

NATS (Services) Limited
Financial statements for the year ended 31 March 2005



Company Number: 4129270

Report of the directors

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

Principal activities and business review

The company's principal activities are the provision of airport air traffic services at UK airports and the sale of its expertise and capabilities to overseas and UK customers.

On 26 July 2001, the company's parent National Air Traffic Services 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 £96.7m (2004 - £94.2m) with income at airports where charges are raised on users amounting to £62.0m (2004 - £55.4m) and income at contract airports was £32.1m (2004 - £35.5m). Income from other services accounted for turnover of £2.6m (2004 - £3.3m).

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 profit and loss account on page 6. The Board approved the payment of interim dividends of £7.2m in January 2005 and £16.9m in March 2005 and recommends that no final dividend is paid (2004 - £1.9m).

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 £2.3m at 31 March 2005 (2004 - £2.9m). The valuation has not been reflected in the financial statements of the group or the subsidiary.

Employees

Contracts of employment with staff are held by the company's immediate parent company, NATS. NATS 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 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 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.

NATS is also committed to improving employment opportunities for disabled people. NATS 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.

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 11 days (2004 - 6 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)

Danny Bernstein

Colin Chisholm (resigned 31 March 2005)

Richard Everitt (resigned 18 June 2004)

Nigel Fotherby

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: 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 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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.

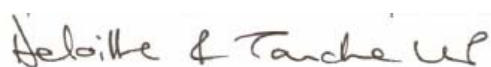
Basis of audit opinion

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

	Notes	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Turnover	2	96,650	94,227
Costs of staff seconded to NSL	3b	(62,635)	(56,605)
Services and materials		(9,786)	(12,600)
Repairs and maintenance		(3,750)	(3,377)
Depreciation	4a	(1,619)	(1,317)
Other operating charges - external charges		(3,338)	(3,239)
Other operating charges - intra-group	4b	(14,146)	(15,161)
Other operating income - intra-group	4b	7,925	7,012
Deferred grants released	4a,12	13	13
Net operating costs		(87,336)	(85,274)
Operating profit	4	9,314	8,953
Profit on disposal of fixed assets	5	919	-
Profit on ordinary activities before interest and taxation		10,233	8,953
Net interest receivable and similar income	6	2,245	1,609
Profit on ordinary activities before taxation		12,478	10,562
Tax on profit on ordinary activities	7	(1,489)	(1,078)
Profit for the financial year		10,989	9,484
Dividends paid and payable to other group companies		(24,100)	(1,900)
Retained (loss)/profit for the year transferred (from)/to reserves	15	(13,111)	7,584

All operations are continuing. 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

		2005	2004
	Notes	£000	£000
Fixed assets			
Tangible assets	8	9,507	8,741
Current assets			
Stocks and contract work in progress	9	4,239	313
Debtors: amounts falling due within one year	10a	11,803	11,301
Debtors: amounts falling due after more than one year	10b	22,500	22,500
Cash at bank and in hand		24,247	27,141
		62,789	61,255
Current liabilities			
Creditors: amounts falling due within one year	11a	(41,058)	(25,656)
Net current assets		21,731	35,599
Total assets less current liabilities		31,238	44,340
Creditors: amounts falling due after more than one year	11b	(105)	(96)
Net assets		31,133	44,244
Capital and reserves			
Called up share capital	14	100	100
Other reserves	15	3,830	4,812
Profit and loss account	15	27,203	39,332
Equity shareholder's funds	15	31,133	44,244

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

 Dr Chris Gibson-Smith

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

In addition, the company entered into a Management Services Agreement with NATS on 25 July 2001. This agreement provides for the provision by NATS 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 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.

NATS (Services) Limited (NSL) 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 Terminal Approach service (engineering services, use of communications facilities);
- ◆ accommodation and support services to NERL units sited on NSL's 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's business development division (for example - consultancy and engineering services).

The company commenced trading from 26 July 2001.

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

b) Basis of consolidation

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 the subsidiary undertaking, NATSNav Limited, for the year ended 31 March 2005.

