airports and the sale of its expertise and capabilities to UK and overseas customers. The latter includes air traffic consultancy, training services and airport data management.

On 26 July 2001, the company's parent National Air traffic Services Limited, now NATS Limited (NATS), hived down certain of its assets and liabilities to the company under a statutory transfer scheme established under the Transport Act 2000 to implement the Public Private Partnership (PPP) of NATS. The PPP transaction was completed on 26 July 2001 between the Airline Group and the Secretary of State. The company commenced trading on 1 August 2001. Further details of the PPP transaction are contained in the accounts of NATS Holdings Limited the company's ultimate parent.

Turnover from airport services for the year was £130.8m (2007: £119.4m). Income from other services accounted for turnover of £7.0m (2007: £6.4m) and income from other group companies

amounted to a further £16.5m (2007: £11.6m).

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.

Results and dividends

The results for the year are shown in the income statement on page 7. An interim dividend of £12.1m (2007: £Nil) was paid in the year. The Board recommends no final dividend (2007: £Nil).

Land and buildings

The land and buildings of the company were valued at approximately £39m at 31 March 2002. This compares with a book value of £1.4m at 31 March 2008 (2007: £1.6m). The valuation has not been reflected in the financial statements.

Use of financial instruments

The company uses financial instruments to manage financial risk. The accounting policies and notes to the financial statements, set out below, explain the

financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Employees

Contracts of employment with staff are held by the company's parent company, NATS. NATS 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 has been enhanced in the last year 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 NATS' 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.

NATS 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.

NATS 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.

NATS 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: 29 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

Danny Bernstein (resigned 31/12/2007)

Nigel Fotherby

Barry Humphreys

Lawrence Hoskins

Ian Hall

Derek Stevens

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 ultimate 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 complies 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



Andrew Picton
Secretary
26 June 2008

Registered office

5th Floor, Brettenham House South,
Lancaster Place, London WC2E 7EN

Registered in England and Wales
Company Number: 4129270

Independent auditors' report to the members of NATS (Services) Limited

We have audited the financial statements of NATS Services 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 28. 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

Opinion

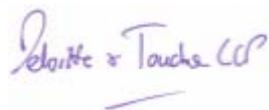
In our opinion:

- 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	154.3	137.4
Staff costs	8	(89.5)	(76.3)
Services and materials		(19.7)	(14.0)
Repairs and maintenance		(4.7)	(4.2)
External research and development		(0.3)	-
Depreciation, amortisation and impairment	7	(1.9)	(1.5)
Other operating charges		(28.8)	(26.8)
Net operating costs		(144.9)	(122.8)
Operating profit	7	9.4	14.6
Investment revenue	9	2.2	1.7
Finance costs	10	(0.1)	(0.2)
Profit before tax		11.5	16.1
Tax	11	(2.2)	(1.7)
Profit for the year attributable to equity shareholders		9.3	14.4

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 deferred tax	19,24	29.9	8.0
Change in fair value of hedging derivatives net of deferred tax	21	0.1	(0.1)
Net income recognised directly in equity		30.0	7.9
Profit for the year	21	9.3	14.4
Total recognised income and expense for the year		39.3	22.3

