NATS Holdings Limited

Annual Report and Accounts 2008

NATS

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Directors, officers & advisers

Directors* of NATS Holdings Limited
Other companies within the group for which they are also directors

John Devaney
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited.

Paul Barron
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited,
NATSNav Limited,
National Air Traffic Services Limited.

Nigel Fotherby
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited,
NATSNav Limited,
National Air Traffic Services Limited.

Lawrence Hoskins
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited,
NATSNav Limited.

Ian Hall
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited.

Ian Mills
NATS Limited,
NATS (En Route) plc.

Derek Stevens
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited.

Giovanni Bisignani

Barry Humphreys
NATS Limited,
NATS (En Route) plc,
NATS (Services) Limited.

Peter Read

Sigurd Reinton

Nigel Turner

Baroness Dean of Thornton-le-Fylde
NATS Employee Sharetrust Limited.

Andrew White

Roger Cato

General Counsel and Company Secretary
Richard Churchill-Coleman

Registered office
5th Floor, Brettenham House South,
Lancaster Place, London WC2E 7EN
Registered in England and Wales,
Company No. 4138218

Auditors
Deloitte & Touche LLP

*A brief biography is provided for each director on pages 46-49

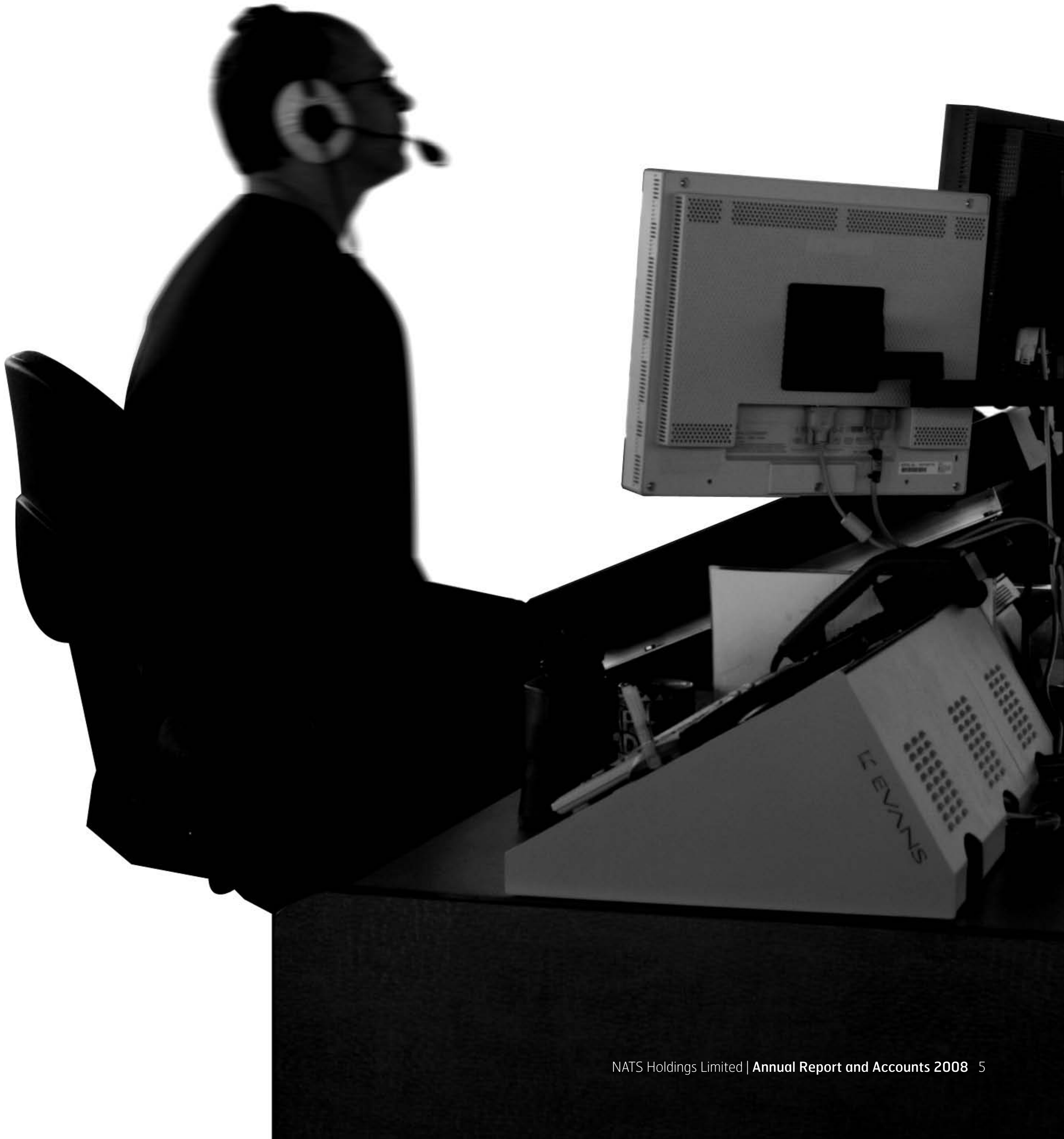
Chairman's statement

I am pleased to report that NATS has had another successful and profitable year – the group recorded a profit of £66.7m...

I am pleased to report that NATS has had another successful and profitable year - the group recorded a profit of £66.7m (2007: £94.4m) despite the costs of closing the air traffic control centre at West Drayton and redeeming shareholder loan notes. But we live in challenging times and so our focus has been on strengthening our management teams and strategy to ensure we are best placed to respond.

Traffic volumes grew by 3.1%, above our anticipated long term growth rate of 2.3%, but we cannot assume that growth will continue at this level. The outlook is not easy to predict. On the one hand we have the effect of the economic downturn to consider. On the other, developments such as the introduction of the Open Skies arrangements between the US and Europe have the potential to create more traffic demand and airline routeings. Delivering on our major project milestones and continuing to develop air traffic management tools will help us manage these effects. We are also closely involved in the discussion on how best to enhance the capacity of London's airports.

Single European Skies (SES) legislation has provided the impetus for air traffic service providers to explore industry re-structuring through functional airspace blocks. We are playing our part in this initiative and this summer will implement Europe's first FAB in partnership with the Irish Aviation Authority.



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Chairman's statement

Chairman's statement

Progress is being made on the establishment of the SESAR Joint Undertaking, a consortium of European organisations, airlines, air service providers and industry suppliers brought together to develop interoperable air traffic management systems. We intend to play a key role in shaping developments here and expect to commit investment and resources to this project.

With these challenges in mind, we have strengthened the management teams of both the NATS (En Route) plc (NERL) and NATS (Services) Ltd (NSL) businesses, establishing separate Executive teams for both, to enable them to focus on their respective commercial imperatives: the former being economically regulated and the other non-regulated but operating in contestable markets at home and overseas.

Paul Barron, Chief Executive of NATS Holdings, now also becomes Chief Executive of NERL, retaining overall accountability for the en-route business. Lawrence Hoskins has been appointed Chief Executive of NSL, reporting to Paul, to lead the commercial arm of the business as it develops its strategy and products.

Gretchen Burrett, as Director of Safety, will continue to have overall safety accountability across both businesses, which we believe is in the interests of ensuring the highest standards continue to be maintained.

Paul Barron and Lawrence Hoskins have now developed Vision 2011 for NERL and NSL respectively, which set the strategic blueprints for both businesses over the next three years. These strategies are both consistent with the NATS brand values, which define a proactive approach to safety, a focus on the customer and driving efficiency, partnerships with other industry participants, a continued focus on developing our people, and also the environment. I am very pleased that NATS is the first company in our sector to set specific targets on CO_2 reduction, demonstrating once again our willingness to lead our industry and to continue to challenge the status quo.

I look forward to reporting on progress over the next three years.

Chairman's statement

Chairman's statement

Six years since the PPP came into being, NATS has faced enormous challenges and change.

I am confident, too, that the Board's own focus has been sharpened with three new appointments this year. Nigel Turner, Chief Executive of bmi, joins as a non-executive director appointed by The Airline Group, the Government's strategic partner in the NATS PPP. Nigel's two decades in the airline industry will be valuable in the working partnership with our customers. Nigel succeeds Danny Bernstein, who is standing down after six-and-a-half years.

Sigurd Reinton has been appointed by the Government as a non-executive director of the Board. Sigurd replaces Stephen Pettit, who has been on the Board since the PPP six years ago.

I am delighted to welcome the specific expertise and experience that both Nigel and Sigurd bring to the Board's activities. On behalf of the Board I would like to thank Danny and Stephen for their commitment, counsel and insight over six years of change and challenge for this company. We have very much valued their contribution.

Ian Mills becomes our fifth Executive Director. He brings his considerable energy and project management expertise to the table at a time when NATS is undertaking significant development programmes central to our future here and a changing European air traffic control environment.

Six years since the PPP came into being, NATS has faced enormous challenges and change. I would like to thank all our employees for meeting these challenges. I have confidence that we will respond just as well to tests we will face in future.

We have put in place processes and technology to deliver ever improved efficiency for our airline and airport customers and will continue to work closely with them to ensure our service continues to be world-class.

John Devaney
Chairman

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Chief Executive's review

This has been another year of change, challenge and real delivery for NATS.

Overview of the business

This has been another year of change, challenge and real delivery for NATS.

We believe it has been a year in which we have reinforced our position as a leader in an industry at the centre of a vital global trade network.

While continuing to maintain our high safety standards, our headline achievements for this year include the successful move of one of our key areas of operation to a new home; innovative safety initiatives, the transition to a new tower at Heathrow and the world's biggest-ever airspace change consultation.

The transfer of the London Terminal Control operation from West Drayton to the London Area Control Centre at Swanwick in Hampshire in November, showed NATS at its very best.

The £90m project was the culmination of four years' work, involved major equipment rebuild and replacement and the relocation of 500 people to run an operation responsible for the airspace around the London airports – among the busiest in the world.

Chief Executive's review

The transfer, on time and under budget, marked the halfway stage of our long-term plan to consolidate our operation from four air traffic control centres to two.

There were challenges, too. The Heathrow tower, which we consider to be our showcase airport operation, had plenty thrown at it this year, from the short landing by a British Airways Boeing 777 in January, to the problems experienced by Terminal 5 when it opened in March. The NATS team rose to each of these challenges and maintained service levels throughout.

And there have been rewards. Probably the biggest compliment NATS could be paid was to be voted the best Air Navigation Service Provider in the world – by our own industry. That is exactly what happened this year in the first-ever poll staged by Air Traffic Management magazine.

Since I arrived at NATS, I have repeatedly said, and will continue to say, that we will continue to lead the way for our industry. We are uniquely placed to do this because of our part-privatised status in a world where state-owned providers are the norm.

This year, we have driven this process further forward. Under the banner of one NATS, two businesses, we have completed the reorganisation of our economically regulated and non-regulated businesses with a new and robust management structure to enhance the distinction between NATS (En Route) plc (NERL) and NATS (Services) Ltd (NSL) to bring them closer to their customers.

NERL, responsible for some 80 per cent of the group's revenues, is the regulated side of NATS business, which this year handled almost 2.5m flights through UK airspace.

NSL this year redefined its strategy, business model and product lines to establish itself as a market leader for air traffic and airport services.

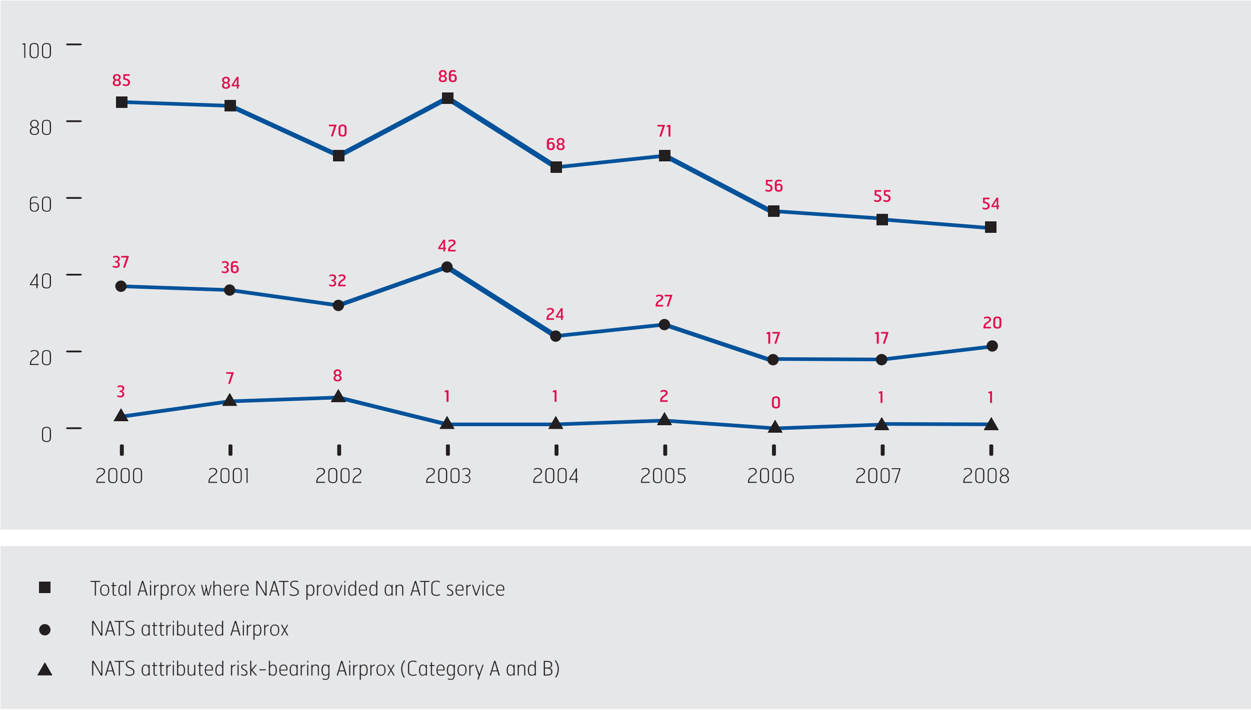
This has been a year of transition for NSL, which in September appointed its own Executive team headed by Lawrence Hoskins as its Chief Executive. One of the first successes for the team was signing a new five-year contract with BAA in March for air traffic services at its seven UK airports. NSL also secured other contracts in Ireland, Hong Kong and Dubai.

	2007/08 ('000s)	2006/07 ('000s)	% change in year
Chargeable Service Units	**10,850**	10,400	4.3%
Chargeable Distance (km)	**799,071**	772,041	3.5%
Total UK traffic (flights):			
Domestic	**495**	502	(1.4%)
Transatlantic	**343**	325	5.6%
Other	**1,642**	1,579	4.0%
Total	**2,480**	2,406	3.1%
Oceanic traffic (flights):			
Total flights	**422**	396	6.5%

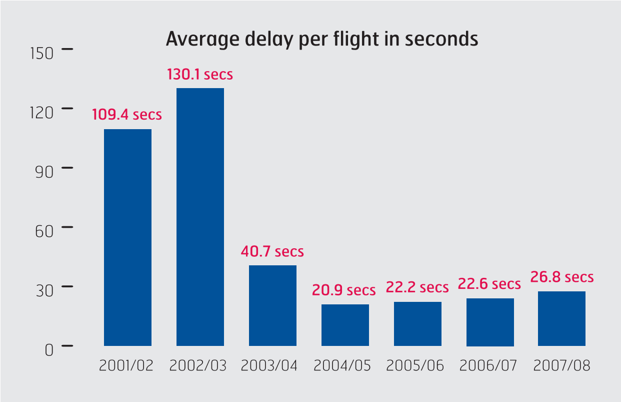
Chief Executive's review

In safety, NATS continues to maintain its performance against a background of rising traffic – up three per cent to nearly 2.5m flights for another record year. While the number of airproxes attributable to NATS rose slightly from 17 to 20, there was one risk-bearing airprox – the same as last year.

Airprox: annual totals for the financial year ended 31 March



A slight rise in delay attributable to NATS of 26.8 seconds per flight compared to 22.6 seconds last year should be seen in the context of growing traffic and it should also be noted that this is well within our economic regulatory par value target of 45 seconds. The number of flights receiving no NATS-attributable delay was 97.5 per cent, compared to 97.7 per cent last year.



