

National Air Traffic Services Limited
Financial statements for the year ended 31 March 2005



Company Number: 3155567

Report of the directors

The directors present their report and audited accounts for the company for the year ended 31 March 2005.

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).

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of NATS 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 2005 are shown in the profit and loss account on page 6 and reflect the results of the company under the MSAs explained above. The company reported an operating profit of £nil compared with in 2004 an operating loss of £4.5m offset by £4.5m from the disposal of a property. The company also received dividends from NSL of £24.1m (2004: £1.9m) and incurred net interest charges of £9.6m (2004: £9.2m).

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

The Board approved payment of an interim dividend of £5m in March and recommends that no final dividend is paid (2004: £nil).

Employees

The company continues its commitment to the involvement of employees in the decision making process. This is effected through an open dialogue with Prospect and the Public and Commercial Services Union (PCS) as 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. 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.

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 or creed, 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 company 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, processes and regular monitoring.

Policy and practice on payment of creditors

It is the group'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 11 days (2004 - 4 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:

Dr Chris Gibson-Smith

Paul Barron (appointed 18 June 2004)

Colin Chisholm (resigned 31 March 2005)

Richard Everitt (resigned 18 June 2004)

Nigel Fotherby

Derek Stevens

Barry Humphreys (appointed 20 July 2004)

None of the directors had any interests in the share capital of the parent company.

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

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

In preparing those financial statements, the directors are required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards have been followed; 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 ensuring that the company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and the group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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
30 June 2005

Registered office

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

Registered in England and Wales

Company Number: 3155567

Independent auditors' report to the members of National Air Traffic Services Limited

We have audited the financial statements of National Air Traffic Services Limited for the year ended 31 March 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

The 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 the 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 in the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton
30 June 2005

Profit and loss account

for the year ended 31 March 2005

		2005			2004		
Notes	Before exceptional items £000	Exceptional items (note 4a) £000	Total £000	Before exceptional items £000	Exceptional items (note 4a) £000	Total £000	
Turnover	2	318,810	1,798	320,608	293,022	1,776	294,798
Staff costs	3a	(292,087)	(1,798)	(293,885)	(261,257)	(1,776)	(263,033)
Services and materials		(1,285)	-	(1,285)	(7,108)	-	(7,108)
Repairs and maintenance		(175)	-	(175)	(7,261)	-	(7,261)
Depreciation and amortisation	4a	(429)	-	(429)	(3,091)	-	(3,091)
Other operating charges - external		(18,700)	-	(18,700)	(15,809)	-	(15,809)
Other operating charges - intra-group	4b	(6,134)	-	(6,134)	(3,026)	-	(3,026)
Net operating costs		(318,810)	(1,798)	(320,608)	(297,552)	(1,776)	(299,328)
Operating profit/(loss)	4	-	-	-	(4,530)	-	(4,530)
Profit on disposal of fixed assets				-			4,530
Income from shares in group undertakings				24,100			1,900
Profit on ordinary activities before interest and taxation				24,100			1,900
Net interest payable and similar charges	5			(9,613)			(9,167)
Profit/(loss) on ordinary activities before taxation				14,487			(7,267)
Tax on profit/(loss) on ordinary activities	6			372			(292)
Profit/(loss) for the financial year				14,859			(7,559)
Dividends payable to other group undertakings				(5,000)			-
Retained profit/(loss) for the year transferred to/(from) reserves	14			9,859			(7,559)

The operating turnover and costs result from continuing operations. There were no recognised gains or losses except as disclosed in the profit and loss account. Accordingly no separate statement of total recognised gains and losses has been provided.

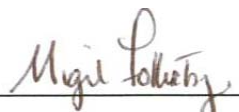
Balance sheet

at 31 March 2005

	Notes	2005 £000	2004 £000
Fixed assets			
Tangible assets	7	1,931	3,818
Investments	8	244,554	244,554
Total fixed assets		246,485	248,372
Current assets			
Debtors: amounts falling due within one year	9a	109,663	75,196
Debtors: amounts falling due after more than one year	9b	329	353
Cash at bank and in hand		8,885	15,154
		118,877	90,703
Current liabilities			
Creditors: amounts falling due within one year	10a	(24,246)	(26,813)
Net current assets		94,631	63,890
Total assets less current liabilities		341,116	312,262
Creditors: amounts falling due after more than one year	10b	(112,634)	(114,157)
Provisions for liabilities and charges	12a	(73,060)	(52,542)
Net assets		155,422	145,563
Capital and reserves			
Called up share capital	13	141,000	141,000
Other reserves	14	(50,000)	(50,000)
Profit and loss account	14	64,422	54,563
Equity shareholders' funds	14	155,422	145,563