Balance sheet

at 31 March 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets	13	0.1	-
Property, plant and equipment	14	17.7	15.0
Retirement benefit asset	24	83.8	48.3
Trade and other receivables	15	24.4	24.5
		<u>126.0</u>	<u>87.8</u>
Current assets			
Trade and other receivables	15	27.6	21.4
Cash and cash equivalents	17	17.7	22.2
Non current assets held for sale	15	0.1	-
		<u>45.4</u>	<u>43.6</u>
Total assets		<u>171.4</u>	<u>131.4</u>
Current liabilities			
Trade and other payables	18	(17.3)	(14.6)
Current tax liabilities		(2.3)	(2.5)
Derivative financial instruments		-	(0.1)
		<u>(19.6)</u>	<u>(17.2)</u>
Net current assets		<u>25.8</u>	<u>26.4</u>
Non-current liabilities			
Trade and other payables	18	(2.7)	(1.1)
Deferred tax liability	19	(24.4)	(15.6)
		<u>(27.1)</u>	<u>(16.7)</u>
Total liabilities		<u>(46.7)</u>	<u>(33.9)</u>
Net assets		<u>124.7</u>	<u>97.5</u>
Equity			
Called up share capital	20	0.1	0.1
Hedging reserve	21	-	(0.1)
Other reserves	21	1.9	2.3
Retained earnings	21	122.7	95.2
Total equity		<u>124.7</u>	<u>97.5</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 £m	Year ended 31 March 2007 £m
Net cash flow from operating activities	22	<u>8.6</u>	<u>15.6</u>
Cash flows from investing activities			
Interest received		2.2	1.7
Purchase of property, plant and equipment		(5.0)	(5.1)
Contributions to property, plant and equipment		1.9	0.8
		<u>(0.9)</u>	<u>(2.6)</u>
Cash flows from financing activities			
Interest paid		(0.1)	(0.2)
Dividends paid		(12.1)	-
		<u>(12.2)</u>	<u>(0.2)</u>
(Decrease)/increase in cash and cash equivalents during the year		(4.5)	12.8
Cash and cash equivalents at 1 April		22.2	9.4
		<u>17.7</u>	<u>22.2</u>
Cash and cash equivalents at 31 March		<u><u>17.7</u></u>	<u><u>22.2</u></u>

1 General information

NATS (Services) 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 Directors' report.

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 and accounting

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 17).

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, 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, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Ltd (now NATS Limited) to this company.

In addition, the company entered into a Management Services Agreement with NATS Limited on 25 July 2001. This agreement provides for the provision by NATS Limited of personnel and central services to the company. 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. The

company is responsible for paying to NATS Limited an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company also entered into an Inter-company Services Agreement on 25 July 2001 with NATS (En Route) plc (NERL). Under this agreement this company provides NERL with the following services:

- ◆ North Sea helicopter advisory service;
- ◆ Air traffic services in certain sectors;
- ◆ Services to London Approach service (engineering services, use of communications facilities);
- ◆ Accommodation and support services to NERL units sited on NSL Heathrow premises; and
- ◆ Miscellaneous other services.

The range of services provided by NERL to NSL under the agreement includes:

- ◆ approach control service for London Luton airport;
- ◆ training services;
- ◆ radar data services at NSL airports;
- ◆ engineering and software support services;
- ◆ research and development for NSL airports division and business development division; and
- ◆ other services to NSL business development division (for example - consultancy and engineering services).

The company commenced trading from 26 July 2001.

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:

- ◆ Sales of goods are recognised when they are delivered and title has passed.
- ◆ Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts (see below).
- ◆ 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.

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 items are classified as operating 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:

- ◆ Leasehold land: over the term of the lease.
- ◆ Freehold buildings: 10-30 years.
- ◆ Leasehold buildings: over the remaining life of the lease to a maximum of 20 years.
- ◆ Air traffic control systems: 8-15 years.
- ◆ Plant and other equipment: 3-10 years.
- ◆ Furniture, fixtures and fittings: 10 years.
- ◆ Vehicles: 5 years.

Freehold land and 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 property, plant and equipment

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.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Impairment of property, plant and equipment

At each balance sheet date, the company reviews the carrying amounts of its property, plant and equipment, 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 the 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 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 in the income statement immediately.

Amounts recoverable on contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the

contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Share based payments

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

In 2001, the company's parent 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 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 company's share of 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 (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 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.

In order to hedge its exposure to certain foreign exchange risks, the company enters into forward contracts (see below for details of the company's accounting policies in respect of such derivative financial instruments).

Retirement benefit costs

The company's parent, NATS Limited, 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 the company's share 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. Detailed disclosures are set out in notes 15 to 18.

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

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.

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward exchange contracts to hedge these exposures.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The use of financial derivatives is governed by the NATS group's policies approved by the board of directors of NATS Holdings Limited, which provides written principles on the use of financial derivatives. The company documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If a hedge of a forecast transaction subsequently results in the recognition of financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recycled to the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net income or expense for the period.