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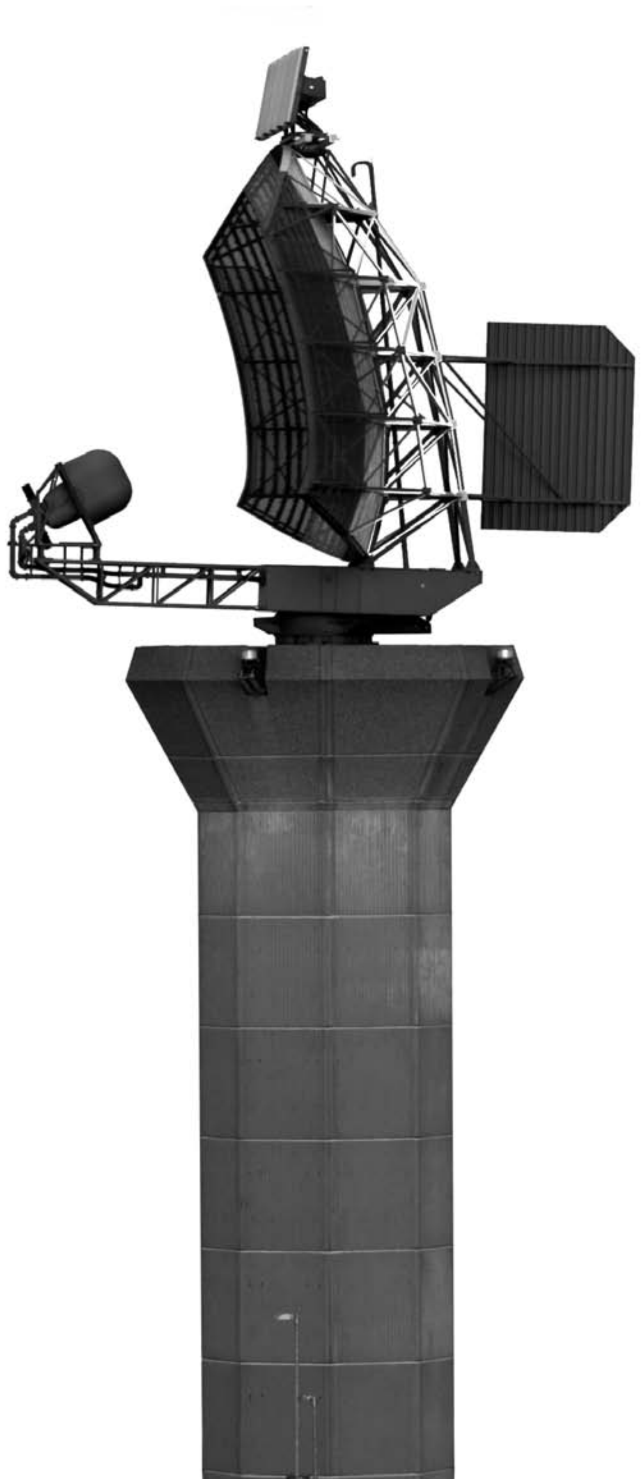
Chief Executive's review

Chief Executive's review

Our brand values define who we are, and what we stand for as a business.



The Group recorded a profit before tax of £66.7m, lower than last year's £94.4m. This was expected and inevitable because of the costs of closing the air traffic control centre at West Drayton, and relocating the staff and operations to Swanwick, and the redemption fee associated with our plans to repay expensive shareholder loan notes. Exclude these factors and our results were once again very creditable. A more detailed review of financial performance is provided below.

A credit rating upgrade by Standard & Poor's to A from A- provided the opportunity to redeem shareholder loans, as explained in the Financial Review below. The group also paid a dividend to shareholders of £2.4m in the year. Under the terms of its finance documents, NERL is precluded from paying a dividend until 1 October 2008. Accordingly, the decision on the next dividend payment to shareholders will be taken in the second half of the financial year ending 31 March 2009.

Change, challenge and success on this scale takes a tremendous effort and I want to thank everyone across the business for their dedication in bringing NATS to this place. Looking forward, what more do we need to do?

Earlier this year, we set out Vision 2011, the new business strategies for the development of NERL and NSL over the next three years. Underpinning this vision for each business are six brand values, which apply across both NERL and NSL and will drive their complementary business plans.

Our brand values define who we are, and what we stand for as a business. Because they set the context for the work ahead of both NERL and NSL – despite the fact that they will be applied differently to these two very different businesses – I have used them as the headings for the rest of my report – to be Proactive in Safety; Tuned In to Customers; Driving Efficiency; Great Partners to Work With; Acting Responsibly; and Liberating and Inspiring People.

Chief Executive's review

The ATM industry is key to ensuring our skies remain safe, no matter how many aircraft fly through them, no matter where they fly.

Proactive in Safety

NATS' first priority will always be safety - maintaining safe separation between aircraft both in the air and on the ground. Our ten-year strategic safety plan, safety management system, governance processes for reviewing, monitoring and taking risk reduction actions, enable appropriate monitoring of safety performance and help to mitigate safety risk. We believe that we continue to set new standards in this area in which we are regarded as world-leading.

We are already reaching beyond our direct responsibility to improve safety. In September we launched a Lower Airspace Radar Service (LARS) in the uncontrolled airspace underneath and around the controlled airspace used by commercial flights into and out of the London airports.

We had no regulatory obligation to do this – but we saw an opportunity to improve safety. NATS covered the start-up costs of £1m and will absorb the estimated cost of £0.5m.

LARS has already prevented more than 250 infringements of controlled airspace by light aircraft.

This project was complemented by the Controlled Airspace Infringement Tool, or CAIT, which highlights on the radar screen private aircraft mistakenly flying into controlled airspace around the London airports.

These two projects have resulted in a 40% reduction in infringements – and we expect further benefits.

Controllers at our Manchester centre benefited from the extension of the Mode-S radar aid, which continues to reduce the number of incidents where aircraft climb or descend to the wrong altitude, posing a possible safety risk.

Employees in our airport operations around the country are being encouraged to challenge the status quo and use their experience and expertise to suggest changes, working with our airport customers to benchmark best practice.

The ATM industry is key to ensuring our skies remain safe, no matter how many aircraft fly through them, no matter where they fly. And that, in my view, is why we in air traffic management are the natural leaders in shaping a new future of even safer aviation.

Chief Executive's review

Tuned in to Customers & Driving Efficiency

NATS exists to serve our customers. That means listening to their requirements – meeting them cost effectively, and challenging them when we believe it is right to do so.

These two brand values are inextricably inter-linked because efficiency and value is at the heart of what our customers want. For NERL, driving efficiency is mainly about delivering benefits from our projects faster while retaining safety and service standards. For NSL, it is about being tuned in to our customers to position the business for future growth and setting stretching targets for increased turnover.

The new BAA contract is a classic illustration of how driving our own business objectives are in tune with our customers' requirements. We will be applying a similar approach to our other airport contracts.

Our customers expect us to continue to provide capacity for growth and to minimise delay. To ensure that we are able to meet this expectation we are improving systems infrastructure and service resilience and have a programme that safeguards our facilities and provides contingency. We are also ensuring that we have sufficient numbers of trained air traffic controllers as we transfer between centres and develop new systems.

NERL's project capability rating, using an internal equivalent to the internationally recognised CMM standard which rates five the highest score, has been upgraded from 1.8 in 2004 to 3.7 in 2007. I applaud our people for making that happen. The development of our project management capability helps mitigate programme risk such as delays and cost over-runs.

iFACTS, the advanced controller tool which NATS has been developing for almost ten years, is nearing implementation. Previously planned for 2009, and now with an optimised schedule of Winter 2010, this is the most technically challenging project NATS has ever undertaken. The team working on it can be proud that they will deliver what will be the most significant innovation in ATM since radar, bringing with it marked safety and efficiency benefits.

NSL is actively talking to current and potential customers – some of them in other sectors where our product solutions are attracting interest – and seeking international opportunities in emerging markets.

We see great opportunities for technology such as Airport Collaborative Decision-Making, which we are currently introducing at Heathrow and other airports. This internet-based tool pulls together operational data into one place to ensure everything from push-back to take-off can be timed to the split second.

Chief Executive's review

Great Partners to Work With

Partnership can have different meanings – and for NATS it includes a wide range of different relationships. NSL's product lines will be developed to a great extent through collaboration or joint venture, and finding the right partners will be the key to success. NERL is developing important partnerships within the industry to achieve a new vision for ATM across the world – and particularly in Europe.

We are partners in the SESAR project to redraw the airways over Europe, creating a harmonised air traffic system to handle sustainably a forecast doubling in flight numbers by 2020, ever more safely, ever more efficiently.

I am pleased NATS has been accepted as part of the Joint Undertaking at the centre of the project. Our relationship with Europe is central to our future success and this year I made that clear to the business by creating a Directorate of European and Government Affairs.

With our German and Spanish air traffic service partners, we are developing the next generation of air traffic management tools by investing to build the iTEC flight data processing system with the Spanish company, Indra.

NATS has continued discussions with the Irish Aviation Authority aimed at developing an agreement for a Functional Airspace Block (FAB) involving UK and Irish airspace. Our respective Governments have just announced the FAB and I look forward to delivering operational benefits for our customers in the coming year.

It is not just in Europe where we are forging new relationships. In June, I was elected to the executive committee of CANSO – the Civil Air Navigation Services Organisation, which provides the global voice of ATM. NATS has also taken on the role of Policy Director for safety. I have personally committed to driving forward CANSO's environmental agenda and I intend to do all I can to support the chairman and director general in pursuing a collective vision of future innovation in ATM worldwide.

Partnerships much closer to home, be they with airports, airlines or our valuable close co-operation with our military colleagues have never been more important to our future success. Our fifteen-year, £750m contract to provide air traffic services for the military continues to lead to a more integrated approach, with nearly 200 service personnel now based at Swanwick.

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Chief Executive's review

We are constantly challenging ourselves to strive for what seem to be demanding targets – none more so than our stance on climate change.

Acting Responsibly

We are constantly challenging ourselves to strive for what seem to be demanding targets - none more so than our stance on climate change.

NATS has become the first air traffic service provider to set stretching environmental targets.

Our aim is to unite the industry in achieving a reduction, on average, of ten per cent per flight in ATM CO_2 by 2020, against a 2006 baseline, whilst also achieving a carbon-neutral estate by 2011.

In spite of rising traffic, our position as a business is to manage and, where possible, reduce the environmental impact of aviation down to air traffic control, however difficult that may be. This includes noise and emissions.

Many years ago, NATS pioneered Continuous Descent Approaches at British airports for quieter, smoother and more efficient landing profiles. Today, we are examining every aspect of our business to see where we can be "greener".

I have been telling our partners here and abroad that we can be a catalyst for action. In a speech to the Air Traffic Control Association in October, I challenged our air traffic colleagues worldwide to spark a radical overhaul to match the pace of change achieved by manufacturers, airlines and airports. Our partners across the industry expect nothing less.

We launched the world's biggest-ever consultation on proposed airspace change – Terminal Control North – for the skies serving the London airports. We have issued more than 3,000 consultation documents, and created a website with a postcode search and an explanatory video to help people living in the area understand our proposals for managing air traffic growth safely and efficiently in one of the most complex areas of airspace in the world.

This follows the consultation carried out last year for airspace over central and southern England – the Terminal Control South West proposal was approved by the Civil Aviation Authority earlier this year and implemented in April. Our experts have also contributed to the Government's consultation on proposals for expanding Heathrow's operations.

Chief Executive's review

Liberating and Inspiring People

The single uniting factor across our business is our people. Everything we achieve is done so through the commitment and professionalism of an incredibly capable workforce. I would like to thank our employees for their outstanding contribution.

We continue to work closely with our union colleagues. This is a crucial partnership and one that we continue to develop across both our businesses and the different challenges they face. It is a robust relationship; we don't always agree but we always talk. That is entirely healthy and I am committed to ensure we continue to respect, and challenge, each other's views.

Working Together is important in maintaining good industrial relations and is especially important in the context of our challenging conversations about the future of the pension fund. Together, we commissioned an independent report this year and we are working with the unions to develop options to mitigate the potential future costs and risks of the pension scheme on our business.

The second year of our annual NATS Awards attracted almost 180 nominations involving nearly 500 individuals, whose contribution to the success of our business was considered valuable by colleagues.

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Chief Executive's review

Overview of Financial Performance

NATS operates UK and North Atlantic en route air traffic control services through its economically regulated subsidiary, NERL, and provides airport air traffic control and other commercial services through its subsidiary, NSL. The activities of other subsidiaries are set out in note 30 to the accounts.

The group reported a profit before tax of £66.7m (2007: £94.4m). Group revenues grew by £41.3m to £742.5m (2007: £701.2m). Operating profits at £134.4m were £9.6m lower than the previous year (2007: £144.0m), reflecting the costs of relocating the West Drayton air traffic control centre to Swanwick.

NERL reported a profit before tax of £62.5m (2007: £86.3m). Its external revenues improved by £29.5m to £604.2m (2007: £574.7m), reflecting increased revenues from UK and North Atlantic en route services and MoD revenues.

NSL's growth in activity continued in the year with external revenues improving by £12.0m or 9.5% to £137.8m (2007: £125.8m) reflecting better airport contract revenues. Profit before tax was £11.5m (2007: £16.1m). The market for airports air traffic and related services remains contestable but NSL is well positioned to take advantage of growth prospects which exist in the UK and overseas.

The financial reviews that follow include reference to operating costs that are considered to be exceptional but are not defined as such in the financial statements. Exceptional items are explained more fully below.

UK air traffic services

	2008 £m	2007 £m
Turnover	580.4	552.2
Operating costs	(361.4)	(350.4)
Depreciation, amortisation, impairment and deferred grants	(77.1)	(81.2)
Exceptional items	(20.4)	4.2
Operating profit	121.5	124.8
Chargeable Distance (millions km)	799.1	772.0
Chargeable Service Units (000)	10,850	10,400

UK air traffic services (UKATS) are provided by NERL and comprise UK en route services, services provided under contract with the MoD, London approach services, and services to North Sea helicopter operators. Revenues from these sources can be analysed as follows:

	2008 £m	2007 £m
UK en route services	522.2	496.3
London approach services	8.7	8.6
Support services to MoD	43.2	40.9
North Sea helicopters	6.3	6.4
Total	580.4	552.2

Chief Executive's review

Income from UK en route services, which are provided to traffic operating in those parts of UK airspace which constitute controlled airspace, increased by £25.9m in the year to £522.2m (2007: £496.3m). Over a third of this increase arose from the annual adjustment to prices under the RPI minus "X" price control formula. A further third arose from higher volumes (up 3.5% to 799.1m kilometres) whereby NERL benefits from 50% of the revenues above a regulatory baseline. The volume risk sharing mechanism also affords some protection against traffic downturns. The remainder of the revenue uplift arose from exchange gains from the strengthening Euro, including the re-translation of receivables. It is the group's policy to hedge 90% of forecast UK en route services revenues.

London Approach services, which are provided to aircraft arriving at or departing from Heathrow, Gatwick and Stansted airports, generated £8.7m (2007: £8.6m). Revenues from these services are combined with those from UK en route services and capped by the charge control conditions. The specific charge for London Approach is set after consultation with airlines and levied based on aircraft tonnage. Rates per tonne remained unchanged in the year at 20 pence up to 100 tonnes and 8 pence per tonne above this. Landed tonnage increased by 1.6% to 55.7m tonnes (2007: 54.8m tonnes).

NERL has a service contract, that became effective in July 2006, to provide services and support infrastructure to the MoD for military air traffic services. Revenues generated under the contract amounted to £43.2m (2007: £40.9m) with the increase arising from a combination of higher rates and additional services provided.

Charges for services to North Sea helicopter operators are levied on the basis of a charge per flight. Revenues decreased by £0.1m to £6.3m (2007: £6.4m) reflecting rate changes. Volumes remained flat at 38,495 (2007: 38,447).

Operating costs for UK air traffic services increased by 3.1% to £361.4m (2007: £350.4m) largely due to higher staff-related costs associated with pay awards, increased provisions for holiday pay, employee share scheme costs and the buyout of London weighting allowances following staff relocation to the Swanwick area on closure of West Drayton.