The company's ultimate 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.

c) Investments

Investments in subsidiary undertakings are held in the parent company's balance sheet at cost less provision for any impairment in value.

d) Turnover

Turnover represents the amounts, excluding VAT, received and receivable in respect of services provided to customers. Turnover is recognised in accordance with airports and other contracts.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any 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:

- ◆ 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.

f) Contributions to fixed assets

Contributions to fixed assets are treated as deferred income which is credited to the profit and loss account by equal annual instalments over the expected useful economic lives of the related asset. Grants of a revenue nature are credited to income in the period to which they relate.

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) Work in progress

The amount of profit attributable to the stage of completion of a contract is arrived at by reference to the estimated overall profitability of the contract. Appropriate provisions are made for any losses in the year in which they are first foreseen.

Work in progress on assets in the course of construction for resale to third parties is stated at cost less progress payments received or receivable and after deducting foreseeable losses.

i) 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.

j) Pensions

NATS 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. 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.

k) Leases

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

2 Turnover analysis

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Airport air traffic services:		
- where charges are raised on users	61,953	55,372
- contracted to airport operators	32,117	35,563
Airport air traffic services	94,070	90,935
Miscellaneous income	2,580	3,292
Total	96,650	94,227

During the year the company received turnover from the following related parties:

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Ministry of Defence (MoD)	22	22
Department for Transport (DfT)	-	23
Meteorological Office	3	3
	25	48

All material turnover arises from operations originating within the United Kingdom. Revenue has not been shown by destination as it is not materially different from origination.

3 Directors' and employees' remuneration**a 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 the prior year for their services as directors of this company.

b Staff costs

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Salaries and staff costs were as follows:		
Wages and salaries*	49,086	46,569
Social security costs	4,843	4,494
Pension costs (note 3c)	9,224	5,972
	63,153	57,035
Less: own work capitalised**	(518)	(430)
	62,635	56,605

* Includes redundancy costs

** Includes £20,000 (2004: £nil) in respect of work for other group companies.

NATS is responsible for employing the staff engaged in the activities carried out by NSL. Under the terms of the Management Services Agreement (MSA) dated 25 July 2001 the services of certain employees are seconded to NSL by NATS. NSL is responsible for paying to NATS an amount equal to the aggregate of all costs incurred by NATS 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.

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

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Pension scheme costs for year (note 17)	9,005	5,840
Other pension costs	219	132
	9,224	5,972

d Staff numbers

	Year ended 31 March 2005 No.	Year ended 31 March 2004 No.
The average number of employees (including directors) seconded from NATS during the year in accordance with the MSA was:		
Air traffic controllers (ATCOs)	506	528
Air traffic service assistants (ATSAs)	219	219
Engineers	132	129
Others	107	102
	964	978

The number of staff seconded from NATS at 31 March 2005 was:

Air traffic controllers	518	525
Air traffic service assistants	214	221
Engineers	133	128
Others	110	104
	975	978

4 Operating profit

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
a Operating profit is stated after charging/(crediting):		
Depreciation of fixed assets	1,619	1,317
Profit on disposal of fixed assets	(9)	(1)
Deferred grants released	(13)	(13)
Voluntary redundancy costs	462	425
Meteorological services	616	520

b Transactions with other group companies

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Other operating charges - charges for services provided by parent company	5,780	6,787
Other operating charges - charges for services provided by other group companies	8,366	8,374
Other operating charges	<u>14,146</u>	<u>15,161</u>
Other operating income - costs recharged to parent company	244	143
Other operating income - costs recharged to other group companies	7,681	6,869
Other operating income	<u>7,925</u>	<u>7,012</u>

In addition to the staff costs referred to in note 3b above, NSL is responsible under the MSA for reimbursing NATS 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 1a.

c Auditors' remuneration

Amounts payable to Deloitte & Touche LLP in respect of audit services were £35,000 (2004 - £38,000).

d Operating lease rentals

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Plant and machinery	2,891	2,643
Land and buildings	786	747
	<u>3,677</u>	<u>3,390</u>

5 Profit on disposal of fixed assets

A gain on disposal of fixed assets of £919,000 has been recognised in the year. This reflects the insurance proceeds received and receivable as a result of the destruction of certain equipment following flood damage at Heathrow Airport on 9 July 2003.