3. Critical judgements and key sources of estimation uncertainty.

Retirement benefits

The company accounts for its share of the NATS 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
Airport air traffic services	130.8	119.4
Miscellaneous services	7.0	6.4
Inter-company income	16.5	11.6
	<u>154.3</u>	<u>137.4</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 two business areas.

Principal activities are as follows:

Airport air traffic services includes air traffic control services at airports and also includes related airport engineering and consultancy services. Miscellaneous services includes air traffic consultancy, training services and airport data management.

Inter-segment transfers are allocated to business segments on the basis of a fair allocation of costs taking into account the most important drivers for the services provided.

Segmental information about these businesses is presented below.

Year ended 31 March 2008	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue			
Revenue from external customers	130.8	7.0	137.8
Revenue from internal customers	-	16.5	16.5
	<u>130.8</u>	<u>23.5</u>	<u>154.3</u>
Segmental operating profit	<u>8.3</u>	<u>1.1</u>	9.4
Investment revenue			2.2
Finance costs			<u>(0.1)</u>
Profit before tax			11.5
Tax			<u>(2.2)</u>
Profit for the year			<u>9.3</u>
Other information			
Capital expenditure	4.7	0.1	4.8
Depreciation and amortisation	1.9	-	1.9
Balance Sheet			
Segmental assets	<u>166.4</u>	<u>5.0</u>	<u>171.4</u>
Segmental liabilities	<u>(45.6)</u>	<u>(1.1)</u>	<u>(46.7)</u>
Year ended 31 March 2007			
Revenue			
Revenue from external customers	119.4	6.4	125.8
Revenue from internal customers	-	11.6	11.6
	<u>119.4</u>	<u>18.0</u>	<u>137.4</u>
Segmental operating profit	<u>13.8</u>	<u>0.8</u>	14.6
Investment revenue			1.7
Finance costs			<u>(0.2)</u>
Profit before tax			16.1
Tax			<u>(1.7)</u>
Profit for the year			<u>14.4</u>
Other Information			
Capital expenditure	4.8	-	4.8
Depreciation and amortisation	1.5	-	1.5
Balance Sheet			
Segmental assets	<u>126.3</u>	<u>5.1</u>	<u>131.4</u>
Segmental liabilities	<u>(33.0)</u>	<u>(0.9)</u>	<u>(33.9)</u>

Segment assets include property, plant and equipment, intangible assets, the retirement benefit asset, loans to other group companies, work in progress, trade and other receivables, cash and cash equivalents and other current assets. Segment liabilities include provisions, trade payables, accruals and deferred income and other short term liabilities.

5. Business and geographical segments continued**Geographical segments**

The following table provides an analysis of the company's revenue by geographical area, based on the geographical location of its customers:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
UK	114.9	103.5
Rest of Europe	22.5	20.4
North America	6.4	5.9
Other	<u>10.5</u>	<u>7.6</u>
Total	<u><u>154.3</u></u>	<u><u>137.4</u></u>

Capital expenditure and company assets are all located within the UK.

Major customers

Included in revenues arising from airport air traffic services are revenues of £88.9m (2007: £75.6m) which arose from the company's largest customer.

6. Restructuring costs

During the year the company incurred restructuring costs as it reorganised its activities. To the extent that staff could not be redeployed, termination terms were agreed.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Voluntary redundancy costs	3.1	0.2
Included in amounts receivable from other group companies	(0.2)	-
	<u>2.9</u>	<u>0.2</u>

7. Operating profit

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	1.9	1.5
Auditors remuneration for audit services	-	-

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.

Transactions with group companies

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Net charges for services provided by parent undertaking	5.7	6.3
Charges for services provided by other group companies	<u>14.5</u>	<u>15.0</u>

In addition to the staff costs referred to in note 8a below, NSL is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NSL. Under the Inter Company Services Agreement NSL provides certain services to NERL. The MSA and Inter Company Services Agreement are explained in more detail in note 2.

8 Staff costs**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*	71.6	60.3
Social security costs	6.7	6.0
Pension costs (note 8b)	12.2	11.0
	<u>90.5</u>	<u>77.3</u>
Less: amounts capitalised	(1.0)	(1.0)
	<u><u>89.5</u></u>	<u><u>76.3</u></u>

* Includes redundancy costs, other allowances and holiday pay.