Asset-related charges for depreciation, amortisation and impairment net of deferred grants fell by £4.1m to £77.1m (2007: £81.2m) as lower impairment charges were partly offset by higher underlying depreciation charges.

Exceptional losses of £20.4m (2007: £4.2m net gains) related to redundancy and relocation costs, largely associated with the West Drayton centre closure and to a one-off payment to staff to compensate for the changes to redundancy terms that were required to comply with age discrimination legislation. The previous year's results included the benefit of gains on property sales of £8.5m.

UK air traffic services generated an operating profit of £121.5m for the year which was £3.3m lower than last year (2007: £124.8m) due to these exceptional costs.

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Chief Executive's review

North Atlantic air traffic services

	2008 £m	2007 £m
Turnover	23.8	22.5
Operating costs	(17.5)	(16.2)
Depreciation, amortisation, impairment and deferred grants	(2.5)	(1.8)
Exceptional items	-	(0.2)
Operating profit	3.8	4.3
Total flights (000)	422	396
Chargeable flights (000)	420	394

North Atlantic air traffic services are en route services provided by NERL in the Shanwick Oceanic Control Area (part of the North Atlantic where the UK provides navigation services by international agreement and where communications are provided by the Republic of Ireland). The charges for these services are levied on a per flight basis and are subject to regulatory charge control conditions that allow for the annual adjustment of prices by the movement in the RPI less a specified percentage. Revenues at £23.8m (2007: £22.5m) were £1.3m higher than the prior year. Flight volumes increased by 6.6% to 420,267 and accounted for a £1.4m increase that was partly offset by a 0.6% reduction in the rate per flight from £56.01 to £55.68.

Operating costs at £17.5m were £1.3m higher than the previous year (2007: £16.2m) due mainly to higher staff-related costs. Asset-related charges for depreciation, amortisation and impairment net of deferred grants also increased by £0.7m to £2.5m (2007: £1.8m) as the flight data processing system used to support North Atlantic operations at Prestwick went operational in the year.

Overall, North Atlantic air traffic services generated an operating profit of £3.8m, £0.5m lower than the previous year (2007: £4.3m) principally due to higher staff costs and depreciation charges.

Airport air traffic services

	2008 £m	2007 £m
Turnover		
Charges raised on customers	86.3	75.5
Contracted services	44.5	43.9
Turnover	130.8	119.4
Operating costs	(116.7)	(103.2)
Depreciation and amortisation	(2.0)	(1.3)
Exceptional items	(3.0)	(0.2)
Operating profit	9.1	14.7

NSL provides air traffic control services at 15 of the UK's major airports and to Gibraltar. NSL also provides engineering services to airport operators in the UK and abroad.

Charges in the year were either recovered from airline customers or from airport operators directly. Charges to airline customers increased by £10.8m to £86.3m (2007: £75.5m) and arose from improved contract pricing as well as the re-charge to customers of rent for the new Heathrow control tower building. Revenues from contracted services improved by £0.6m to £44.5m (2007: £43.9m).

Operating costs increased by 13.1% to £116.7m (2007: £103.2m). This increase included higher staff-related costs, including a one-off payment to staff at Heathrow on moving to the new control tower. Rental charges were also higher as the new Heathrow control tower building is leased. Asset -related charges for depreciation and amortisation were £0.7m higher at £2.0m (2007: £1.3m). Exceptional charges for redundancy and relocation at £3.0m were also higher than prior year (2007: £0.2m) reflecting the restructuring of support functions and payments to compensate staff for changes in redundancy terms.

Operating profit at £9.1m (2007: £14.7m) was £5.6m less than prior year as revenue growth was offset by higher costs and exceptional items.

Chief Executive's review

Other revenues

In addition, NSL provides consultancy, training and airport data management services to customers in the UK and overseas. Revenues from these services at £7.5m (2007: £7.1m) were £0.4m higher than prior year.

Outlook

This has been a year of solid achievement and innovation to prepare for the risks and possibilities that lie ahead.

NATS will always strive to offer the best value for money in managing rising levels of air traffic safely and efficiently. Everything we do is tailored towards this outcome but we know there is always more to do.

NERL is already preparing the ground for the economic regulator's review of the charges that will apply for the five years from 2011. The regulator and our customers are demanding more from us, putting pressure on what we can charge for our service. We have created a small dedicated project team to help us ensure that we achieve an outcome for the next control period which meets customer requirements in a cost effective way with manageable risk and at a return satisfactory to our stakeholders.

NSL, which in the second half of the year established its structure, strategy and plan, now moves into its first full year of consolidation and expansion under its new Executive team. This is an exciting time for the company, continuing to develop our core expertise and using it to build new business and new partnerships wherever we believe we can add value.

We are at the heart of an industry that brings together the travelling public, the airlines, the airports and Government. We are very well placed to help integrate the interests of all stakeholders, and forging strong partnerships will mean we can help shape new aviation horizons and ensure we continue to be seen as a leader in our field.

Paul Barron
Chief Executive

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Financial review

The group reported a profit before tax of £66.7m for the year (2007: £94.4m). The results, summarised in the table opposite, were materially affected by two exceptional factors that were expected to arise in the financial year: the closure of the air traffic control centre at West Drayton, and the relocation of operations to Swanwick as part of the group's ongoing rationalisation of its air traffic control infrastructure from four centres to two, and the repayment of high interest shareholder loan notes financed in part by the group's strong operating cash flows. The repayment incurred an early redemption charge of £15.8m. The prior year's result also included the benefit of asset disposals.

	2008 £m	2007 £m
Turnover	742.5	701.2
Costs		
- Costs before exceptional items	(584.7)	(561.0)
- Exceptional operating costs (net)	(23.4)	3.8
	(608.1)	(557.2)
Operating profit		
- Operating profit before exceptional items	157.8	140.2
- Exceptional operating costs (net)	(23.4)	3.8
	134.4	144.0
Finance costs (net)		
- Net finance costs before exceptional items	(51.9)	(49.6)
- Exceptional finance costs	(15.8)	-
	(67.7)	(49.6)
Profit before taxation		
- Profit before tax and exceptional items	105.9	90.6
- Exceptional items (net)	(39.2)	3.8
	66.7	94.4
Tax	(17.5)	(25.0)
Profit for the year	49.2	69.4

Profit before these items was better than the previous year. Revenues improved by £41.3m or 5.9%, from a combination of higher traffic volumes, contract re-pricing and some benefit from exchange gains from the stronger Euro. Operating costs before exceptional factors rose by £23.7m or 4.2%, due mainly to higher staff costs associated with inflation-linked increases in wages and salaries, provisions for holiday pay and employee share scheme costs and the buy-out of allowances. Net finance costs, before the redemption payment, were higher by £2.3m or 4.6% due mainly to marking to market fair value losses on derivatives.

Revenues

Group turnover increased by £41.3m (5.9%) to £742.5m (2007: £701.2m) and mainly reflected improved UK en route services and airport contract revenues. Revenues are explained in detail in the Chief Executive's overview of financial performance above.

	2008 £m	2007 £m
UK air traffic services		
UK en route services:	522.2	496.3
Support services to MoD	43.2	40.9
London approach services	8.7	8.6
North Sea helicopters	6.3	6.4
	580.4	552.2
North Atlantic air traffic services	23.8	22.5
Airport air traffic services	130.8	119.4
Miscellaneous services	7.5	7.1
Total	742.5	701.2

Operating costs

Included within operating costs are certain amounts considered to be exceptional but are not defined as such in the financial statements. Exceptional items are explained more fully below. Before exceptional items and asset-related charges, operating costs increased by £26.6m (5.6%) to £503.1m (2007: £476.5m).

Operating costs for the year are analysed as follows:

	2008 £m	2007 £m
Before exceptional items:		
Employee costs	(356.6)	(333.4)
Service and materials	(75.9)	(70.8)
Repairs and maintenance	(28.0)	(27.7)
External research and development	(0.6)	(0.5)
Other operating charges (net)	(42.0)	(44.1)
	(503.1)	(476.5)
Depreciation and amortisation	(83.5)	(76.6)
Asset impairment charges	(1.3)	(12.5)
Deferred grants	3.2	4.6
Operating costs	(584.7)	(561.0)
Exceptional operating costs (net)	(23.4)	3.8

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Financial review

Employee-related costs of £356.6m (2007: £333.4m) increased by 7.0% on the previous year and accounted for 61% (2007: 59%) of the group's total operating costs. 40% of this arose from inflationary increases in wages and salaries. Other factors included higher employee share scheme costs following an 84% increase in the price of employee shares in the year, higher charges for holiday pay and the buy-out of staff allowances. Staff costs also included a charge of £54.8m for pension costs (2007: £53.5m).

The group employed an average of 5,158 (2007: 5,157) staff through the year. Employees in post at 31 March 2008 fell by 65 (1.3%) to 5,124 (2007: 5,189). Non-staff costs at £146.5m (2007: £143.1m) increased by £3.4m or 2.4% and included higher rent and rates, principally for the new Heathrow control tower building.

Depreciation and amortisation charges of £83.5m (2007: £76.6m) were incurred in the year. The increase included the effect of a full year's charge for the new Prestwick centre building. Impairment charges of £1.3m (2007: £12.5m) were £11.2m lower than last year and £3.2m (2007: £4.6m) of deferred grant income was recognised.

Exceptional operating items (net)	2008 £m	2007 £m
Redundancy costs	(17.5)	(2.4)
Relocation costs	(5.5)	(2.3)
	(23.0)	(4.7)
Profit/(loss) on disposal of non-current assets	(0.4)	8.5
	(23.4)	3.8

The group incurred £23.4m of net exceptional losses in the year (2007: £3.8m net gains). Charges of £23.0m were incurred for redundancy and staff relocation costs (2007: £4.7m) and mainly reflected the closure of West Drayton and the relocation of staff to the Swanwick area. Redundancy-related costs also included a one-off charge of £4.1m to secure staff agreement to changes in redundancy terms necessary to comply with age discrimination legislation. An exceptional gain of £8.5m was made last year on the disposal of properties.

The group reported underlying net finance costs of £51.9m (2007: £49.6m) in the year. This included lower net interest payable of £32.9m (2007: £39.2m), which reflected the benefits of lower gearing and the repayment of shareholder loan notes, offset by higher charges of £19.0m (2007: £10.4m) from marking to market the index-linked swap. The value of the latter is dependent on market expectations of inflation and yields on long-dated gilts. The group also incurred an exceptional redemption payment of £15.8m associated with the repayment of the £65m perpetual shareholder loan notes. The early redemption payment was a condition of the loan agreement that ensured that investors (BAA and HM Government) received a defined, required return on the total investment that they made in equity and loans when the group's debt was restructured in 2003.

The tax charge was £17.5m (2007: £25.0m) at an effective rate of 26.3% (2007: 26.5%). Factors affecting the tax charge for the year are set out in note 11 to the accounts.

Overall, the group reported a profit after tax of £49.2m (2007: £69.4m).

Financial review

Balance sheet

The group balance sheet can be summarised as follows:

	2008 £m	2007 £m
Goodwill	351.0	351.0
Intangible fixed assets	114.3	92.7
Property, plant and equipment	602.2	571.8
Retirement benefit asset	413.5	238.6
Other non current assets	6.2	4.8
Cash and short term deposits	130.6	179.0
Other net current liabilities	(78.9)	(52.6)
Total assets less current liabilities	1,538.9	1,385.3
Borrowings	(668.7)	(756.3)
Provisions and other non-current liabilities	(204.2)	(154.0)
Net assets	666.0	475.0

Shareholders' funds increased by £191.0m to £666.0m during the year. This increase was primarily due to retained profit of £49.2m and the increase in the pension asset of £125.9m (net of deferred tax).

Other non current assets of £6.2m (2007: £4.8m) include deferred consideration on the sales of property and accrued income. Other net current liabilities were £26.3m higher than the previous year due principally to an increase in the fair value liabilities of derivative financial instruments.

Provisions and other non current liabilities of £204.2m (2007: £154.0m) include deferred tax provisions which, at £194.0m, are £50.5m higher than prior year. The deferred tax effect of timing differences has been assessed at 28%, being the corporation tax rate applicable from 1 April 2008. This rate change reduced the provision required by £14.4m and partly offset increases arising mainly from the increase in the pension asset and accelerated capital allowances.

Changes in intangible and tangible fixed assets, pensions, cash and borrowings are explained below.

Capital expenditure

The group invested £137.3m in the year, £3.9m less than the previous year, in the following areas:

	2008 £m	2007 £m
Airspace development	3.9	4.8
Business systems and relocation to CTC	6.7	14.0
Future centres programme	22.3	23.9
Communications, navigation and surveillance	19.1	11.4
Radar site services	16.5	16.7
Current software systems	26.8	20.5
Prestwick/Manchester programme	23.6	23.4
Swanwick/West Drayton programme	9.8	19.1
Airports	4.8	4.8
Other	3.8	2.6
Total	137.3	141.2

The reduction in expenditure mainly reflects the successful transfer of the civil and military air traffic control operations from West Drayton to Swanwick, a reduction in spend on the Prestwick air traffic control centre which is nearing completion, and lower spend on non-operational information systems following the implementation of new systems at the start of the year.

Significant investment continued to be made on: the Future Centres programme to develop common platforms for centre systems, advanced controller tools and interoperability with other European air traffic service providers; data and voice networks, including the upgrades of tower systems for aircraft navigation; upgrades to the radar infrastructure; enhancing the capacity and resilience of software and display systems and preparations for the move of the Manchester control centre to Prestwick and the new Prestwick building and systems.

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Financial review

Pensions

At 31 March 2008, measured under international accounting standards, the pension scheme had a surplus of assets over liabilities of £413.5m compared with a surplus of £238.6m at 31 March 2007. The £174.9m increase in the surplus is due mainly to a decrease in the present value of the obligations arising from an increase in the prescribed discount rate from 5.2% to 6.2%. The scheme's assets increased by just £13.1m or 0.5% to £2,846.2m in the year.

The group made cash contributions to the scheme of 12.2% (2007: 12.2%) of pensionable pay during the year giving a cash cost of £37.7m (2007: £32.6m). From 1 April 2008, cash contributions to the scheme will be paid at an annual effective rate of 20.0% of pensionable pay. This follows the outcome of the triennial valuation performed as of 31 December 2006, which reported a surplus of assets over liabilities of 112% and an increase in the future service cost to 37.3% of pensionable pay (from 26.8% at 31 December 2003).

The group is currently engaged in discussions with its Trades Unions on proposals to reduce the cost and risk of future pension provision.

Treasury management

Strong cash flows from operations financed the group's capital programme, serviced interest on debt and enabled the reduction of net debt by £39.2m to £538.1m (2007: £577.3m).

	Cash and short term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2007	179.0	(756.3)	(577.3)
Cash flow	(47.2)	88.4	41.2
Short term deposits	(1.2)	-	(1.2)
Non-cash movements	-	(0.8)	(0.8)
Balance at 31 March 2008	**130.6**	**(668.7)**	**(538.1)**

The table below summarises movements in the gross debt in the year set out in note 17 to the accounts.

Movements in gross debt	£m
Opening debt at 1 April 2007	(756.3)
Redemption of shareholder loan notes	167.3
Drawings on bank facilities	(77.5)
Amortisation of bond issue costs/discount	(0.8)
Short term loan	(1.4)
Closing debt at 31 March 2008	(668.7)

Financial review

Risks and uncertainties

The principal operational risks and uncertainties of the group are described in the Chief Executive's review above. Specifically, these include risks associated with aircraft safety, provision of en route capacity, service resilience, project delivery and industrial action.