6 Net interest receivable and similar income

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Interest receivable	1,015	654
Interest receivable from inter-company loans	1,409	1,134
Interest receivable and similar income	<u>2,424</u>	<u>1,788</u>
Interest payable and similar charges	(179)	(179)
Total	<u>2,245</u>	<u>1,609</u>

7 Tax on profit on ordinary activities

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
a Analysis of charge for the year		
<i>Current tax:</i>		
UK corporation tax at 30%	(1,489)	(1,100)
Adjustment for corporation tax in respect of prior years	-	(128)
Adjustment for group relief in respect of prior years	-	150
	<u>(1,489)</u>	<u>(1,078)</u>
<i>Deferred tax:</i>		
Origination of timing differences	1,275	1,450
Deferred tax asset not recognised	(1,275)	(1,450)
	<u>-</u>	<u>-</u>
Total deferred tax	-	-
	<u>(1,489)</u>	<u>(1,078)</u>
Tax on profit on ordinary activities	<u>(1,489)</u>	<u>(1,078)</u>

b Factors affecting the tax 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:

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Profit on ordinary activities before tax	12,478	10,562
	<u>3,743</u>	<u>3,169</u>
Tax on profit on ordinary activities at standard rate in the UK of 30%	3,743	3,169
Effects of:		
Depreciation in period (less than)/in excess of capital allowances	(193)	50
Other timing differences	1,183	1,381
Group relief received for £nil consideration	(3,244)	(3,500)
Adjustment for corporation tax in respect of prior years	-	128
Adjustment for group relief in respect of prior years	-	(150)
	<u>1,489</u>	<u>1,078</u>
Current tax charge for year	<u>1,489</u>	<u>1,078</u>

c Factors that may affect future tax charges

Based on current investment plans, the company expects to be able to claim capital allowances in excess of depreciation in future years. Any group relief available from NATS in future years will be received for £nil consideration.

8 Tangible fixed assets

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

	Land £000	Buildings Freehold £000	Leasehold £000	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	35	5,855	10,033	18,691	675	84	2,082	37,455
Additions during the year	-	-	-	959	15	-	1,426	2,400
Disposals during the year	-	-	-	(42)	(23)	-	(6)	(71)
Other transfers during the year including assets transferred to and from other group undertakings	-	-	3	1,197	-	-	(1,273)	(73)
Balance at 31 March 2005	35	5,855	10,036	20,805	667	84	2,229	39,711
Depreciation								
Balance at 1 April 2004	-	5,318	7,728	15,073	517	78	-	28,714
Provided during the year	-	292	335	912	79	1	-	1,619
Disposals during the year including assets transferred to and from other group undertakings	-	-	-	(106)	(23)	-	-	(129)
Balance at 31 March 2005	-	5,610	8,063	15,879	573	79	-	30,204
Net book value								
Balance at 31 March 2004	35	537	2,305	3,618	158	6	2,082	8,741
Balance at 31 March 2005	35	245	1,973	4,926	94	5	2,229	9,507

The net book value of leasehold buildings at 31 March 2005 in the company's accounts includes £1,973,000 (2004 - £2,305,000) attributable to leases with unexpired terms of less than 50 years.

9 Stocks and contract work in progress

	2005 £000	2004 £000
Contract work in progress	4,239	313

This represents the total value of work in progress on various projects which will be sold under an Agency agreement with BAA and the leasing company.

10 Debtors**a Amounts falling due within one year**

	2005 £000	2004 £000
Trade debtors		
- DfT	4	1
- Meteorological Office	1	4
- MoD	9	-
- Other	6,439	6,079
Other debtors	596	96
Prepayments and accrued income	4,754	5,121
	11,803	11,301

b Amounts falling due after more than one year

	2005 £000	2004 £000
Amounts due from other group undertakings		
- Inter-company loans	22,500	22,500
	22,500	22,500

The company has provided two inter-company loans to NATS (En route) plc (NERL) on 19 March 2003, one for £18,799,000 to fund NERL's Liquidity Reserve Account and the other for £3,701,000 to fund its Debt Service Reserve Account. The loans are subordinate to all borrowings made to NERL by its lending banks pursuant to the Second Supplemental Facilities Agreement dated 19 March 2003 and, as such, interest and principal may not be paid until such time as all borrowings made by NERL under its Capital Loan Facility and its Working Capital Facility have been repaid.