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NSL. Under the terms of the MSA dated 25 July 2001 the services of certain employees are seconded to NSL by NATS Limited. NSL is responsible for paying to NATS Limited an amount equal to the aggregate of all costs incurred by NATS Limited 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.

8 Staff costs continued**b Pension costs**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Pension scheme costs for year (note 24)	12.2	11.0

c Staff numbers

	Year ended 31 March 2008 No.	Year ended 31 March 2007 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	573	560
Air traffic service assistants	241	225
Engineers	151	141
Others	162	129
	<u>1,127</u>	<u>1,055</u>

9 Investment revenue

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest on bank deposits	0.8	0.5
Interest receivable from inter company loans	1.4	1.2
	<u>2.2</u>	<u>1.7</u>

10 Finance costs

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest payable	0.1	0.2

11 Tax

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Current tax	3.3	3.7
Deferred tax (note 19)	<u>(1.1)</u>	<u>(2.0)</u>
	<u>2.2</u>	<u>1.7</u>

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

The charge 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 on ordinary activities before tax	11.5		16.1	
Tax on profit on ordinary activities at standard rate in the UK of 30%	(3.5)	(30%)	(4.8)	(30%)
Tax effect of group relief received for nil consideration	2.1	18%	2.2	14%
Tax effect of prior year adjustments	-	0%	1.0	6%
Tax effect of rate change from 30% to 28% for deferred tax	(0.1)	0%	(0.1)	(1%)
Other permanent differences	<u>(0.7)</u>	(6%)	-	0%
Tax charge for year at the effective tax rate of 19% (2007: 11%)	<u>(2.2)</u>	(18%)	<u>(1.7)</u>	(11%)
Deferred tax charge taken directly to equity (see note 19)	<u>(9.9)</u>		<u>(3.5)</u>	

Recent budget changes

If the 2008 Finance Bill is substantially enacted in its current draft, industrial buildings allowances will be abolished over the three years from 1 April 2008. The group would be obliged to recognise an additional deferred tax liability of £0.6m in the year ended 31 March 2009 although the accounting impact will be neutral in the long term as the liability will be released in the following years as the carrying values of assets reduce.

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 £121 (2007: Nil) per ordinary share	<u>12.1</u>	<u>-</u>

13. Intangible Assets

The company transferred non-operational software assets of £0.1m at cost from property, plant and equipment during the year. Amortisation charges amounted to Nil. The net book value at 31 March 2008 was £0.1m.

14. Property, plant and equipment

	Freehold land & buildings £m	Improvements to leasehold land & buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture & fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2006	5.6	10.0	23.0	0.9	3.5	43.0
Additions during the year	-	-	0.8	-	4.0	4.8
Disposals and transfers during the year	-	-	1.8	(0.1)	(1.9)	(0.2)
At 1 April 2007	5.6	10.0	25.6	0.8	5.6	47.6
Additions during the year	-	-	1.5	-	3.3	4.8
Disposals and transfers during the year	-	-	4.0	-	(4.2)	(0.2)
Assets reclassified as held for sale	(4.9)	-	(1.5)	-	-	(6.4)
At 31 March 2008	0.7	10.0	29.6	0.8	4.7	45.8
Accumulated depreciation and impairment						
At 1 April 2006	5.6	8.2	16.9	0.7	-	31.4
Provided during the year	-	0.2	1.2	0.1	-	1.5
Disposals and transfers during the year	-	-	(0.2)	(0.1)	-	(0.3)
At 1 April 2007	5.6	8.4	17.9	0.7	-	32.6
Provided during the year	-	0.2	1.7	-	-	1.9
Disposals and transfers during the year	-	-	(0.1)	-	-	(0.1)
Assets reclassified as held for sale	(4.9)	-	(1.4)	-	-	(6.3)
At 31 March 2008	0.7	8.6	18.1	0.7	-	28.1
Carrying amount						
At 31 March 2008	-	1.4	11.5	0.1	4.7	17.7
At 31 March 2007	-	1.6	7.7	0.1	5.6	15.0