The main financial risks of the group relate to the availability of funds to meet business needs, the risk of default by counter-parties to financial transactions, and fluctuations in interest and foreign exchange rates. The Treasury function is mandated by the Board to manage the financial risks that arise in relation to underlying business needs. The function has clear policies and operating parameters, and its activities are routinely reviewed and agreed by the Treasury Committee. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

The main risks arising from the group's financing activities are set out below:

- currency risk: the group's objective is to reduce the effect of exchange rate volatility on short-term profits. Transactional currency exposures that could significantly impact the Income Statement are hedged, typically using forward sales of foreign currencies. The group's most significant currency exposure arises because UK en route charges, which contribute 70% (2007: 71%) of total turnover, are set in sterling but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, which administers the UK en route revenue collection. The resultant currency risk is materially eliminated by entering into forward foreign exchange contracts. At the year end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £72.3m were outstanding (2007: £70.5m) as detailed in note 19.
- interest rate and inflation risk: the group's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. At the time of the PPP in 2001, in view of NERL's high gearing and the fact that cash holdings were forecast to be minimal, the company adopted a policy of hedging projected gross borrowings. As a result of NERL's improved financial performance, cash holdings had increased significantly and in September 2006, NERL moved to a strategy of hedging net debt in order to reduce its exposure to interest rate risk on its cash holdings.

To achieve an economic hedge of NERL's regulated revenue, most of which is linked to the movement in the retail price index ("RPI"), an index-linked swap with a notional principal of £200m was entered into in August 2003 whereby NERL receives fixed interest and pays interest at a rate adjusted for the movement in RPI. The swap was a hedge under UK GAAP but is required to be categorised under IFRS as held for trading.

As at 31 March 2008 (after derivatives), approximately 98.8% (2007: 121.5%) of NERL's net debt was either at fixed rates or at rates indexed to inflation.

Financial review

- counterparty risk: as at 31 March 2008 the group had cash and deposits (shown as short term investments) totalling £130.6m. To minimise risk, funds may only be invested in high quality liquid investments. Credit risk associated with the investment of surplus funds (and from the use of interest rate and currency hedging derivatives) is managed by setting limits for counterparties based on their credit rating. An aggregate limit has also been established for each counterparty.

- liquidity risk: in addition to undrawn committed bank facilities totalling £138.7m, as at 31 March 2008 the group had cash and short term deposits totalling £130.6m. Included in cash of £113.4m is a liquidity reserve account balance of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short term deposit of £17.2m represents a debt service reserve account to fund interest and fees scheduled for payment in the 6 months ending 30 September 2008. The group's policy is to hold free cash within NERL equivalent to between one and two months' of UK en route services revenue (of between £80m and £90m) and to use surplus cash to reduce borrowings.

- funding risk: the policy of the group is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long term funding to finance its long term assets. Hence, the group's borrowings include a £600m amortising bond issued by NERL with a final maturity date of 2026 and bank facilities totalling £216.2m of which £11m matures in 2010, £34.25m in 2011 and £170.95m in 2012.

Financial review

Cash flow

Overall, the group's cash balances fell by £47.2m in the year to £113.4m (2007: £160.6m).

Cash flows	2008 £m	2007 £m
Cash generated from operations	254.8	239.9
Taxation	(15.7)	(25.2)
Net cash from operating activities	239.1	214.7
Interest received	10.5	8.0
Capital expenditure (net of proceeds)	(141.1)	(141.3)
Change in short-term investments	1.2	0.6
Net cash outflow from investing activities	(129.4)	(132.7)
Interest paid	(50.3)	(56.8)
Shareholder loans repaid	(167.3)	(3.9)
Shareholder loan redemption payment	(15.8)	-
Bank drawings and other loans	78.9	-
Dividends paid	(2.4)	(2.5)
Net cash outflow from financing costs	(156.9)	(63.2)
(Decrease)/increase in cash and cash equivalents	(47.2)	18.8

Net cash from operating activities was £24.4m higher than 2007 at £239.1m (2007: £214.7m) and net outflows from investing activities at £129.4m (2007: £132.7m) were £3.3m lower than the previous year.

Cash outflows of £156.9m from financing activities were £93.7m higher than the prior year (2007: £63.2m). The group paid interest of £50.3m (2007: £56.8m), £6.5m lower than last year reflecting lower gearing and the benefit of repaying more expensive shareholder loans from cash and lower cost bank debt.

Shareholder loan notes of £167.3m were repaid in full in the year. The credit rating upgrade of NERL by Standard & Poor's to A from A- in September 2007, provided the opportunity to redeem NERL's £65m 11.3575% perpetual shareholder loan notes. Under the loan agreement, achieving an A rating was a condition for early repayment. The NERL loan notes, including a redemption payment of £15.8m, were redeemed in December 2007 using available cash. The remaining 8.5% shareholder loan notes held by NATS Limited with an outstanding principal of £101.2m were repaid in March 2008. This was funded from available cash in NERL of £30.1m and by way of a £77.5m drawing on NERL's committed bank facilities. Holders of loan notes had, in June 2007, received repayments of £1.1m of principal. The repayment of these loan notes is expected to reduce interest costs by £5.5m in 2009.

An interim dividend of £2.4m was paid to shareholders, including employee shareholders, in July 2007 (2007: a dividend of £2.5m, previously declared in 2006).

Nigel Fotherby
Finance Director

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Corporate governance

Code of best practice

NATS is committed to the highest standards of corporate governance. The Strategic Partnership Agreement (SPA) between the Secretary of State for Transport, The Airline Group (AG) and BAA plc requires the company and the directors, so far as is reasonably practical, to adhere to the Combined Code on Corporate Governance.

The Combined Code was subject to revisions in June 2006, which are applicable for reporting years beginning on or after 1 November 2006. The year ended 31 March 2008 is therefore the first year for which the revised code is applicable.

NATS has applied the principles of the 2006 Combined Code throughout the period under review, to the extent considered appropriate by the Board in light of the strategic partnerships arrangements. However, a number of principles and provisions in the Combined Code are not relevant to the particular partnership nature of the NATS group. The principal areas where NATS does not comply are summarised below.

Combined Code A.2.2: The Chairman is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Combined Code. He is, however, regarded as the most independent member of the Board in terms of the Combined Code criteria.

Combined Code A.3: The non-executive directors on the Board are either AG nominee directors, BAA nominee directors, or Crown appointments (Partnership Directors) with particular responsibilities set out in their Mission Statement in the SPA, and therefore they do not meet the independence criteria provided in this principle of the Combined Code. This area of non-compliance affects the degree of compliance achieved with a number of the Combined Code provisions, where directors' independence is required.

Combined Code A.4.1-4.3: Details of the work of the Nomination Committee are set out below. However the manner in which directors are appointed, as noted above, means that its processes do not fully comply with the Combined Code.

Combined Code A.4.4: The non-executive directors do not have service contracts with the company and as a result the terms and conditions of employment cannot be made available for inspection. The Partnership Directors are engaged on three-year fixed-term contracts, and have letters of appointment from the Department for Transport. The Chairman has a service contract with NATS with a fixed three-year term.

Combined Code A.7.1-2: The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding group's selection processes, rather than those included in the provisions of the Combined Code. They are therefore not subject to periodic re-election or to specific appraisal processes after exceeding six years service.

Combined Code B.1.3, B.1.4 and B.2.3: The level of remuneration for non-executive directors was initially determined on completion of the PPP transaction. Subsequent changes are disclosed within the Remuneration Committee report. The group does not make disclosures under B.1.4.

Combined Code Parts D and E: Within the PPP structure there are no institutional or public shareholders and therefore these parts of the Combined Code cannot be applied to NATS.

The Board approved revised Governance Arrangements in March 2008. The main principles driving the revised arrangements were the need to simplify decision-making, increase devolution and support the 'one NATS, two businesses' ethos via the creation of separate executive teams for NERL and NSL.

The Roles of the Chairman and Chief Executive Officer

The Chairman of the company is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the company.

The NATS and NERL Chief Executive Officer, Paul Barron, has direct charge for the executive management of the NATS Group and of NERL. The NSL Chief Executive Officer, Lawrence Hoskins, is responsible for the executive management of NSL, and reports to Paul Barron in the latter's capacity as Chief Executive Officer of NATS.

The Board

The Board provides leadership and direction and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets. The boards of the subsidiary companies are accountable to the NATS Holdings Board for all aspects of their business activities.

The Board currently comprises a non-executive Chairman and fourteen directors, as follows:

Executive Directors

- Chief Executive Officer, NATS and NERL;
- Chief Executive Officer, NSL;
- Finance Director;
- Director Operations; and
- Director of Engineering and Commercial Services.

Non-Executive Directors

- Three Partnership Directors, appointed by the Crown Shareholder;
- Five non-executive directors appointed by AG, including the International Air Transport Association (IATA) representative; and
- One non-executive director appointed by BAA.

Brief biographies of the directors are provided on pages 46 to 49. All directors have access to the advice and services of the General Counsel and Company Secretary, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the company's expense.

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Corporate governance

All non-executive directors are considered by the Board to be independent of the company management. However, they are not considered independent under the terms of the Combined Code on Corporate Governance. Consequently, it is not possible to identify a senior independent non-executive director, to whom concerns can be conveyed by the shareholders. The Chairman, John Devaney, is considered the most independent member of the Board.

The non-executive directors occasionally meet without the executive directors present. There was one such meeting in the year ended 31 March 2008, to which Paul Barron was also invited for discussions on a specific matter.

Shareholders' meetings are held twice a year, linked to the planning and reporting cycles, and provide the principal shareholders with an opportunity to participate in the development of the company's long term strategy. Shareholders may also meet informally with the Chairman, Chief Executives, Finance Director or other members of the executive management teams at their request.

The Board met 9 times during the year with each member attending as follows:

Name	Number of meetings attended
John Devaney	9/9
Paul Barron	9/9
Nigel Fotherby	9/9
Ian Hall	9/9
Lawrence Hoskins	9/9
Ian Mills	2/2
Derek Stevens	9/9
Danny Bernstein	6/6
Barry Humphreys	7/9
Peter Read	9/9
Baroness Dean	8/9
Andrew White	9/9
Stephen Pettit	3/3
Nigel Turner	3/3
Sigurd Reinton	5/6
Giovanni Bisignani	7/9
Roger Cato	9/9

Ian Mills was appointed to the Board on 28 February 2008.
Danny Bernstein resigned from the Board on 31 December 2007.
Nigel Turner was appointed to the Board on 1 January 2008.
Stephen Pettit resigned from the Board on 25 July 2007.
Sigurd Reinton was appointed to the Board on 26 July 2007

The Board has adopted a schedule of matters reserved for its decision, and has put in place arrangements for financial delegations, to ensure that it retains overall control of the business. Matters reserved for the Board include monitoring of NATS safety performance, appointments to the NERL and NSL executive teams and issues with political, regulatory or public relations implications.

In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership Directors, AG directors and BAA directors. These include the following:

Partnership and Airline Group directors

- Adoption of the business plan;
- Entry into significant debts, charges or contingent liabilities;
- Major agreements outside the ordinary course of business;
- Significant litigation proceedings; and
- External investments, and acquisitions and disposals of material assets.

BAA directors:

- Acquisition or disposal of any asset representing more than 10% of the total assets of the business;
- Any aspects of the business plan which could adversely affect NERL's service to UK airports; and
- Disposal of NSL shares by NATS.

The Board has established five standing committees, operating within approved terms of reference. The committee structure comprises an Audit Committee, Nomination Committee, Remuneration Committee, Safety Review Committee and Technical Review Committee.

Corporate governance

The number of meetings held by the principal Board committees and individual director's attendance, is provided in the table below:

	Audit	Nomination	Remuneration	Safety Review	Technical Review
No. of meetings	**3**	**1**	**6**	**4**	**2**
John Devaney	2/3	1/1			
Derek Stevens	3/3	1/1	2/2		
Danny Bernstein			4/4		
Barry Humphreys			6/6		
Peter Read				4/4	2/2
Baroness Dean			6/6		
Sigurd Reinton	2/2	1/1			
Andrew White				4/4	2/2
Stephen Pettit	1/1				
Roger Cato				4/4	2/2

The terms of reference for the Board and its Committees are available to all staff and shareholders, and can be made available externally with the agreement of the Company Secretary.

Reports and papers are circulated to Board members in a timely manner in preparation for Board meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to scrutinise the company's performance.

A performance evaluation of the Board, its committees and the Chairman was conducted during the year. This Board Effectiveness Review was managed by the Company Secretary and based around responses to a structured set of questions to reflect the views of all Board members and key executives who are not on the Board. The results of the 2007/08 Review were assessed at the February 2008 Board meeting.

NERL Executive

The Chief Executive Officer, Paul Barron, carries out day to day management of the NATS group, and specifically of NERL, in which he is supported by the members of the NERL Executive. The focus of this work is on strategy development and performance management, including people development.

NSL Executive

The Chief Executive Officer, Lawrence Hoskins, carries out day to day management of NSL, reporting to the Chief Executive Officer of NATS, Paul Barron. His focus is on developing NSL's strategy and measuring and monitoring performance in achieving the business strategy and plan. In fulfilling his accountabilities he is supported by the members of the NSL Executive.

Audit Committee

The Audit Committee meets three times a year. It is chaired by the non-executive Chairman John Devaney, as he is considered the most independent member of the Board under the Combined Code criteria. The Committee comprises two further non-executive directors of the Board, Derek Stevens, and Sigurd Reinton. The members have wide-ranging financial, commercial and management experience.

The company's Chief Executive, Finance Director, Financial Controller, Head of Internal Audit and the external auditors are invited to attend each meeting by standing invitation. Part of each meeting is set aside for members of the Committee to hold discussions without the presence of executive management.

The duties of the Committee include monitoring the integrity and compliance of the company's financial statements, reviewing the effectiveness of the internal audit department and external auditors, reviewing the scope and results of internal and external audit work and reviewing internal controls and risk management. All published internal audit reports are provided in full to each Committee member. The Committee also advises on matters relating to the appointment, independence and remuneration of the external auditors.

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Corporate governance

Corporate governance

Nomination Committee

The Nomination Committee was established in May 2004. It is chaired by the non-executive Chairman John Devaney and comprises three further non-executive directors Derek Stevens, Sigurd Reinton and Roger Cato. The Chief Executive Officer, NERL and NSL, Human Resources Director and advisors may be invited to attend meetings of the Committee, as appropriate. The Committee meets when considered necessary by its members, but not less than once a year.

As noted above, appointments to the Board are made by the relevant sponsoring shareholder under the terms of the SPA. The Committee has the task of evaluating the balance of skills, knowledge and expertise required on the Board. It also reviews the succession plans for directors and senior executives.

Remuneration Committee

The Remuneration Committee of the Board is chaired by Dr Barry Humphreys and comprises two further non-executive directors, Baroness Brenda Dean and Derek Stevens. The Committee meets when necessary and is responsible for determining the company's policy on directors' remuneration and expenses, and approving remuneration and incentive payments for senior managers, including the criteria for establishing performance targets. No director is involved in deciding his or her own remuneration.

The company's Chief Executive and Human Resources Director are invited to attend meetings of the Committee, as appropriate.

Safety Review Committee

The role of the Safety Review Committee is to support the Board in the discharge of its accountabilities for the safe provision of operational air traffic services. It meets as a formal committee on a regular basis and additionally undertakes special exercises at the request of the Board. Its remit is to monitor and review the effectiveness of the safety arrangements in place in the group and review the delivery of the group's safety objectives through its operations, structures and processes.

The Committee is chaired by a Partnership Director, Andrew White, and there are two other non-executive directors as members, Peter Read and Roger Cato. Two leading experts in safety act as special advisers to the Committee:

- Professor James Reason, formerly Professor of Psychology at Manchester University and an expert on human factors; and
- Dr Tony Barrell, formerly Chief Executive of North Sea Safety at the Health and Safety Executive.

The following are invited to attend each meeting by standing invitation:
- NATS Chief Executive Officer;
- Director Operations;
- Director of Safety;
- NSL Chief Operating Officer; and
- NSL Head of Safety.

Technical Review Committee

This Committee was newly constituted during the year ended 31 March 2008, and met for the first time on 10 January 2008. Its role is to support the Board in the monitoring and development of adequate and cost-effective technical systems and services in support of operations.

The Committee is chaired by Peter Read, and there are two non-executive directors as members, Andrew White and Roger Cato. The NATS Chief Executive Officer and Director of Engineering and Commercial Services are invited to each meeting by standing invitation.

The committee takes advice from the following special advisers, who are invited to each meeting by standing invitation:

- Dr Nigel Horne, a former interim Director of Engineering at NATS who has also held senior positions within GEC plc, KPMG and Alcatel Ltd;
- Philip Langsdale, former Chief Information Officer at both the BBC and ASDA; and
- Matthew Lee, Flight Operations Director of Virgin Atlantic Airways.