The accounts were approved by the Board of directors on 30 June 2005 and signed on its behalf by

Chairman  Dr. Chris Gibson-Smith

Finance Director  Nigel Fotherby

1 Accounting policies**a) Basis of preparation**

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

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

In addition the company entered into two Management Services Agreements (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 company in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

Under the provisions of the Companies Act 1985 and FRS 2 "Accounting for Subsidiary Undertakings", the company is exempt from the obligation to prepare and deliver group accounts which consolidate the results of its subsidiary undertakings for the year ended 31 March 2005.

The company's parent undertaking - NATS Holdings Limited - draws up the accounts for the group for the year ended 31 March 2005 which are filed with the UK Registrar of companies together with the company's accounts.

A summary of the principal accounting policies adopted by the company and applied throughout the year are as follows:

b) Investments

Investments in subsidiary undertakings are held at cost less provision for any impairment in value.

c) Turnover

Turnover represents the amounts, excluding VAT, received and receivable in respect of services provided to customers including other group undertakings. Turnover is recognised in accordance with the MSAs.

d) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provisions for impairment. The cost of fixed assets includes internal and contracted labour costs directly attributable to bringing the assets into working condition for their intended use.

Depreciation is provided to write off the cost of tangible fixed assets, less estimated residual value, evenly over their estimated useful lives as follows:

- ◆ Air traffic control 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.

e) Employee share plans

In 2001, the group 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 the financial restructuring in March 2003, further shares were transferred to NESL by The Airline Group for £nil consideration and NESL was gifted cash 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 are 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 ownership trust are charged to the profit and loss account of the company.

f) Leases

The rentals payable on operating leases are charged to the profit and loss account in equal annual amounts over the lease term.

g) Taxation

Current tax being UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in accordance with FRS 19 on all timing differences arising from the different treatment of items for accounts and taxation purposes calculated at rates at which it is estimated that tax will arise.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

h) Foreign currencies

Foreign currency monetary assets and liabilities covered by forward contracts are translated into sterling at the contracted rates. All other foreign currency monetary assets and liabilities are translated into sterling at the rates ruling at the balance sheet date. Exchange differences are dealt with through the profit and loss account. Other transactions in foreign currencies are recorded in sterling at the rates ruling at the dates of the transactions or at the contracted rate if the transactions are covered by a forward foreign exchange contract.

i) Pensions

The company has entered into a deed 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 method. The expected cost of providing pension benefits, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the expected

service lives of the employees within the pension scheme such that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Pension costs are calculated using methods and assumptions specific to NATS. The projected unit method is used to calculate the regular cost. The surplus has been spread as a constant percentage of payroll.

2 Turnover analysis

	2005 £000	2004 £000
Services provided to other group undertakings:		
- NATS (En Route) plc	252,193	231,404
- NATS (Services) Limited	68,415	63,394
	<hr/>	<hr/>
Turnover	320,608	294,798
	<hr/>	<hr/>

3 Directors' and employees' remuneration**a 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:

	2005 £000	2004 £000
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	248,720	234,392
Social security costs	24,661	22,588
Pension costs (note 3b)	47,289	29,611
	<hr/>	<hr/>
	320,670	286,591
Less: amounts capitalised**	(26,785)	(23,558)
	<hr/>	<hr/>
	293,885	263,033
	<hr/>	<hr/>

* Includes redundancy costs

** Group costs capitalised within NATS £259,000, NERL £26,028,000 and NSL £498,000.

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:

	2005 £000	2004 £000
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	12,918	14,923
Social security costs	1,412	1,433
Pension costs (note 3b)	2,813	1,504
	<hr/>	<hr/>
	17,143	17,860
Less: amounts capitalised	-	(1,233)
	<hr/>	<hr/>
	17,143	16,627
	<hr/>	<hr/>

* Includes redundancy costs

An integral part of the Public Private Partnership (PPP) of NATS was a requirement that employees would hold a 5% stake in the group. An offer of free shares in the company was made to all employees, including part-time and fixed term contract employees in 2001/02. A second award of free shares was offered to all employees in 2003/04. A third allocation of 400 free shares in the company was offered to all employees who were in NATS employment on the qualifying date of July 30th 2004, and who continued in employment until the award date of September 10th 2004. The market value of the free shares at the date of their award is charged to the profit and loss account on a straight line basis over a three year period and is included within wages and salaries above.