15 Financial assets and other receivables

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

Trade and other receivables

	2008 £m	2007 £m
Non-current		
Inter company loan (interest bearing)	22.5	22.5
Accrued income	1.9	2.0
	<u>24.4</u>	<u>24.5</u>
Current		
Receivable from customers gross	11.3	8.3
Allowance for doubtful debts	<u>(0.6)</u>	<u>(0.2)</u>
	10.7	8.1
Amounts recoverable under contracts	6.1	2.4
Other debtors	0.5	-
Prepayments	2.5	2.0
Accrued income	7.8	8.9
	<u>27.6</u>	<u>21.4</u>

The average credit period taken on sales of services is 23 days. An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.6m (2007: £0.2m). This amount has been determined by reference to past default experience. Receivables in respect of customers are provided for where there is an identified loss event, such as administration, receivership or liquidation which is evidence of a reduction in the recoverability of the cash flows. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

Ageing of past due but not impaired trade receivables

	2008 £m	2007 £m
30-90 days	1.0	1.6

Movement in the allowance for doubtful debts

	2008 £m	2007 £m
Balance at the beginning of the period	0.2	0.2
Increase in allowance recognised in the income statement	0.5	-
Amounts written off as recoverable	(0.1)	-
Balance at end of year	<u>0.6</u>	<u>0.2</u>

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £0.6m (2007: £0.1m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables

	2008 £m	2007 £m
Current	-	0.1
30-90 days	-	-
90-365 days	<u>0.6</u>	<u>0.1</u>
	<u>0.6</u>	<u>0.2</u>

The directors consider that the carrying amount of the trade receivables approximates to their fair value.

In March 2003, NSL provided unsecured loans totalling £22.5m to NATS (En Route) plc (NERL). These loans are subordinate to NERL's senior debt and, as such, may not be repaid until such debt is discharged. The loans bears interest at a rate equal to 6 month LIBOR plus an agreed margin; the current interest rate is 5.94%.

Overall, the maximum credit risk for the items discussed above would be £69.7m (2007: £68.1m).

Assets Held for Sale

NATS (Services) Ltd is disposing of its freehold interest in the old control tower building at Heathrow now that the new control tower is operational. A sale has been agreed in principle and is expected to complete within 12 months from 31 March 2008. Proceeds are anticipated to be in excess of the net book value of £0.1m. Accordingly no loss has been recognised upon reclassification.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets approximates to their fair value.

16 Derivative financial instruments**Fair value liability of derivative financial instruments**

	2008 £m	2007 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	0.1

Further details on derivative financial instruments are provided in note 17.

17 Financial instruments**Capital Risk management**

The company manages its capital to ensure that it is able to continue as a going concern and to meet its obligations to its customers and fund business opportunities as they arise.

The capital structure of the company consists of cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in notes 20 and 21.

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 £m	2007 £m
Financial assets		
Loans and receivables (including cash and cash equivalents)	57.5	55.2
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	-	0.1
Amortised cost	9.4	11.0
	9.4	11.1

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 and 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 (including currency risk and 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 primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk management

NATS (Services) Limited enters into contracts for the supply of goods and services with overseas suppliers who invoice in foreign currency. To mitigate currency risk the contract value is hedged when a firm commitment arises, either through the use of forward foreign currency contractor by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

The carrying amount of the NATS (Services) Limited foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2008 £m	2007 £m	2008 £m	2007 £m
Euro	5.4	3.3	(0.1)	(0.1)
US Dollar	2.5	0.4	(0.1)	-
Canadian Dollars	-	-	(0.2)	-
Hong Kong Dollars	0.3	-	-	-
	8.2	3.7	(0.4)	(0.1)

17 Financial instruments (continued)**Foreign currency sensitivity analysis**

NATS (Services) Limited holds foreign currency cash balances in Euro and US Dollars.

The following table details NATS (Services) Limited's sensitivity to a 10% increase or decrease in the value of Sterling against relevant foreign currencies. 10% is the sensitivity rate that represents management's assessment of the reasonably possible change in foreign currency exchange rates in a financial year. The sensitivity analysis includes foreign currency cash balances, trade receivables, trade payables and forward foreign exchange contracts and adjusts their translation at the period end for a 10% change in foreign currency rates.