Financial reporting and internal control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness. This system was in place for the year under review and up to the date of approval of the annual report and accounts.

The NATS system of internal control is designed to ensure that the significant financial, operational, compliance and business risks faced by the group are identified, evaluated and managed to known acceptable levels. As with all such systems, controls can only provide reasonable but not absolute assurance against misstatement or loss.

Risk Management

Risk management is essential in seeking to minimise the threat that an event or action might have on the group's ability to achieve its objectives and to execute its strategies effectively. Successful risk management ensures that the group is able to deliver services to its customers and meet the needs and expectations of its shareholders in a fast changing and uncertain environment.

This system for the identification, evaluation and management of risks is embedded within the group's management, business planning and reporting processes, and accords with the Combined Code.

The Board formally reviews the 'Top Risks' to NATS and the risk management process on a rolling basis. This is complemented by detailed risk identification at divisional level and recorded and measured in a controlled, managed enterprise-wide database.

The Audit Committee and Board have assessed the group's 'Top Risks' and performance against these during the year ended 31 March 2008 and agreed actions for the 'Top Risks' for year ending 31 March 2009. Regular monthly reporting to the NERL and NSL Executives on business controls and progress in mitigating actions associated with NATS' risks is supplemented by reports to the Audit Committee on the process of risk management and internal control.

The company's Internal Audit Department reviews the controls in place to manage NATS business risks, which includes reviews of internal financial control. Reports, including the relevant action plans agreed with local management, are circulated to Audit Committee members and relevant executive directors and senior managers. The company's performance is reviewed monthly by the relevant Executive and the Board. This includes reviewing performance against operational targets, including those relating to safety, delays, project performance and risk management, and against financial targets, including revenue and capital budgets.

The Board takes the management of risk seriously, paying particular attention to areas such as safety, service delivery, operating efficiency, financial control, project delivery, regulatory compliance and IT systems. Inevitably, NATS takes a special interest in the risk management of safety and service delivery.

Safety

NATS has an industry-leading safety management system and an embedded safety culture. There is also an objective of continuous improvement in safety performance. NATS' safety objectives, targets, performance and strategic actions to achieve the objectives are all detailed in a Strategic Plan for Safety.

Non-audit work performed by the external auditors

From time to time the external auditors perform non-audit services for the group. Any appointment to perform non-audit services by the external auditors must be agreed by the Audit Committee prior to engagement. The Audit Committee reviews the scope of each engagement to ensure objectivity and audit independence are safeguarded. Non-audit services performed by Deloitte and Touche LLP in the year ended 31 March 2008 included a major review of projected pension costs, in addition to taxation advice in connection with NATS' employees based abroad. Details of the cost of these services are set out in note 7 of the "Notes forming part of the consolidated accounts".

Going concern

After making due enquiry, the directors have formed a judgement that taking into account the financial resources available to the group, it has adequate resources to continue to operate for the foreseeable future and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2008.

Remuneration Committee report

This report has been prepared by the Remuneration Committee and approved by the Board.

Information not subject to audit

Membership and responsibilities of the Remuneration Committee

The Remuneration Committee is comprised entirely of non-executive directors: Barry Humphreys (Chairman), Baroness Brenda Dean and Derek Stevens.

Where appropriate, the Committee takes advice on specific issues from the Chief Executive, the Human Resources Director and independent consultants.

The Committee meets several times a year and is responsible for:

- Approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract staff (comprising members of the executive team and other senior staff whose terms of employment are not subject to negotiation with the recognised trades unions through the NATS joint bargaining machinery);
- Approving company targets and individual performance targets for executive directors and other members of the executive team;
- Considering and approving a statement of remuneration policy and details of the remuneration of each director for inclusion in the annual report and accounts.

Performance Management

The Committee continued to support the drive towards a more differentiated approach to management pay, taking account of relative individual performance. Coaching for Performance continues to be the methodology for performance management for all Personal Contract staff.

Managers' rewards are related not only to what they achieve but also how they achieve it through their people (informed by an Employee Opinion Survey). Managers understand that they are expected to achieve outstanding results to gain substantial bonus.

In addition, a formal appraisal system is in place for all employees that enables staff to discuss their progress and performance with their managers. Supported by Coaching for Performance, the aim is that every team and individual in the company is clear about what they have to deliver and how it is measured. The success of the programme can be measured both in terms of this year's outstanding business results and by the outcome of the latest Employee Opinion Survey.

Policy

It is the company's policy to establish and maintain competitive pay rates that 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. In fulfilling this policy, the company fully embraces the principles of and complies with the provisions of the Combined Code on directors' remuneration as outlined below.

The level of directors' remuneration is aligned with median practice in comparable companies. Directors are rewarded on the basis of responsibility, competence and contribution, and salary increases take account of pay awards made elsewhere in the group. Performance-related elements form a substantial part of the total remuneration package and are designed to align the interests of directors with those of shareholders. Performance is measured against a portfolio of key business objectives and payment is made only for performance beyond that expected of directors as part of their normal responsibilities.

Service contracts

Paul Barron has a service contract that commits him to stay until 31 March 2009 and Lawrence Hoskins has a service contract that commits him to stay until 31 March 2010. These contracts also provide for 12 months notice to be given in the event of termination by the company. Nigel Fotherby, Ian Hall and Ian Mills have service contracts which provide for 6 months notice in the event of termination by the company.

The Chairman has a three-year service contract. The notice period is 6 months by either party.

The other non-executive directors do not have service contracts with the company.

Remuneration packages

The remuneration package for executive directors is reviewed each year and consists of annual salary; pension and life assurance; annual and long term bonus schemes; All Employee Share Ownership Plan; company car; and medical insurance. Their annual bonus is consistent with the overall bonus scheme (see below). For Paul Barron, Nigel Fotherby, Ian Hall and Ian Mills the long term bonus is based on the performance of NATS (En Route) plc over Control Period 2 (2006 - 2010) on service quality, profitability and shareholder return and is payable at the end of this period. In addition, Paul Barron's bonus arrangements include incentives in relation to maintaining an acceptable underlying credit rating for NERL, the development of NATS' unregulated business and key investment programme milestones. For Lawrence Hoskins the long term bonus is based on the performance of the NSL business. Full details of directors' remuneration for 2007/08 are set out on page 44.

Remuneration Committee report

Remuneration Committee report

Salaries

The Remuneration Committee determines, where appropriate, annual increases to the salaries of the Chairman and executive directors having regard to their experience, responsibility, individual contribution, market comparatives and pay increases elsewhere in the group.

Charges for the services of other non-executive directors are determined in agreement with the relevant sponsoring body – the Department for Transport in the case of the Partnership directors, The Airline Group (AG) in the case of AG directors and BAA in the case of the BAA director.

The Partnership directors each receive annual remuneration of £33,600. AG directors receive no remuneration for their services to the NATS Board. However, a payment of £168,000 per annum (equivalent to £33,600 each for the services of five directors) is currently made direct to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG. The BAA director receives no payments for his services.

Pensions and life assurance

Executive directors' pensions and life assurance are based on salary only, with bonuses and other discretionary benefits excluded. The principal method of securing pensions for executive directors is through the Civil Aviation Authority Pension Scheme (CAAPS). All executive directors are members of the CAAPS.

Following the PPP, the CAA Pension Scheme remains one scheme, although from 31 March 2001, it has been split into two sections. The scheme was valued as at 31 March 2001 and the appropriate amount of assets allocated to each section.

Non-executive directors do not participate in CAAPS.

Bonus Scheme

The committee oversees a scheme of objective setting and bonus arrangements for executive directors and staff in the Personal Contract Group. Non-executive directors do not participate in the scheme. The structure of the scheme is designed to:

- ensure rigour and differentiation in the system of performance bonus rewards; and
- drive up performance of NATS management.

The bonus opportunity is set at a range of levels for Personal Contract staff depending on seniority. 40% of the bonus is determined by company performance on key targets and the remaining 60% is dependent on individual performance against targets and leadership behaviours. The scheme incorporates an "ability to pay" clause to override all other triggers.

Employee Share Plan

There are no share option schemes in place for executive directors. The NATS All-Employee Share Ownership Plan is designed to give every member of staff (including executive directors) an equal stake in the future success of the company. The Share Plan holds 5% of the shares in NATS and is administered by a special trustee company with three directors – one each appointed by the Government, The Airline Group (AG) and the Unions (collectively known as the Trustee). Baroness Dean chairs the Trustee meetings.

An initial allocation of 602 free shares in NATS was offered in 2001/02 to all employees in NATS employment on the qualifying date 26 July 2001 and who continued in employment until the award date of 21 September 2001. A second free allocation of 500 shares was made to all employees in 2003/04, a third allocation of 400 shares was awarded in 2004/05 and a fourth allocation of 220 shares in January 2008. Following the payment of a dividend in 2004/05 by NATS Holdings Ltd, the Board agreed with the support of the Trustee to make an award of dividend shares. Staff holding all four allocations of free shares were awarded 55 dividend shares to add to their existing holdings. Executive directors held the following interests in ordinary shares of the company: Paul Barron – 634; Nigel Fotherby - 1,777; and Ian Hall - 1,777.

The current HM Revenue and Customs approved valuation as at 31 December 2007, for the period 1 January 2008 to 30 June 2008, values the shares at 245p each.

Barry Humphreys

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Remuneration Committee report

Remuneration Committee report

Audited information
Directors' remuneration

Emoluments (excluding pension arrangements) of the Chairman and directors were as follows:

	Note	Salary or fees(*) £000	Benefits(*) £000	Performance related payments(*) £000	Total 2008(*) £000	Total 2007(*) £000
Chairman						
John Devaney		152	-	-	152	145
Executive directors						
Paul Barron	1	400	66	180	646	573
Nigel Fotherby		191	13	86	290	265
Ian Hall		193	10	84	287	268
Lawrence Hoskins	2	282	33	127	442	408
Ian Mills	3	16	3	7	26	-
Non-executive directors						
Baroness Dean of Thornton-le-Fylde		34	-	-	34	23
Stephen Pettit	4	11	-	-	11	34
Andrew White		34	-	-	34	23
Sigurd Reinton	5	23	-	-	23	-
Derek Stevens	6	-	-	-	-	-
Danny Bernstein	6,7	-	-	-	-	-
Barry Humphreys	6	-	-	-	-	-
Peter Read	6	-	-	-	-	-
Nigel Turner	6,8	-	-	-	-	-
Giovanni Bisignani	6	-	-	-	-	-
Roger Cato	9	-	-	-	-	-
		1,336	125	484	1,945	1,739

* For year, or from date of appointment or up to date of resignation.
All the directors served throughout the year ended 31 March 2008 unless otherwise stated in the notes below:

1. Included in Paul Barron's benefits is an aggregate amount of £56,000 in respect of relocation costs, including tax paid in the year of £32,000 for 2006/07 relocation costs.
2. Included in Lawrence Hoskins benefits is an amount of £20,000 in respect of relocation costs.
3. Ian Mills was appointed to the Board on 28 February 2008.
4. Stephen Pettit resigned from the Board on 25 July 2007.
5. Sigurd Reinton was appointed to the Board on 26 July 2007.
6. These directors are appointed by The Airline Group (AG) which charged NATS a total of £42,000 per quarter (2007: £42,000 per quarter) for the services of the directors.
7. Danny Bernstein resigned from the Board on 31 December 2007.
8. Nigel Turner was appointed to the Board on 1 January 2008.
9. Roger Cato represents BAA Limited and is not remunerated by the company for his services as director.

In addition, under the company's long term incentive plans, executive directors are entitled to bonuses contingent on the achievement of business performance targets. These bonuses vest on certain dates in the future and are not reported in the emoluments table above. An estimate of entitlement has been accrued based on progress made to date as follows:

Year bonus accrued:	Paul Barron (Note 1) £000	Nigel Fotherby (Note 2) £000	Ian Hall (Note 3) £000	Lawrence Hoskins (Note 4) £000	Ian Mills (Note 5) £000
2004/05	14	20	-	-	-
2005/06	51	22	2	3	-
2006/07	249	35	28	71	-
2007/08	254	38	29	143	2
Total	568	115	59	217	2

1. Paul Barron's accrued bonuses include a rolling bonus plan and a long term incentive plan. An amount of £77,000 vested in the year in respect of his rolling bonus and was paid in May 2008. Paul Barron received £91,000 in May 2007 in respect of his rolling bonus which vested in the previous financial year. £150,000 (2007: £150,000) has been accrued in the year in respect of the long term incentive plan. These amounts have been excluded from the emoluments table above.
2. During the year, Nigel Fotherby received an amount of £21,000 in respect of an accrued bonus for 2003/04 which vested in 1 April 2007. The accrued bonus in respect of 2004/05 of £20,000 vested and was paid in March 2008. These amounts have been excluded from the emoluments table above.
3. Ian Hall received £19,600 in March 2008 in respect of an accrued bonus for 2004/05, which was earned prior to his appointment to the Board. This has been excluded from the emoluments table above.
4. Lawrence Hoskins received £13,800, In March 2008 in respect of an accrued bonus for 2004/05, which was earned prior to his appointment to the Board. This has been excluded from the emoluments table above.
5. From date of appointment.

Pensions of the directors were as follows:

	Note	Accrued entitlement at 31 March 2007 £000	Real change in accrued pension £000	Inflation £000	Accrued entitlement at 31 March 2008 £000	Transfer value at 31 March 2008 £000	Transfer value at 31 March 2007 £000	Directors' contributions in year £000	Cost of benefits accrued during year £000
Executive directors									
Paul Barron		61	16	3	80	1,721	1,118	16	327
Nigel Fotherby	1	22	4	1	27	536	315	8	63
Ian Hall	2	59	9	2	70	1,483	1,077	3	183
Lawrence Hoskins		8	6	1	15	313	158	11	110
Ian Mills	1,3	6	3	-	9	165	86	7	44
Totals		156	38	7	201	4,218	2,754	45	727

1. Both Nigel Fotherby and Ian Mills secured additional pensionable service following a bonus sacrifice in the year. The benefits in respect of this additional service are not included in the above figures.
2. Ian Hall's contributions ceased with effect from 29 July 2007, the date on which he accrued the maximum pensionable service.
3. Ian Mills was a member of the NATS section of the CAA Pension Scheme for the whole of the financial year. The figures above reflect the cost of benefits accrued during the full year.

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Directors of NATS Holdings Limited

The directors of the company at 26 June 2008 were:

John Devaney

John joined the Board in July 2005 and was appointed Chairman with effect from 1 September. He is Chairman of Tersus Energy plc, as well as being the founder and Chairman of BizzEnergy, the largest independent UK retailer of electricity. Until December 2007, John was Chairman of telent plc, formerly Marconi, the global telecommunications equipment company. He joined the Board of Northern Rock plc as a non-executive director in November 2007.

John was appointed Managing Director, Eastern Electricity plc in 1992 and became Chief Executive in August 1993. Following the acquisition of Eastern by Hanson plc, John assumed the role of Chairman. From 1983 to 1988 John was President of Perkins Engines and from 1988 to 1992 he was the Chairman and CEO of Kelsey-Hayes Corporation. He was also Chairman of Exel from 1999 - 2002. His previous non-executive directorships have included HSBC Bank plc from 1994 - 2000 and British Steel plc from 1998-1999. John chairs the Audit and Nomination Committees.

Paul Barron

Paul joined NATS in 2004 as Chief Executive. He was previously Country President at Alstom UK with responsibility for the day-to-day management of the company's transport business in the UK. He began his working life as an engineering apprentice working through the ranks to become Managing Director of Ruston Gas Turbines, a position he held for 15 years. He was appointed UK President ABB Alstom Power in June 1999 and, in 2000, UK President of Alstom.

Paul was formerly a Director of UK Trade & Investment, a body co-sponsored by the DTI/ FCO to assist the export of UK business; and a member of the CBI President's Committee. He is also a past member of the UK Task Force on Competitiveness and a former Chairman of the Energies Industries Council. He was formerly Chairman of the Motorsport Development Board, set up by the DTI in 1993 to retain the UK's technical expertise in this area. Paul joined the Board of London Continental Railways as a non-executive director in January 2008. He was appointed a CBE for services to the gas turbine industry in 2000.