3 Directors' and employees' remuneration continued**b Pension costs**

The total pension costs incurred by the company were:

	2005 £000	2004 £000
Pension scheme costs for year	46,208	29,483
Other pension costs	1,081	128
	<u>47,289</u>	<u>29,611</u>

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:

	2005 £000	2004 £000
Pension scheme costs for year (note 16)	2,181	1,618
Other pension costs	632	(114)
	<u>2,813</u>	<u>1,504</u>

c Directors' remuneration

The directors' report on page 3 includes details of the directors of the company. None of these directors received any fees in the year or prior year for their services as directors of this company.

d Staff numbers

	2005 No.	2004 No.
The average number of employees (including directors) during the year was:		
Air traffic controllers	1,890	1,923
Air traffic service assistants	1,069	1,030
Engineers	1,209	1,214
Others	844	849
	<u>5,012</u>	<u>5,016</u>

	2005 No.	2004 No.
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The average number of employees during the year, excluding secondments to NERL and NSL was:

Air traffic controllers	1	1
Air traffic service assistants	2	-
Engineers	11	16
Others	228	258
	<u>242</u>	<u>275</u>

3 Directors' and employees' remuneration continued

	2005 No.	2004 No.
The number of staff in post at 31 March 2005 was:		
Air traffic controllers	1,905	1,906
Air traffic service assistants	1,065	1,043
Engineers	1,231	1,202
Others	860	852
	<u>5,061</u>	<u>5,003</u>
	2005 No.	2004 No.

The number of staff in post at 31 March 2005, excluding secondments to NERL and NSL, was:

Air traffic controllers	1	1
Air traffic service assistants	1	-
Engineers	9	18
Others	219	248
	<u>230</u>	<u>267</u>

4 Operating profit

	2005 £000	2004 £000
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a Operating profit is stated after charging**Exceptional items:**

Voluntary redundancy costs	1,798	1,776
Included in amounts receivable from other group companies (turnover)	(1,798)	(1,776)
	<u>-</u>	<u>-</u>

The exceptional items in the year have arisen from costs associated with a voluntary redundancy programme.

Other items:

Depreciation of fixed assets	179	3,091
Impairment of fixed assets	250	-
Loss on disposal of fixed assets	-	35

b Transactions with other group companies

	2005 £000	2004 £000
Other operating charges - charges for services provided by other group companies	<u>6,134</u>	<u>3,026</u>

NERL provides NATS with general development work, engineering and other training, safety research and development and miscellaneous support services including corporate work for the International Civil Aviation Organisation.

c Auditors' remuneration

	2005 £000	2004 £000
Audit fees	<u>42</u>	<u>45</u>

Amounts payable to Deloitte & Touche LLP in respect of non-audit services were £41,000 (2004 - £92,000) for tax services and £15,000 (2004 - £18,000) for other services.

d Operating lease rentals

	2005 £000	2004 £000
Plant and machinery	171	128
Land and buildings	229	3,539
	<u>400</u>	<u>3,667</u>

5 Net interest payable and similar charges

	2005 £000	2004 £000
Interest payable on other loans and similar charges	(10,235)	(9,708)
Interest receivable and similar income	622	541
	<u>(9,613)</u>	<u>(9,167)</u>

6 Tax on profit/(loss) on ordinary activities

	2005 £000	2004 £000
a Analysis of credit/(charge) in year		
<i>Current tax:</i>		
Adjustment for corporation tax in respect of prior years	372	(292)
Total current tax	<u>372</u>	<u>(292)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	571	450
Deferred tax asset not recognised	(571)	(450)
Total deferred tax	<u>-</u>	<u>-</u>
Tax credit/(charge) on profit/loss on ordinary activities	<u>372</u>	<u>(292)</u>

b Factors affecting tax (credit)/charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £000	2004 £000
Profit/(loss) on ordinary activities before tax	<u>14,487</u>	<u>(7,267)</u>
Tax on profit/(loss) on ordinary activities at standard rate in the UK of 30% (2004 - 30%)	4,346	(2,180)
Effects of:		
Depreciation in period (less than)/in excess of capital allowances	(59)	450
Expenses not deductible for tax purposes	-	50
Other timing differences	(412)	-
Disposal - Aviation House, Edinburgh	111	(1,250)
Group relief surrendered for £nil consideration	3,244	3,500
Dividend received from subsidiary company not taxable	(7,230)	(570)
Adjustment for corporation tax in respect of prior years	(372)	292
Current tax (credit)/charge for year	<u>(372)</u>	<u>292</u>

c Factors that may affect future tax charges

Based on current investment plans, depreciation will continue to exceed capital allowances in future years. Any group relief available from NATS in future years will be surrendered for £nil consideration.