The table below shows the effect of a 10% strengthening of sterling against the relevant currency. A positive number below indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be an equal and opposite impact on profit and equity if Sterling devalues by 10% against the relevant currency.

Currency	2008 Impact £m	2007 Impact £m
EUR	(0.5)	(0.3)
USD	(0.2)	-
	<u>(0.7)</u>	<u>(0.3)</u>

Forward foreign exchange contracts

At 31 March 2008 the company had no outstanding forward foreign exchange contracts. The following contracts were outstanding at 31 March 2007:

Payment date	Sterling sold £m	USD bought \$m	Exchange rate £1 = \$
03 April 2007	0.4	0.8	1.8452
01 Nov 2007	0.7	1.4	1.8502
	<u>1.1</u>	<u>2.2</u>	<u>1.8484</u>

Interest rate risk management

The company had no debt at 31 March 2008 or 31 March 2007 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

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

Currency	2008 Cash			Currency	2007 Cash		
	Amount £m	Economic interest rate %	Average maturity days		Amount £m	Economic interest rate %	Average maturity days
Sterling	10.6	5.4	1	Sterling	19.4	5.2	7
EUR	4.7	4.1	3	EUR	2.4	3.7	11
USD	2.4	2.8	8	USD	0.4	5.3	4
	<u>17.7</u>				<u>22.2</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 were to fall by 1%.

	2008 Impact £m	2007 Impact £m
Cash On Deposit (2008: £17.7m, 2007: £22.2m)	<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 NATS (Services) Limited. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables 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 customers and the mitigations against this risk are explained in note 15. 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, NATS (Services) Limited'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.

17 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

The following table shows the distribution of NATS (Services) Limited deposits at 31 March by credit rating (Standard & Poor's):

Rating (Standard & Poor's)	Number of institutions	2008 £m	By credit rating %	Number of institutions	2007 £m	By credit rating %
AA	1	7.8	44.1%	1	12.2	55.0%
A	1	9.9	55.9%	2	10.0	45.0%
		<u>17.7</u>	<u>100%</u>		<u>22.2</u>	<u>100%</u>

Liquidity risk management

The responsibility for liquidity management rests with the Board of NATS (Holdings) Limited with oversight provided by the Treasury Committee. The company's policy is to maintain sufficient cash to fund working capital requirements and new business development opportunities in line with targets approved by the Board.

To provide liquidity, NSL has an uncommitted overdraft facility of £2m that was undrawn as at 31 March 2008.

Trade and other payables, including current tax liabilities, are expected to mature within one year.

Fair value of financial instruments

The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realised within one year. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount		Fair value	
	2008 £m	2007 £m	2008 £m	2007 £m
Financial assets				
Loans and receivables (including cash and bank balances)	<u>57.5</u>	<u>55.2</u>	<u>57.5</u>	<u>55.2</u>
Financial liabilities				
Trade and other payables (including current tax liabilities)	9.4	11.0	9.4	11.0
Derivative financial instruments				
Forward foreign exchange contracts	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>0.1</u>
	<u>9.4</u>	<u>11.1</u>	<u>9.4</u>	<u>11.1</u>

18. Financial and other liabilities**Trade and other payables**

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

	2008 £m	2007 £m
Current		
Trade payables	0.9	0.6
Amounts due to other group undertakings	4.6	5.0
Other payables	1.6	2.9
Accruals and deferred income	<u>10.2</u>	<u>6.1</u>
	<u>17.3</u>	<u>14.6</u>
Non-current		
Accruals and deferred income (deferred grants)	<u>2.7</u>	<u>1.1</u>
	<u>20.0</u>	<u>15.7</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 18 days (2007: 29 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

19. 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	2.1	12.3	(0.3)	14.1
(Credit)/charge to income	(0.9)	(1.3)	0.2	(2.0)
Charge to equity	-	3.5	-	3.5
At 31 March 2007	<u>1.2</u>	<u>14.5</u>	<u>(0.1)</u>	<u>15.6</u>
At 1 April 2007	1.2	14.5	(0.1)	15.6
Charge/(credit) to income	0.3	(1.0)	(0.4)	(1.1)
Charge to equity	-	9.9	-	9.9
At 31 March 2008	<u>1.5</u>	<u>23.4</u>	<u>(0.5)</u>	<u>24.4</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	(24.9)	(15.7)
Deferred tax assets	<u>0.5</u>	<u>0.1</u>
	<u>(24.4)</u>	<u>(15.6)</u>