Lawrence Hoskins

Lawrence was appointed as CEO of NSL in 2007 as part of the company's decision to give more autonomy to a strengthened management team for its ongoing unregulated business. Previously, from 2005, Lawrence was Managing Director of both NSL and NERL after initially joining the company as Commercial Director in 2004. He brought to NATS more than 30 years' international business experience in a range of markets, sectors and businesses from his initial career period with Plessey Telecommunications in international sales and contract management; his subsequent career in a number of GEC and GEC Alstom energy and oil and gas related companies culminating in his appointment as Managing Director of European Gas Turbines in 1994, and his period as Managing Director of Balfour Beatty International from 1996 to 2001. Prior to joining NATS, Lawrence was based in Paris as Senior Vice President for Alstom SA, responsible for the company's activities in the energy and transport sectors throughout Asia and Eastern Europe.

Nigel Fotherby

Nigel joined NATS in 1999 as Finance Director. He previously worked for Lex Service plc as Finance Director of its retail group and then for BT Cellnet, where he was Deputy Finance Director. Nigel began his career with Coopers & Lybrand where he qualified as a Chartered Accountant.

Ian Hall

Ian was appointed Director Operations in NERL when NERL and NSL were split into two businesses in August 2007. He began his career as an air traffic controller in 1968, working for fourteen years at Belfast and Prestwick airports and at the Scottish Oceanic centre. He then moved into ATC management, first at Stansted and subsequently at Belfast (International) Airport. Ian headed the air traffic flow management operation through the transition to the Central Flow Management Unit in Brussels and thereafter went on to produce the NATS Operational Strategy, now the basis for the capital investment plan. In recent years, Ian has held a number of senior management positions, as General Manager London Area and Terminal Control Centre, Director Area Control Services, responsible for all four control centres, and then Director Operations for NATS in 2003.

Ian Mills

Ian joined the Board in February 2008. He is an experienced international director having spent over 20 years in operations and project management servicing the power, water and transportation industries. In 1996 Ian was appointed European Director of Project Methodology and went on to hold various senior roles in operations and projects in Alstom Transport. Ian joined NATS in 2004 as the Executive responsible for change management and business process before going on to become Programmes Director and subsequently, Director Engineering and Commercial Services.

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Directors of NATS Holdings Limited

Derek Stevens

Derek is Chairman of The Airline Group (AG). He retired from British Airways, where he had been director and Chief Financial Officer, in August 2001 and from the board of Aviva plc in December 2006. Previously, he was Finance Director of TSB Group plc. He is Deputy Chairman of Council at the Institute of Education, University of London. He is Chairman of the Aviva and The Royal Academy of Arts pension schemes and a trustee of the Rothschild pension schemes. Derek is a member of the Audit, Remuneration and Nomination Committees.

Giovanni Bisignani

Giovanni has served as Director General and CEO of the International Air Transport Association (IATA) since June 2002. During his tenure with IATA he has completely restructured the association to increase its relevance and speed in driving a broad agenda for industry change.

Giovanni's airline experience includes five years at the helm of Alitalia as CEO and Managing Director, during which time, he also served on the IATA Executive Committee and was Chairman of the AEA (Association of European Airlines). Prior to joining IATA, he launched and directed Opodo - the first European airline-owned online travel agency. He has been a member of Pratt & Whitney Advisory Board and Chairman of the global distribution services provider Galileo International. During his business career, Giovanni has held various high-level responsibilities at the energy company ENI and the Italian industrial conglomerate IRI Group. He served as President of Tirrenia di Navigazione, the largest Italian ferry company and as CEO and Managing Director of SM Logistics, a group of logistics and freight forwarding companies, partially-owned by GE Capital.

Peter Read

Peter held a number of senior positions with British Airways, most recently as Director of Heathrow from 1997 until 2003, and as Director of Operations until 2005. He joined BA in 1972 as a pilot and flew as a Captain until 1996. He subsequently held senior positions in engineering and flight operations, and in leading major business change programmes in cargo and BA corporate. During 2006 and 2007 Peter was employed as Director of Operations for Malaysia Airlines, responsible for all operational areas during a major reconstruction of the company. Peter acts as a Technical Advisor to the Board of Iberia on safety matters. He is a director of AG and is a member of the Safety Review Committee. He also chairs the Technical Review Committee.

Barry Humphreys

Barry spent his early career with the UK Civil Aviation Authority, and, at the time of his departure, was Head of Air Services Policy. Barry joined Virgin Atlantic Airways as Director of External Affairs and Route Development in 1995, where he is responsible for economic regulatory issues, political lobbying, competition policy, licensing, airport and ATC charges, and in co-operation with others, route development, security, environment and consumer issues and long-term strategy. Barry is a Fellow of the Royal Aeronautical Society, the Chartered Institute of Logistics and Transport and the Tourism Society. He is Deputy Chairman of Airport Co-ordination Ltd, a director of AG, Deputy Chairman of the Board of Airline Representatives UK, a Board Member of the Indo-British Business Partnership and Chairman of the Caribbean Britain Business Council. Barry chairs the Remuneration Committee.

Directors of NATS Holdings Limited

Nigel Turner

Nigel rejoined the Board at the beginning of 2008. He has been with bmi for 20 years and was appointed as Chief Executive Officer in 2004, previously having held a number of senior positions within the company. Nigel was a main board director of NATS from 2001 until the end of 2003 and was involved in The Airline Group's purchase of its controlling stake in the business.

The Rt. Hon Baroness Dean of Thornton-le-Fylde

Brenda is Chairman of Covent Garden Market Authority and a non-executive director of Dawson Holdings plc and Taylor Wimpey plc. She was previously Chair of the Freedom to Fly Coalition, the Armed Forces Pay Review Body and the Housing Corporation, and General Secretary of the Society of Graphical and Allied Trades. Brenda was created a life peer in 1993 and sits on the Labour benches in the House of Lords. She is a member of the House of Lords Appointments Commission. Brenda chairs the NATS Employee Share Trust and is a member of the Remuneration Committee.

Sigurd Reinton

Sigurd has been Chairman of the London Ambulance Service NHS Trust since 1999 and before that of Mayday University Hospitals NHS Trust. He is a director of the Ambulance Services Association and a member of the advisory board of The Foundation. He was a member of the Council of the NHS Confederation from 1998 to 2007 and was the lead for London. He was previously a Director (senior partner) at McKinsey & Company. An instrument-rated private pilot, Sigurd is a member of the Audit Committee and the Nomination Committee and chairs the NATS Stakeholder Council.

Andrew White

Andrew spent his career in the Royal Air Force, rising to the rank of Air Vice Marshal. Prior to his retirement from the service in 2006, Andrew had responsibility for managing one third of the Royal Air Force's front line assets, including all military air traffic control in the UK; he was also a member of the Strike Command Management Board. Andrew continues to fly as a civilian pilot and is Chief Executive of the National Security Inspectorate. Andrew chairs the Safety Review Committee and is a member of the Technical Review Committee.

Roger Cato

Prior to his retirement from BAA in 2006, Roger was BAA's Chairman and Managing Director of Gatwick Airport, and Chairman of Southampton Airport. Previously he was Managing Director of Heathrow Airport. Roger joined Heathrow as an engineering graduate trainee in 1969 and over the last 30 years, a variety of engineering posts have taken Roger to every BAA airport, terminal and airfield. Roger is a Fellow both of the Institute of Electrical Engineers and the Royal Aeronautical Society. He is a member of the Safety Review Committee, the Technical Review Committee and the Nomination Committee.

Officers

Richard Churchill-Coleman

Richard is General Counsel and Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than twenty years' experience of working in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express. Richard is a Member of the Royal Aeronautical Society.

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 was established as a holding company to effect the transfer of ownership of NATS from the CAA to the Strategic Partners under the PPP. Initially the company was wholly owned by the Crown. At completion of the PPP the Crown sold 46% of the company to a strategic partner, the Airline Group (AG), and transferred 5% to employees under a share scheme. On 19 March 2003 the group underwent a financial restructuring which resulted in BAA plc acquiring a 4% shareholding in the company with AG's shareholding reducing to 42%. The company does not trade and has no employees or land and buildings. The group's principal activity is the provision of air traffic services in the UK.

Reviews of the group's activities, including key performance indicators and comments on principal risks and uncertainties during the year, and of future developments, are given in the Chairman's Statement on pages 4-9 and the Business and Financial Review on pages 10-33.

Results and dividends

The group's results for the year are shown in the Income Statement on page 56. An interim dividend of £2.4m was approved and paid in the year (2007: £nil) and the Board recommends a final dividend for the year of £nil (2007: £nil).

Use of financial instruments

The company's economically regulated subsidiary, NATS (En Route) plc, uses financial instruments to manage financial risk. The accounting policies and notes to the financial statements explain the financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Land and buildings

The land and buildings of one of the company's subsidiaries, NATS (Services) Limited 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 of the group or the subsidiary. The market value of the land and buildings of the other group subsidiaries continue to be reviewed and accordingly no valuation is available.

Charitable donations

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

Employees

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

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

The group 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.

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Report of the directors

Report of the directors

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 30 days (2007: 22 days).

Directors and their interests

The directors of the company as at 26 June 2008 are set out on page 3.

Sigurd Reinton was appointed non-executive director on 26 July 2007, replacing Stephen Pettit who resigned on 25 July 2007. Nigel Turner was appointed non-executive director on 1 January 2008, replacing Danny Bernstein who resigned on 31 December 2007. Ian Mills was appointed to the Board on 28 February 2008. All other directors served throughout the year.

The interests of the directors in the share capital of the parent company, through their participation in the Employee Share Plan, are set out on page 43.

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 Accounts. The directors have prepared the Accounts for both the group and 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 and group 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 and directors' remuneration report which comply with the requirements of the Companies Act 1985.

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

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

Auditors

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

By order of the Board

Richard Churchill-Coleman
Secretary
26 June 2008

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Independent auditors' report to the members of NATS Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of NATS Holdings Limited for the year ended 31 March 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 31 of the group and 1 to 8 of the parent company. 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 (IFRS) 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 the directors' report and the other information contained in the Annual Report for the above year as described in the contents section 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 directors' report and other information contained in the annual report as described in the contents section.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of the group's profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 31 March 2008;
- 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 group financial statements, the group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

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

Deloitte & Touche LLP

Deloitte & Touche LLP

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

Consolidated financial statements

Consolidated income statement
for the year ended 31 March 2008

	Notes	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Revenue	4	742.5	701.2
Staff costs	8	(374.1)	(335.8)
Services and materials		(75.9)	(70.8)
Repairs and maintenance		(28.0)	(27.7)
External research and development		(0.6)	(0.5)
Depreciation, amortisation and impairment	7	(84.8)	(89.1)
(Loss)/profit on disposal of non-current assets		(0.4)	8.5
Other operating charges		(50.4)	(46.4)
Other operating income		2.9	-
Deferred grants released	7	3.2	4.6
Net operating costs		(608.1)	(557.2)
Operating profit	7	134.4	144.0
Investment revenue	9	11.0	8.0
Finance costs	10	(78.7)	(57.6)
Profit before tax		66.7	94.4
Tax	11	(17.5)	(25.0)
Profit for the year attributable to equity shareholders		49.2	69.4

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

Consolidated statement of recognised income and expense
for the year ended 31 March 2008

	Notes	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Actuarial gain on defined benefit pension scheme net of deferred tax	21,28	144.4	36.8
Change in fair value of hedging derivatives net of deferred tax	24	(2.7)	(0.2)
Net income recognised directly in equity		141.7	36.6
Transfer to income statement on cash flow hedges net of deferred tax	24	2.5	1.9
Profit for the year	24	49.2	69.4
Total recognised income and expense for the year attributable to equity shareholders		193.4	107.9

Consolidated financial statements

Consolidated balance sheet

at 31 March 2008

	Notes	2008 £m	2007 £m
Assets			
Non-current assets			
Goodwill	13	351.0	351.0
Other intangible assets	14	114.3	92.7
Property, plant and equipment	15	602.2	571.8
Retirement benefit asset	28	413.5	238.6
Trade and other receivables	16	6.2	4.8
		1,487.2	1,258.9
Current assets			
Trade and other receivables	16	141.3	125.6
Short term investments	19	17.2	18.4
Cash and cash equivalents		113.4	160.6
Non-current asset held for sale	16	0.1	-
		272.0	304.6
Total assets		1,759.2	1,563.5
Current liabilities			
Trade and other payables	20	(138.3)	(117.7)
Current tax liabilities		(7.9)	(9.1)
Derivative financial instruments	18	(74.1)	(51.4)
		(220.3)	(178.2)
Net current assets		51.7	126.4
Non-current liabilities			
Borrowings	17	(668.7)	(756.3)
Trade and other payables	20	(10.2)	(10.5)
Deferred tax liability	21	(194.0)	(143.5)
		(872.9)	(910.3)
Total liabilities		(1,093.2)	(1,088.5)
Net assets		666.0	475.0
Equity			
Called up share capital	22	140.6	140.6
Share premium account	23	0.4	0.4
AESOP reserve	24	(0.3)	(0.3)
Hedging reserve	24	(0.4)	(0.2)
Other reserves	24	(34.7)	(34.7)
Retained earnings	24	560.4	369.2
Total equity		666.0	475.0

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

John Devaney Chairman

Nigel Fotherby Finance Director

Consolidated financial statements

Consolidated cash flow statement

for the year end 31 March 2008

	Notes	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Net cash from operating activities	25	239.1	214.7
Cash flows from investing activities			
Interest received		10.5	8.0
Purchase of property, plant and equipment and other intangible assets		(141.2)	(149.1)
Proceeds on disposal of property, plant and equipment		0.1	7.8
Changes in short term investments		1.2	0.6
Net cash outflow from investing activities		(129.4)	(132.7)
Cash flows from financing activities			
Interest paid		(50.3)	(56.8)
Redemption payment		(15.8)	-
Unsecured loan notes repaid		(53.6)	(0.4)
Secured loan notes repaid		(113.7)	(1.3)
Bank and other loans		78.9	-
Loan from shareholder		-	(2.2)
Dividends paid		(2.4)	(2.5)
Net cash outflow from financing activities		(156.9)	(63.2)
(Decrease)/increase in cash and cash equivalents during the year		(47.2)	18.8
Cash and cash equivalents at 1 April		160.6	141.8
Cash and cash equivalents at 31 March		113.4	160.6
Net Debt (representing borrowings net of cash and short term investments)		(538.1)	(577.3)

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Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated under the Companies Act 1985 and domiciled in the United Kingdom. The address of the registered office is on page 3. The nature of the group's operations and its principal activities are set out in the Director's report and in the review of operations.

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

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group'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 group financial statements comply with Article 4 of the EU IAS Regulation.

In the current year, the group 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 Group's financial instruments and management of capital (See note 19).

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 group's accounting policies.

In addition, the group has elected to adopt IFRS 8: *Operating segments* in advance of the effective date. The impact of adoption of IFRS 8 has been additional disclosure in note 5; there have been no further changes to the basis of reporting as the group'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 group: IFRIC 12: *Service Concession Arrangements* and IFRIC 13: *Customer Loyalty Programmes*.

IFRIC 14: *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IAS 23* (revised): *Borrowing costs*, which were in issue but not yet effective, have not been applied in these financial statements. The impact of IAS 23 is to remove the option, which the group adopts, that enable borrowing costs on qualifying capital assets to be expensed as incurred. The group 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.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit

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

Revenue recognition

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

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NATS (En Route) plc's air traffic services licence and airports and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence.
- Sales of goods are recognised when they are delivered and title has passed.
- Revenue from construction contracts is recognised in accordance with the group's accounting policy on construction contracts.
- 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.

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Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

Goodwill

Goodwill in relation to NATS (En Route) plc, being the excess of consideration over the values of the net assets acquired at the date of the Public Private Partnership (PPP), is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing NATS assesses the carrying value of goodwill against the recoverable amount of the cash generating unit to which goodwill has been allocated (NATS (En Route) plc). Where the recoverable amount is less than the carrying value, the impairment loss is allocated to goodwill.