11 Creditors**a Amounts falling due within one year**

	2005 £000	2004 £000
	Note	
Payments received on account	371	314
Trade creditors		
- Meteorological Office	22	45
- other	687	364
Amounts owed to other group undertakings		
- dividends payable	16,900	1,900
- other	16,709	16,957
Corporation tax	19	800
Other creditors	1,486	1,401
Accruals and deferred income		
- deferred grants	13	13
- other	4,848	3,862
	41,058	25,656

b Amounts falling due after more than one year

	2005 £000	2004 £000
	Note	
Accruals and deferred income		
- deferred grants	13	96
	105	96

12 Deferred taxation

There is a deferred tax asset of £3.7m (2004 - £2.6m) that has not been recognised in the accounts, as recoverability in the short term is uncertain.

13 Deferred grants

Contributions receivable from third parties in respect of expenditure on fixed assets are treated as deferred income which is credited to the profit and loss account by instalments over the expected useful lives of the related assets on a basis consistent with depreciation policy. The movements during the year to 31 March 2005 were as follows:-

	Total £000
Balance at 1 April 2004	109
Received during the year	25
Released to profit and loss during year	(13)
	<hr/>
Balance at 31 March 2005	121

14 Called up share capital

	2005 £000	2004 £000
Authorised		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Called up, allotted and fully paid		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

15 Reconciliation of movements in equity shareholder's funds

	Share capital £000	Other reserves £000	Profit and loss £000	Total year ended 31 March 2005 £000	Total year ended 31 March 2004 £000
Balance at 1 April 2004	100	4,812	39,332	44,244	36,660
Loss for the year	-	-	(13,111)	(13,111)	7,584
Transfers	-	(982)	982	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2005	100	3,830	27,203	31,133	44,244

The transfers between reserves of £1.0m (2004 - £1.0m) represents those assets which were hived down from National Air Traffic Services Limited on 26 July 2001 and subsequently realised as a consequence of the company trading between 1 April 2004 and 31 March 2005.

16 Commitments**a Capital commitments**

Amounts contracted but not provided for in the accounts at 31 March 2005 amounted to £2,300,000 (2004 - £1,200,000).

At 31 March 2005, the company had also entered into contracts amounting to £4,200,000 (2004 - £2,300,000) in respect of works that are rechargeable to third parties.

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

At 31 March 2005 annual commitments were as follows:

	Plant and machinery £000	Land and buildings £000	2005 Total £000
Expiry within one year			
Expiry within two to five years, inclusive	146	198	344
Expiry in more than five years	1,735	169	1,904
	1,979	370	2,349
	3,860	737	4,597

At 31 March 2004 annual commitments were as follows:

	Plant and machinery £000	Land and buildings £000	2004 Total £000
Expiry within one year			
Expiry within two to five years, inclusive	28	193	221
Expiry in more than five years	1,771	166	1,937
	1,935	233	2,168
	3,734	592	4,326

(iii) Forward contracts

The company has gross commitments in respect of forward exchange contracts of euro nil (2004 - 1,000,000) and Norwegian Krone nil (2004 - 500,000).

17 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 2004 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 which the company was charged during the year by its immediate parent undertaking - the employing company - in accordance with the terms of the Management Services Agreement dated 25 July 2001 was £9.2m (2004 - £6.0m), including £0.2m (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 £0.2m 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 £5.0m.

18 Contingent liabilities

The company has contingent liabilities under indemnities given in the ordinary course of the public sector business which it currently carries on.

The company has given guarantees on behalf of its subsidiary undertaking's liabilities totalling £480,000 at 31 March 2005 (2004 - £421,000).

19 Related Parties

Since 26 July 2001, the NATS group has two major shareholders - The Airline Group and the Crown. During the year transactions have taken place with the Meteorological office and the Defence Evaluation Research Agency (DERA). Transactions with these parties are disclosed in notes 2, 10 and 11 above.

20 Investments in 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.

21 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 .