20. 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>100,000</u>	<u>0.1</u>	<u>100,000</u>	<u>0.1</u>

21. Reserves

	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2006	-	2.8	72.3	75.1
Movement in statement of recognised income and expense	(0.1)	-	8.0	7.9
Transfers from other reserves to retained earnings	-	(0.5)	0.5	-
Net profit for the year	-	-	14.4	14.4
Balance at 31 March 2007	<u>(0.1)</u>	<u>2.3</u>	<u>95.2</u>	<u>97.4</u>
Movement in statement of recognised income and expense	0.1	-	29.9	30.0
Transfers from other reserves to retained earnings	-	(0.4)	0.4	-
Net profit for the year	-	-	9.3	9.3
Dividends paid	-	-	(12.1)	(12.1)
Balance at 31 March 2008	<u>-</u>	<u>1.9</u>	<u>122.7</u>	<u>124.6</u>

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

22 Notes to the cash flow statement

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating profit from continuing operations	9.4	14.6
Adjustments for:		
Depreciation of property, plant and equipment	1.9	1.5
Non-cash element of charge for pension costs	4.3	4.2
Operating cash flows before movements in working capital	<u>15.6</u>	<u>20.3</u>
Decrease in contract work in progress	(3.7)	-
Increase in trade and other receivables	(2.8)	(4.2)
Increase in trade and other payables	3.0	2.9
Cash generated from operations	<u>12.1</u>	<u>19.0</u>
Tax paid	(3.5)	(3.4)
Net cash flow from operating activities	<u>8.6</u>	<u>15.6</u>

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.

23. Financial commitments

	2008 £m	2007 £m
Capital commitments contracted but not provided for in the accounts.	<u>3.4</u>	<u>1.8</u>
Minimum lease payments under operating leases recognised in income for the year.	<u>11.5</u>	<u>5.3</u>
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	0.4	0.8
In the second to fifth years inclusive	5.1	5.2
After five years	35.3	12.0
	<u>40.8</u>	<u>18.0</u>

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

24 Retirement benefit scheme

Background

NATS Limited, the company's immediate parent undertaking, 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 Trustees' 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 latest Trustees' 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 Trustees' 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.

NATS Limited, the immediate parent of the company, is the employer of, and seconded to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in Civil Aviation Authority Pension Scheme and bears the employment (including pension) costs of those personnel.

The company pays fees to NATS Limited for the provision of services, including those of the staff. An element of those fees represents the employment costs (including pension contributions) of staff provided by NATS Limited to NERL. In that way, the existence of a pension deficit or surplus may have an indirect impact upon the company through variations in pension contributions and so the level of those fees.

Trustees' funding assessment

The last Trustees' 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 Trustees' 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 Trustees' 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 pension costs reported below represent the pension element of the fees the company pays to NATS Limited for the provision of services of the staff seconded to the company by NATS Limited - see note 8 above.

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 will continue to report under an immediate recognition approach in subsequent periods.

The Trustees' funding assessment carried out at 31 December 2006 was updated to 31 March 2008 for the company's accounting valuation under IAS 19 by a qualified 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)

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	(24.0)	(22.7)
Past service cost	(0.2)	-
Expected return on scheme assets	39.8	36.2
Interest cost on scheme liabilities	(27.8)	(24.5)
Total defined benefit charge recognised in arriving at operating profit	<u>(12.2)</u>	<u>(11.0)</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	(37.7)	9.7
Experience gains and losses arising on scheme liabilities	21.0	(4.8)
Changes in assumptions underlying the present value of the scheme liabilities	<u>56.6</u>	<u>6.6</u>
	<u>39.9</u>	<u>11.5</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	577.1	574.1
Present value of defined benefit obligations	(493.3)	(525.8)
Surplus in scheme	<u>83.8</u>	<u>48.3</u>