Recoverable amount is the higher of net realisable value and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax nominal regulated rate of return.

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.

Internally-generated intangible assets – research and development expenditure

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

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

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of net realisable value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax nominal regulated rate of return.

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

Where an impairment loss on an intangible or tangible asset, excluding goodwill, 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.

Emissions allowances

Consistent with the withdrawal of IFRIC 3, emissions allowances previously recognised at a valuation are now recognised at cost. Emission allowances granted for free are recognised at zero value on the balance sheet as an intangible asset. As carbon is produced and an obligation to submit allowances arises, a provision is created. The provision is measured at book value ("zero" or carrying amount of purchased emission certificates) of the recognised emission certificates. If there is an obligation that is not covered by allowances already on the balance sheet, the corresponding provision made is measured at current market prices.

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.

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Notes forming part of the consolidated accounts

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

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

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

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. 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 the company provides finance to NESL to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

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

Taxation

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

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

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

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

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

Foreign currency translation

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated 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.

Notes forming part of the consolidated accounts

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

Retirement benefit costs

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

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Pension costs are assessed in accordance with the advice of a qualified actuary using the Projected Unit Credit Method. Actuarial valuations are carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

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

The retirement benefit obligation recognised in the balance sheet represents 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.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 16 to 19.

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.

Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

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 liabilities: 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.

Effective interest method

The effective interest method is a method of calculating amortised cost of a financial asset or financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset.

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 group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in note 19 to the Accounts.

Under IFRS, 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 group's policies approved by the board of directors, which provides written principles on the use of financial derivatives. The group 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 group 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 a 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 the income statement.

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.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

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3. Critical judgements and key sources of estimation uncertainty.

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset base, market premiums for regulated businesses and future regulatory price control determinations. If actual results should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. A reduction in value in use of 7% would result in recoverable amount being equal to the carrying amount of goodwill. Refer to notes 13, 14 and 15.

Retirement benefits

The group accounts for its defined benefit pension scheme such that the net pension scheme asset is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of recognised income and expense. The pension asset assumes economic benefit will arise, at least to the extent shown, from contributions to the pension scheme at a rate below the future cost of pension benefits.

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet asset and the group's reserves and income statement. Refer to note 28 of the notes to the consolidated 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.

Capital investment programme

The group is undertaking a significant capital investment programme to upgrade existing air traffic control infrastructure and to rationalise the number of air traffic control centres. This programme requires the group to enter into substantial contracts for the development of infrastructure assets and information systems. Whilst covered by contractual arrangements, it is in the nature of such complex projects that, from time to time, variations to the original specifications may necessitate the renegotiation of original contract scope or price and affect amounts reported in these accounts.

4. Revenue

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

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
UK air traffic services	580.4	552.2
North Atlantic air traffic services	23.8	22.5
Airport air traffic services	130.8	119.4
Miscellaneous services	7.5	7.1
	742.5	701.2

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.

A portion of the group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. Included in the revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £3.3m (2007: £0.1m)

Notes forming part of the consolidated accounts

5. Business and geographical segments

Business segments
For management reporting purposes, the group is currently organised into four business areas.

Principal activities are as follows:
UK air traffic services provide en route air traffic services within UK airspace, air traffic services for helicopters operating in the North Sea, approach services for London airports and services to the Ministry of Defence. North Atlantic air traffic services provide en route air traffic services for the North Atlantic, including an altitude calibration service. These two segments represent the regulated business. Airport air traffic services include air traffic control and engineering services provided at airports and miscellaneous services include air traffic consultancy, training services and airports 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.

Segment information about these businesses is presented below.

Year ended 31 March 2008	UK air traffic services £m	North Atlantic air traffic services £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue					
Revenue from external customers	580.4	23.8	130.8	7.5	742.5
Segment result	121.5	3.8	9.1	-	134.4
Operating profit					134.4
Investment revenue					11.0
Finance costs					(78.7)
Profit before tax					66.7
Tax					(17.5)
Profit for the period					49.2
Other information					
Capital expenditure	131.0	1.5	4.7	0.1	137.3
Depreciation and amortisation	79.0	2.5	2.0	-	83.5
Impairment losses recognised in income	1.3	-	-	-	1.3
Deferred grants released	(3.2)	-	-	-	(3.2)
Balance Sheet					
Assets					
Segment assets	1,555.5	46.1	152.5	5.1	1,759.2
Liabilities					
Segment liabilities	(1,012.8)	(30.0)	(49.2)	(1.2)	(1,093.2)

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Notes forming part of the consolidated accounts

5. Business and geographical segments (continued)

Year ended 31 March 2007	UK air traffic services £m	North Atlantic air traffic services £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue					
Revenue from external customers	552.2	22.5	119.4	7.1	701.2
Segment result	124.8	4.3	14.7	0.2	144.0
Operating profit					144.0
Investment revenue					8.0
Finance costs					(57.6)
Profit before tax					94.4
Tax					(25.0)
Profit for the period					69.4
Other information					
Capital expenditure	135.1	2.1	4.0	-	141.2
Depreciation and amortisation	73.5	1.8	1.3	-	76.6
Impairment losses recognised in income	12.5	-	-	-	12.5
Deferred grants released	(4.6)	-	-	-	(4.6)
Balance Sheet					
Assets					
Segment assets	1,404.7	42.7	110.5	5.6	1,563.5
Liabilities					
Segment liabilities	(994.8)	(33.9)	(58.6)	(1.2)	(1,088.5)

Segment assets include property, plant and equipment, intangible assets, retirement benefit asset, work in progress, trade and other receivables, cash and cash equivalents and other current assets. Segment liabilities comprise trade payables, accruals and deferred income, borrowings derivatives and other short term liabilities.

Geographical segments

The following table provides an analysis of the Group'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	364.2	347.1
Rest of Europe	221.7	208.4
North America	110.2	104.7
Other	46.4	41.0
Total	742.5	701.2

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

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

6. Restructuring and related costs

During the year, restructuring costs were incurred following the closure of the air traffic control centre at West Drayton and the consequent relocation of staff to the Swanwick area. To the extent that staff could not be redeployed, termination terms were agreed. These costs are included in arriving at operating profit.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Cost of relocation of staff and offices to Swanwick area	5.5	2.3
Voluntary redundancy costs	13.4	2.4
Payment for changes in redundancy terms	4.1	-
	23.0	4.7

7. Operating profit for the year

Operating profit for the year has been arrived at after charging/(crediting):

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
CAA regulatory charges	3.8	4.2
Depreciation of property, plant and equipment	75.0	70.1
Impairment of property, plant and equipment	0.4	2.0
Amortisation of internally generated intangible assets	8.5	6.5
Impairment of internally generated intangible assets	0.9	10.5
Deferred grants released	(3.2)	(4.6)
Research and development costs	7.5	10.9
Auditors' remuneration for audit services (see below)	0.2	0.2

The analysis of auditors' remuneration is as follows:

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditors and their associates for other services to the group		
- The audit of the company's subsidiaries pursuant to legislation	-	-
Total audit fees	0.2	0.2
- Tax services	0.1	0.1
- All other services	0.2	0.1
Total non-audit fees	0.3	0.2
	0.5	0.4

Non-audit fee for all other services are in respect of a pension consultation project.

Government grants relating to the purchase of property, plant and equipment and Ministry of Defence contributions received prior to 1 April 2001 are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful lives of the related assets.

Notes forming part of the consolidated accounts

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*	324.2	290.1
Social security costs	29.9	29.0
Pension costs (note 8b)	54.8	53.5
	408.9	372.6
Less: amounts capitalised	(34.8)	(36.8)
	374.1	335.8

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

b Pension costs

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Pension scheme costs for year (note 28)	54.8	53.5
	54.8	53.5

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	2,024	1,978
Air traffic service assistants	1,056	1,095
Engineers	1,159	1,182
Others	919	902
	5,158	5,157

9. Investment revenue

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest on bank deposits	10.7	8.0
Other loans and receivables	0.3	-
	11.0	8.0

All investment revenue earned on financial assets has been earned on financial assets classified as loans and receivables, including cash and cash equivalents.

Notes forming part of the consolidated accounts

10. Finance costs

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	0.6	1.1
Interest on shareholder loan notes	13.1	16.1
Bond and related costs including financing	30.1	29.8
Other	0.1	0.2
	43.9	47.2
Loss on derivatives not qualifying for hedge accounting	19.0	10.5
Gains on derivatives not qualifying for hedge accounting	-	(2.7)
Fair value losses on interest rate swaps transferred from equity	-	2.6
	62.9	57.6
Payment on redemption of 11.3575% fixed rate secured shareholder loan notes	15.8	-
	78.7	57.6

11. Tax

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Current tax (including a credit of £0.7m in respect of prior years, 2007: £1.8m credit)	(14.4)	(17.1)
Deferred tax see note 21. Including a charge of £0.3m in respect of prior years, 2007: £1.1m charge)	(3.1)	(7.9)
	(17.5)	(25.0)

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	66.7		94.4	
Tax on profit on ordinary activities at standard rate in the UK of 30%	(20.0)	(30.0%)	(28.3)	(30.0%)
Tax effect of rate change from 30% to 28% for deferred tax	4.1	6.1%	-	0.0%
Tax effect of prior year adjustments	0.4	0.6%	0.7	0.7%
Other permanent differences	(2.0)	(3.0%)	2.6	2.8%
Tax charge for year at the effective tax rate of 26.3% (2007: 26.5%)	(17.5)	(26.3%)	(25.0)	(26.5%)
Deferred tax charge taken directly to equity (see note 21)	47.4		16.5	

Recent budget changes

If the 2008 Finance Bill is substantially enacted in it 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 £5.3m 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 carrying values of assets reduce.

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12. Dividends

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

13. Goodwill

	£m
Carrying amount	
At 31 March 2008 and 31 March 2007	351.0

The company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying value is determined by reference to value in use calculations and the net realisable value of the regulated asset bases of NATS (En Route) plc's business segments, including market premiums for regulated businesses. The key assumptions for value in use calculations are the discount rate, future cash flows to the end of the second regulatory control period (31 December 2010 for UK air traffic services and 31 March 2011 for North Atlantic air traffic services) as assumed in the group's business plans, and a terminal value at that date, reflecting the regulated asset bases and market premiums. The discount rate is a pre-tax nominal rate of 9.51%. See note 3.

14. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Other intangibles £m	Total £m
Cost						
At 1 April 2006	20.7	8.0	6.8	59.0	0.6	95.1
Additions internally generated	0.5	0.2	1.0	14.2	-	15.9
Additions externally acquired	0.9	0.4	-	18.3	-	19.6
Disposals and transfers during the year	13.0	3.7	3.0	(25.2)	(0.6)	(6.1)
At 1 April 2007	35.1	12.3	10.8	66.3	-	124.5
Additions internally generated	-	1.9	-	16.8	-	18.7
Additions externally acquired	-	-	-	12.2	-	12.2
Disposals and transfers during the year	(0.1)	13.2	1.6	(15.4)	-	(0.7)
At 31 March 2008	35.0	27.4	12.4	79.9	-	154.7
Accumulated amortisation						
At 1 April 2006	3.6	3.6	2.1	6.6	-	15.9
Charge for the year	3.1	1.9	1.5	-	-	6.5
Provisions for impairment	-	-	-	10.5	-	10.5
Disposals and transfers during the year	-	-	-	(1.1)	-	(1.1)
At 1 April 2007	6.7	5.5	3.6	16.0	-	31.8
Charge for the year	4.2	2.8	1.5	-	-	8.5
Provisions for impairment	-	-	-	0.9	-	0.9
Disposals and transfers during the year	-	-	-	(0.8)	-	(0.8)
At 31 March 2008	10.9	8.3	5.1	16.1	-	40.4
Carrying amount						
At 31 March 2008	24.1	19.1	7.3	63.8	-	114.3
At 31 March 2007	28.4	6.8	7.2	50.3	-	92.7

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15. 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	157.8	51.7	886.6	8.6	212.8	1,317.5
Additions during the year	6.7	0.3	26.1	2.6	70.0	105.7
Disposals and transfers during the year	54.0	3.8	64.9	2.9	(142.8)	(17.2)
At 1 April 2007	218.5	55.8	977.6	14.1	140.0	1,406.0
Additions during the year	0.1	0.2	33.7	-	72.4	106.4
Disposals and transfers during the year	1.0	0.1	48.3	(0.1)	(77.0)	(27.7)
Assets reclassified as held for sale	(4.9)	-	(1.5)	-	-	(6.4)
At 31 March 2008	214.7	56.1	1,058.1	14.0	135.4	1,478.3
Accumulated depreciation and impairment						
At 1 April 2006	68.1	36.6	656.7	5.3	16.5	783.2
Provided during the year	4.2	1.9	62.7	1.3	-	70.1
Provisions for impairment	-	-	-	-	2.0	2.0
Utilisation of impairment provision	-	-	0.1	-	(0.1)	-
Disposals and transfers during the year	(2.6)	0.1	(3.4)	(0.8)	(14.4)	(21.1)
		-				
		-				
At 1 April 2007	69.7	38.6	716.1	5.8	4.0	834.2
Provided during the year	6.6	1.8	65.4	1.2	-	75.0
Provisions for impairment	-	-	-	-	0.4	0.4
Utilisation of impairment provision	-	0.2	0.1	-	(0.3)	-
Disposals and transfers during the year	-	-	(24.2)	(0.2)	(2.8)	(27.2)
Assets reclassified as held for sale	(4.9)	-	(1.4)	-	-	(6.3)
At 31 March 2008	71.4	40.6	756.0	6.8	1.3	876.1
Carrying amount						
At 31 March 2008	143.3	15.5	302.1	7.2	134.1	602.2
At 31 March 2007	148.8	17.2	261.5	8.3	136.0	571.8

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £1.3m (2007: £12.5m) were made in respect of assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

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16. Financial and other assets

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

Trade and other receivables

	2008 £m	2007 £m
Non-current		
Other debtors	6.2	4.8
Current		
Receivable from customers gross	55.4	51.0
Allowance for doubtful debts	(2.7)	(4.0)
	52.7	47.0
Amounts recoverable under contracts	6.1	2.4
Other debtors	5.4	5.5
Prepayments	18.6	13.6
Accrued income	58.2	57.0
Accrued interest	0.3	0.1
	141.3	125.6

The average credit period taken on sales of services is 25 days. Interest is charged by Eurocontrol to UK en route customers at 9.24% on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £2.7m (2007: £4.0m). Full provision is made for receivables from UK en route customers that are overdue. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other 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.

Ageing of past due but not impaired trade receivables

	2008 £m	2007 £m
30-90 days	1.9	2.4

Movement in the allowance for doubtful debts

	2008 £m	2007 £m
Balance at the beginning of the period	4.0	3.9
Increase in allowance recognised in the income statement	0.4	0.5
Amounts written off as irrecoverable	(1.7)	(0.4)
Balance at end of year	2.7	4.0

In determining the recoverability of a trade receivable the group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Credit risk is mitigated in part by regulatory price control conditions that protect NERL's revenues from losses exceeding £1.5m a year. 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 £1.8m (2007: £2.8m) 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.

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16. Financial and other assets (continued)

Ageing of impaired receivables

	2008 £m	2007 £m
Current	-	0.2
30-90 days	0.5	0.5
90-365 days	0.9	0.9
more than 365 days overdue	1.3	2.4
	2.7	4.0

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

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 the asset of £0.1m. Accordingly no loss has been recognised upon reclassification.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group 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.

17. Borrowings

	2008 £m	2007 £m
Unsecured loans at amortised cost		
Fixed rate unsecured shareholder loan notes (8.5% interest rate, repayable 2031)	-	53.6
Other loans (not interest bearing)	1.4	-
Total unsecured loans	1.4	53.6
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bonds due 2026	597.1	596.9
Fixed rate secured shareholder loan notes (8.5% interest rate, repayable 2031)	-	48.7
Fixed rate secured shareholder loan notes (11.3575%, no final maturity date)	-	65.0
Bank loans (variable rate revolving credit facility expiring 2010-2012	77.5	-
Total secured loans	674.6	710.6
Gross borrowings	676.0	764.2
Unamortised bond issue costs	(7.3)	(7.9)
	668.7	756.3

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NATS (En Route) plc grants its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Drawings of £77.5m made by NERL in March 2008 under its £216.2m committed bank facilities are similarly secured.