7 Tangible fixed assets

The movements in fixed assets in the year to 31 March 2005 were as follows:-

	Air traffic control systems, plant and equipment £000	Vehicles £000	Furniture, fixtures and fittings £000	Assets in course of construction and installation £000	Total £000
Cost					
Balance at 1 April 2004	20,805	49	421	-	21,275
Additions during the year	-	26	-	2,196	2,222
Other transfers during the year including assets transferred to and from other group undertakings	(19,720)	-	-	(98)	(19,818)
Balance at 31 March 2005	1,085	75	421	2,098	3,679
Depreciation					
Balance at 1 April 2004	17,002	44	411	-	17,457
Provided during the year	162	7	10	-	179
Provision for impairment	-	-	-	250	250
Disposals during the year including assets transferred to and from other group undertakings	(16,138)	-	-	-	(16,138)
Balance at 31 March 2005	1,026	51	421	250	1,748
Net book value					
Balance at 31 March 2004	3,803	5	10	-	3,818
Balance at 31 March 2005	59	24	-	1,848	1,931

8 Investments in subsidiaries

The company's subsidiaries at 31 March 2005 were:-

<u>Name of company</u>	<u>Principal activity</u>	<u>Proportion of ordinary shares held and voting rights</u>	<u>Country of registration</u>	<u>Country of operation</u>
NATS (En Route) plc (NERL)	En-route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited (NSL)	Airport air traffic services	100%	England and Wales	United Kingdom
NATNav Limited	Satellite based navigation	100%	England and Wales	United Kingdom

Balance at 1 April 2004 and at 31 March 2005

**Total
£000**
244,554

9 Debtors:**a Amounts falling due within one year**

	2005 £000	2004 £000
Amounts due from other group undertakings		
- dividends receivable	16,900	1,900
- other	86,982	63,640
Corporation Tax	1	-
Other debtors	3,610	7,554
Prepayments and accrued income:		
- The Airline Group	13	13
- other	2,157	2,089
	<u>109,663</u>	<u>75,196</u>

b Amounts falling due after more than one year

	2005 £000	2004 £000
Other debtors	329	353
	<u>329</u>	<u>353</u>

10 Creditors:**a Amounts falling due within one year**

	2005 £000	2004 £000
Trade creditors	514	303
Amounts owed to other group undertakings		
- Dividends payable	5,000	-
Taxation and social security	8,201	8,183
Corporation tax	-	371
Other creditors	163	185
Accruals and deferred income	10,368	17,771
	<u>24,246</u>	<u>26,813</u>

b Amounts falling due after more than one year

	2005 £000	2004 £000
Other loans	112,634	114,157
	<u>112,634</u>	<u>114,157</u>

11 Loans

The company has in issue £56 million of 8.5% Loan Notes secured by a floating charge (which has priority over other security) of up to £95 million over its holding of shares in NATS (Services) Limited.

	2005 £000	2004 £000
Unsecured Loans:		
Fixed rate unsecured notes (8.5% interest rate, repayable 2031)	58,017	58,184
Secured Loans:		
Fixed rate secured notes (8.5% interest rate, repayable 2031)	54,617	55,973
	<u>112,634</u>	<u>114,157</u>

Maturity profile of loans

	2005			2004		
	Unsecured loans £000	Secured loans £000	Total £000	Unsecured loans £000	Secured loans £000	Total £000
Due within one year or less or on demand	-	-	-	-	-	-
In more than five years	58,017	54,617	112,634	58,184	55,973	114,157
	<u>58,017</u>	<u>54,617</u>	<u>112,634</u>	<u>58,184</u>	<u>55,973</u>	<u>114,157</u>

12 Provisions for liabilities and charges**a Provisions**

	Pensions see note 16 £000
Balance at 1 April 2004	52,542
Charged to other group companies	20,518
Charged to profit and loss account	-
	<hr/>
Balance at 31 March 2005	73,060

The company's charge for pensions benefits is shown net of the amounts charged to the intercompany accounts of NERL and NSL. NATS employs the employees engaged in the activities carried out by NERL and NSL. Under the terms of the Management Services Agreements (MSAs) dated 25 July 2001 the services of these employees are seconded to NERL and NSL by NATS. NERL and NSL are responsible for reimbursing NATS for all employment costs incurred by NATS in respect of these employees. The accounting for pensions is discussed in note 16 below.

b Deferred taxation

There is a deferred tax asset of £0.1m (2004 - £0.7m) that has not been recognised in the accounts as recoverability in the short term was uncertain.