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

	2008 £m	2007 £m
At 1 April	574.1	528.4
Expected return on scheme assets	39.8	36.2
Actuarial gains and losses	(37.7)	9.7
Contributions from scheme members	3.5	3.1
Contributions from company	7.8	6.8
Benefits paid	<u>(10.4)</u>	<u>(10.1)</u>
At 31 March	<u>577.1</u>	<u>574.1</u>

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

	2008 £m	2007 £m
At 1 April	(525.8)	(487.4)
Current service cost	(24.0)	(22.7)
Past service costs	(0.2)	-
Interest cost	(27.8)	(24.5)
Actuarial gains and losses	77.6	1.8
Contributions from scheme members	(3.5)	(3.1)
Benefits paid	<u>10.4</u>	<u>10.1</u>
At 31 March	<u>(493.3)</u>	<u>(525.8)</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	348.1	364.6	7.60%	7.50%
Property	90.6	91.3	7.60%	7.50%
Bonds	132.5	116.5	4.95%	4.73%
Cash	<u>5.9</u>	<u>1.7</u>	<u>4.95%</u>	<u>4.73%</u>
	<u>577.1</u>	<u>574.1</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	(493.3)	(525.8)	(487.4)	(400.9)
Fair value of scheme assets	<u>577.1</u>	<u>574.1</u>	<u>528.4</u>	<u>411.4</u>
Surplus in the scheme	<u>83.8</u>	<u>48.3</u>	<u>41.0</u>	<u>10.5</u>

24 Retirement benefit scheme (continued)

Experience adjustments in scheme liabilities

	2008	2007	2006	2005
Amount (£m)	<u>21.0</u>	<u>(4.8)</u>	<u>10.2</u>	<u>14.1</u>
Percentage of scheme liabilities	<u>(4.3%)</u>	<u>0.9%</u>	<u>(2.1%)</u>	<u>(3.5%)</u>

Experience adjustments in scheme assets

	2008	2007	2006	2005
Amount (£m)	<u>(37.7)</u>	<u>9.7</u>	<u>83.7</u>	<u>18.1</u>
Percentage of scheme assets	<u>(6.5%)</u>	<u>1.7%</u>	<u>15.8%</u>	<u>4.4%</u>

25 Contingent liabilities

The company has given guarantees on behalf of its subsidiary undertaking's liabilities at 31 March 2008 totalling £0.5m (2007: £0.5m).

26 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.

Contractual arrangements exist between BAA and NATS (Services) Limited (NSL) in relation to air navigation services provided at Southampton Airport and where NSL invoices BAA. The turnover from these services for the year ended 31 March 2008 was £2.8m (2007: £2.7m). Amounts receivable at 31 March 2008 in relation to this contract amounted to £0.2m (2007: £0.2m).

NSL also provides air navigation services to BAA plc's London and Scottish airports where the charges are invoiced to airlines. The turnover from these services for the year ended 31 March 2008 amounted to £85.9m (2007: £72.9m). Amounts receivable at 31 March 2008 in relation to these services amounted to £9.8m (2007: £9.5m).

Trading transactions

During the year, the company entered into the following transactions with related parties who are not members of the group.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2008	Year ended 31 March 2007
	£m	£m	£m	£m	£m	£m	£m	£m
Meteorological Office	-	-	-	0.1	-	-	-	-
Ministry of Defence (MoD)	1.3	1.1	-	-	0.2	0.1	-	-

Sales are made to related parties at the company's usual rates and purchases at market prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

The Report of the Directors on page 3 includes details of the directors of the company. None of these directors received any fees in the year for their services as directors of this company. The consolidated accounts of NATS Holdings Limited include details of the remuneration received by the directors of the group.

27. Subsidiaries

The company owns NATSNav Limited whose principal activity is satellite based navigation services. The cost of the investment is stated at £1. NATSNav is a member of a European Economic Interest Grouping. 100% of the ordinary share capital and voting rights of NATSNav are held by this company. NATSNav is registered in England and Wales and operates in the United Kingdom. NATSNav has authorised and issued share capital of £1.

28. 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.