13 Called up share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£000	Number of shares	£000
Ordinary shares of £1 each				
At 31 March 2005 and 31 March 2004	<u>150,000,100</u>	<u>150,000</u>	<u>141,000,005</u>	<u>141,000</u>

14 Reconciliation of movements in equity shareholders' funds

	Share capital	Other reserves	Profit and loss account	Total year ended 31 March 2005 £000	Total year ended 31 March 2004 £000
	£000	£000	£000		
Balance at 31 March 2004	141,000	(50,000)	54,563	145,563	153,122
Profit/(loss) for the year	-	-	9,859	9,859	(7,559)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2005	141,000	(50,000)	64,422	155,422	145,563

15 Commitments**a Capital commitments**

	2005 £000	2004 £000
Amounts contracted but not provided for in the accounts at 31 March	500	-

b Revenue commitments**(i) Non-cancellable operating leases**

	Plant and machinery £000	Land and buildings £000	2005 Total £000
At 31 March 2005 annual commitments were as follows:			
Expiry within one year	37	1	38
Expiry within two to five years, inclusive	148	-	148
Expiry in more than five years	-	251	251
	185	252	437

	Plant and machinery £000	Land and buildings £000	2004 Total £000
At 31 March 2004 annual commitments were as follows:			
Expiry within one year	15	1	16
Expiry within two to five years, inclusive	119	-	119
Expiry in more than five years	-	251	251
	134	252	386

16 Pension commitments

The contributions are set for the NATS section of the scheme as a whole and it is not possible for the company to identify its share of the assets and liabilities of the NATS section of the Civil Aviation Authority Pension Scheme.

The consolidated accounts of the company's ultimate parent undertaking (NATS Holdings Limited) for the year ended 31 March 2005 include details of the significant assumptions and latest actuarial valuations of the NATS section of the Civil Aviation Authority Pension Scheme including details of the surplus in the NATS section of the scheme.

The market value of the NATS' section's assets as at 31 December 2003 was £1,799m. For the purpose of the actuarial valuation assets were taken at market value. After allowing for benefit changes arising from the valuation, the assets were sufficient to cover 119% of the benefits that had accrued to existing members.

For the purposes of determining the accounting charge it was assumed that the annual investment return will be 2.4% higher than the annual general increases in salaries and 2.4% higher than the annual increase in pensions. The regular cost of benefits was 28.3% of pensionable payroll. After allowing for surplus amortisation, the net charge is 19.5% of pensionable payroll.

The total pension cost incurred by the company net of amounts received in respect of staff seconded in accordance with the terms of the Management Services Agreement dated 25 July 2001 was £2.8m (2004 - £1.5m), including £0.6m (2004 - (£0.1m)) associated with voluntary early retirement arrangements.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. The implementation of the new pension cost accounting standard, FRS17, has been deferred and may be superseded by other developments. However the transitional arrangements remain in place and the company is required to disclose the following information about the group scheme and the figures that would have been shown under FRS17. These calculations showed an increase in the scheme's surplus from £107.3m at 31 March 2004 to £122.1m at 31 March 2005.

There were no benefit improvements made during 2004/05 although a number of individual augmentations were made. The company made special contributions in the year of £0.3m to meet the cost of these augmentations, the cost being calculated on a basis agreed with the Trustee (using assumptions which differ from the assumptions used to calculate the value of FRS17 purposes). In addition, the company paid normal contributions of £1.2m. The total normal contributions paid by the group during the year were £25.4m.

17 Related Parties

Since 26 July 2001, the NATS group has two major shareholders - the Crown and The Airline Group (AG). AG charge NATS Holdings Limited a total of £37,500 per quarter (2004 - £37,500 per quarter) for the services of the directors appointed by AG. The company pays this quarterly charge on behalf of NATS Holdings Limited - see note 9a (prepayments).

During the year the company purchased consultancy advice from Human Alchemy for £57,000 (excluding VAT). A director of this company, Paul Barron, is closely related to a Director of Human Alchemy, Dawn Caswell. The transaction is considered material to Human Alchemy. The transaction was conducted on arms length terms and no balances are outstanding as at 31 March 2005.

18 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 South, Brettenham House, Lancaster Place, London WC2E 7EN.