The average effective interest rate on the bank loan in the year was 5.94% and was determined based on 6 month LIBOR rates plus a margin.

The 11.3575% fixed rate secured shareholder loan notes of £65m together with accrued interest of £1.4m and a redemption payment of £15.8m were repaid in December 2007. Repayments of the 8.5% fixed rate unsecured and secured shareholder loan notes of £0.1m and £1.0m, respectively, were made in June 2007. The remaining balance of £53.5m of the 8.5% fixed rate unsecured shareholder loan notes together with accrued interest of £3.4m and the remaining balance of £47.7m of the 8.5% fixed rate secured shareholder loan notes together with accrued interest of £3.0m were repaid in March 2008.

Costs associated with the issue of the £660m bond are being amortised over the life of the bond.

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17. Borrowings (continued)

Undrawn committed facilities	2008 £m	2007 £m
Expiring in more than two years	138.7	216.2

Drawings of £77.5m were made on committed facilities of £216.2m in the year. The bank facilities expire as follows: £11.0m in November 2010; £34.25m in November 2011 and the balance of £170.95m in November 2012.

NSL has an uncommitted overdraft facility of £2m that was undrawn as at 31 March 2008 and 31 March 2007.

18. 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)	4.9	1.2
Derivative financial instruments classified as held for trading		
Index-linked swaps	69.2	50.2
	74.1	51.4

Further details on derivative financial instruments are provided in note 19. The index-linked swap is classified under international accounting standards as held for trading as it does not qualify for hedge accounting. The index-linked swap was taken out in August 2003 to hedge against the risk of low inflation (see note 19) and previously qualified as a hedge under UK generally accepted accounting principles prior to the group's adoption of international accounting standards.

19. Financial instruments

Capital risk management

The group manages its capital to ensure that entities in the group are able to continue as going concerns, to ensure that NATS (En Route) plc (NERL) is able to meet its obligations under the air traffic services licence, for NATS (Services) Ltd (NSL) to meet obligations to its customers and to fund business development, and to provide returns to shareholders.

The capital structure of the group consists of debt, as disclosed in note 17, cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in notes 22-24.

External capital requirements

NERL's air traffic services licence requires the company to use reasonable endeavours to maintain an investment grade issuer credit rating (BBB-/Baa3 or better). Separately, it is the objective of the group to target a credit profile for NERL that exceeds BBB-/Baa3.

As at 31 March 2008, NERL had an underlying credit rating of A (stable outlook) from Standard & Poor's and A3 (positive outlook) from Moody's (2007: A-positive outlook/A3 positive outlook).

Gearing ratio

The group does not seek to maintain a target gearing level at group level but rather sets a gearing target for NERL, the economically regulated subsidiary, based on a ratio of net debt to its regulatory asset base (RAB). NSL has no debt and, at 31 March 2008, the group's intermediate holding company, NATS Ltd was also free of debt.

19. Financial instruments (continued)

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 and short term investments)	201.0	238.7
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(4.9)	(1.2)
Derivative financial instruments classified as held for trading	(69.2)	(50.2)
Amortised cost	(719.0)	(804.0)
	(793.1)	(855.4)

The index-linked swap is categorised as held for trading. The loss on the movement in its market value of £19.0m has been recorded in the profit and loss account in the year (2007: £10.5m).

Financial risk management objectives

The group's treasury function is mandated by the Board 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 group's activities include market risk (including currency risk, cash flow interest rate risk and inflation risk), credit risk and liquidity risk. NATS Ltd and NSL have no borrowings at 31 March 2008. The principal financial risk in these entities is credit risk. Specific policies on interest rate and liquidity risk management apply principally to NERL.

Market risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and inflation rates. These risks are explained below. The group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in Euro, and purchases from foreign suppliers settled in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- index-linked swaps to mitigate against the risk of low inflation.

Foreign currency risk management

The group's principal exposure to foreign currency transaction risk is in relation to UK en route services revenues, accounting for 70% of the group's turnover (2007: 71%). Charges for this service are set in sterling, but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to NERL, forward foreign currency contracts are entered into. NERL seeks to hedge 90% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a quarterly basis.

The group also 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 contracts or by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

The carrying amount of the group's 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	108.1	103.3	(12.7)	(6.8)
US Dollar	2.9	1.2	(0.3)	(0.1)
Canadian Dollars	0.9	1.3	(0.2)	-
Hong Kong Dollars	0.3	-	-	-
	112.2	105.8	(13.2)	(6.9)

Foreign currency sensitivity analysis

The group holds foreign currency cash balances in Euro, US Dollars and Canadian Dollars.

The following table details the Group's sensitivity to a 10% increase or decrease in the value of the 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
Euro	(2.3)	(2.7)
US Dollar	(0.3)	(0.3)
Canadian Dollars	(0.1)	(0.1)
Hong Kong Dollars	-	-
	(2.6)	(3.2)

The group's sensitivity to foreign currency has reduced during the current reporting period mainly due to a decrease in net unhedged foreign currency assets. NATS believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the level of currency investments was broadly constant throughout the reporting period. Since 31 March 2008, the group has further reduced its exposure to foreign exchange risk by reducing the level of Euro currency deposits held by its subsidiaries.

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

Forward foreign exchange contracts

The group entered into forward foreign exchange contracts to sell Euro forecast to be received from Eurocontrol. In 2007, the group entered into, and settled in that year, forward foreign exchange contracts to buy US Dollars (USD) to fund purchases of equipment denominated in US dollars. The group has designated these forward contracts as cash flow hedges. The following contracts were outstanding at the year end:

2008

Payment date	Euro sold €m	Sterling bought £m	Exchange rate €1 = £
23 April 2008	23.2	17.5	0.7492
23 April 2008	23.2	17.4	0.7493
21 May 2008	24.8	18.7	0.7538
21 May 2008	24.8	18.7	0.7539
Total/average	96.0	72.3	0.7526

2007

Payment date	Euro sold €m	Sterling bought £m	Exchange rate €1 = £
25 April 2007	24.5	16.3	0.6664
25 April 2007	24.5	16.3	0.6663
23 May 2007	27.5	18.4	0.6707
23 May 2007	27.5	18.4	0.6707
Total/average	104.0	69.4	0.6680

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
Total/average	1.1	2.2	1.8484

In addition to the above, since the year end, NERL has entered into agreements with a contract date after 31 March 2008 to sell Euro anticipated to be received in the period June through to August 2008 totalling €116.6m.

At 31 March 2008, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these future transactions was £0.4m (2007: unrealised losses of £0.2m). These contracts will mature within the first two months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL. NATS held fixed interest borrowings during the 2008 and 2007 financial years that were repaid in March 2008. NSL had no debt at 31 March 2008 (2007: none).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt, by the use of interest rate swap contracts and index-linked swap contracts. The appropriate mix of fixed, floating and index-linked borrowing varies over time and reflects the certainty of future borrowing requirements and the prevailing interest rates. Recognising that long term borrowing forecasts are inherently more uncertain than short term forecasts, the group's policy, applied to NERL, is to reduce the level of fixed rate debt over time as per the following table:

Debt maturity	Fixed rate %	Index linked %	Floating %
Within one year	40-70	30-50	0-30
Between one and two years	40-60	30-50	0-30
Between two and five years	30-50	30-50	10-40
After five years	20-40	30-70	10-50

The group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

Economic interest rate exposure

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

2008

Currency	Cash Amount	Cash Economic interest rate	Cash Average maturity	Short term deposits Amount	Short term deposits Economic interest rate	Short term deposits Average maturity	Total
	£m	%	days	£m	%	days	£m
Sterling	89.6	5.5	9	17.2	5.7	184	106.8
EUR	20.0	4.1	3	-	-	-	20.0
USD	2.9	2.8	8	-	-	-	2.9
CAD	0.9	3.4	4	-	-	-	0.9
	113.4			17.2			130.6

2007

Currency	Cash Amount	Cash Economic interest rate	Cash Average maturity	Short term deposits Amount	Short term deposits Economic interest rate	Short term deposits Average maturity	Total
	£m	%	days	£m	%	days	£m
Sterling	136.5	5.3	5	18.4	5.6	182	154.9
EUR	21.6	3.8	10	-	-	-	21.6
USD	1.2	5.3	10	-	-	-	1.2
CAD	1.3	4.1	12	-	-	-	1.3
	160.6			18.4			179.0

The economic interest rate reflects the true underlying cash rate that the group was paying on its borrowings or receiving on its deposits at 31 March. The economic interest rate exposure of the group's loans is presented below with and without the effect of derivatives, as follows:

Excluding derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	597.1	-	-	597.1	5.28%	12.0
Bank loans	77.5	77.5	-	-	5.94%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	676.0	77.5	-	598.5		

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2007						
Sterling:						
8.5% unsecured shareholder loan notes	53.6	-	-	53.6	8.50%	24.0
5.25% guaranteed secured bonds	596.9	-	-	596.9	5.28%	13.0
8.5% secured shareholder loan notes	48.7	-	-	48.7	8.50%	24.0
11.3575% secured shareholder loan notes	65.0	-	-	65.0	11.36%	N/A
Total	764.2	-	-	764.2		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	397.1	-	-	397.1	5.29%	12.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.50%	N/A
Bank loans	77.5	77.5	-	-	5.94%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	676.0	77.5	200.0	398.5		

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2007						
Sterling:						
8.5% unsecured shareholder loan notes	53.6	-	-	53.6	8.50%	24.0
5.25% guaranteed secured bonds	396.9	-	-	396.9	5.29%	13.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.37%	N/A
8.5% secured shareholder loan notes	48.7	-	-	48.7	8.50%	24.0
11.3575% secured shareholder loan notes	65.0	-	-	65.0	11.36%	N/A
Total	764.2	-	200.0	564.2		

The £65m perpetual fixed rate secured shareholder loan notes were issued by NERL in March 2003 as part of the restructuring of the group's finances that took place following the events of September 11th, 2001. The coupon was set at 11.3575% to ensure that the new investor in the group (BAA plc) earned a satisfactory rate of return on its total investment. Achieving an A rating from Standard & Poor's enabled repayment of the 11.3575% perpetual shareholder loan notes in December 2007.

The interest rate payable under the RPI swap is adjusted semi-annually in line with the movement in RPI.

Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of group net debt. Net debt is defined for this purpose as borrowings net of cash and short tem investments, as distinct from the definition used for financial covenants purposes explained above.

	2008 £m		2007 £m	
Net Debt	538.1		577.3	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.2	72.7	556.3	96.4
Index Linked	200.0	37.2	200.0	34.6
Floating (net of cash and short term investments)	(53.1)	(9.9)	(179.0)	(31.0)
	538.1	100.0	577.3	100.0

At 31 March 2008, NERL had net debt, including an inter-company loan of £22.5m, of £598.0m (2007: net debt £538.3m), NATS Limited held cash balances of £19.5m (2007: net debt £84.1m), NSL had cash of £17.7m (2007: cash £22.2m) and NATSNav had cash of £0.2m (2007: cash £0.4m).

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of NERL net debt, reflecting the application of the interest rate risk management policies that are specific to NERL.

	2008 £m		2007 £m	
Net Debt	598.0		538.3	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.2	65.4	454.0	84.3
Index Linked	200.0	33.4	200.0	37.2
Floating (net of cash and short term investments)	6.8	1.2	(115.7)	(21.5)
	598.0	100.0	538.3	100.0

In 2007, in order to reduce its exposure to interest rate risk on its cash balances, NERL adopted a strategy of hedging net debt rather than gross debt. In 2007 NERL's cash and short term investments significantly exceeded its floating rate borrowings with the result that the company was over hedged on a Net Debt basis.

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 group's cash and floating rate bank loans 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.

	2008 Impact £m	2007 Impact £m
Cash on deposit (2008: £130.6m, 2007: £179.0m)	1.3	1.8
Borrowings (2008: £77.5m, 2007: nil)	(0.8)	-
	0.5	1.8

The group's sensitivity to interest rates has decreased during the year due to a closer matching of the balance of floating rate assets and liabilities, in accordance with the group's hedging policy.

19. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a revenue allowance by reference to inflation using an "RPI-X" basis. To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, NERL entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. Under the terms of this swap, NERL receives fixed interest at 5.25% and pays interest at a rate of 2.98% adjusted for the movement in RPI. The index-linked swap cannot be designated as a cash flow hedge under IFRS, although it provides an economic hedge of NERL's RPI-linked revenues.

The value of the notional principal of £200m of the index-linked swap is also linked to movements in RPI. The increase in the notional value is payable semi-annually commencing on 31 March 2017 and ending on 31 March 2026 (the expiry date of the swap).

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to breakeven inflation arising from the index-liked swap. The difference between fixed rate and index-linked gilts reflects the market's expectations of future RPI and is a proxy for the breakeven inflation rate. The analysis is prepared assuming that the index-linked swap at the balance sheet date was in place for the whole year. A 1% increase or decrease in breakeven inflation is considered to represent management's assessment of the reasonably possible change in inflation. An increase in the rate of RPI will increase the future index-linked payments that NERL is required to make under the swap contract and so impacts its mark to market value.

The following table shows the effect of a 1% increase in breakeven inflation on the amount of interest payable in respect of this swap and the impact on its value when marked to market. A positive number 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 breakeven inflation falls by 1%.

	2008 Impact £m	2007 Impact £m
Change in swap interest and mark to market value	(29.7)	(23.0)

The mark to market value of the index-linked swap is also sensitive to the discount rate that is used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. NERL's index-linked swap is most sensitive to yields on swaps that mature within 10 to 15 years. The effect of a 1% increase in the discount rate on 15-year swaps would be to increase profit and equity by £19.4m (2007: £13.0m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on it contractual obligations resulting in financial loss to the group. The group'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 16. With regard to funds or contracts held with financial institutions, the group'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 group's policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's and Moody's rating agencies. Where there is a difference in the rating then the lower of the two ratings is applied.

Currently, the group'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.

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

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

Rating (Standard & 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 the group's deposits at 31 March by credit rating (Standard & Poor's):

	2008				2007			
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Limit utilised %	Number of institutions	£m	By credit rating %	Limit utilised %
AA	5	88.1	67.5	58.7%	4	75.0	41.9	62.5%
AA-	-	0.0	0.0	0.0%	1	9.2	5.1	45.8%
A+	2	23.0	17.6	76.7%	2	20.3	11.3	67.7%
A	2	19.5	14.9	97.5%	8	74.5	41.6	93.1%
		130.6	100.0			179.0	100.0	

Liquidity risk management

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

With regard to NERL, the group's policy is to:

a. maintain free cash equal to between 1 and 2 months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short term investments, excluding a debt service reserve account of £17.2m used to fund interest and fees scheduled for payment in the next six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;
b. ensure access to bank facilities sufficient to meet 120% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. NERL has access to bank facilities totalling £216.2m available until November 2010 and £170.95m until November 2012, thereby ensuring that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan;
c. ensure access to long term funding to finance its long term assets. This is achieved in the form of a £600m amortising sterling bond with a final maturity date of 2026;
d. ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and
e. maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of a £600m sterling bond that starts to amortise in 2012 and has a final maturity date of 2026 and by having available committed bank facilities totalling c£216.2m of which £11m expires in 2010, £34.25m in 2011 and c£171m in November 2012.

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19. Financial instruments (continued)

The following table shows the ratio of free cash in NERL to average monthly UK en route service income during the year:

	2008 £m	2007 £m
Average monthly UK en route services income	43.5	41.3
Free cash	53.9	99.5
Ratio of free cash to UK en route services income	1.2	2.4

During 2007, NERL maintained a higher level of free cash than the policy in anticipation of repaying the group's shareholder loan notes. During 2008, free cash of £82.2m was used to fund the redemption of the £65m 11.3575% shareholder loan notes together with accrued interest of £1.4m and an early redemption payment of £15.8m. In addition, £30.1m of free cash and a £77.5m drawing on bank facilities were used to finance the redemption of the £101.2m principal remaining on the 8.5% shareholder loan notes and accrued interest of £6.4m.

The following table shows the ratio of the group's bank borrowings to its gross borrowings at 31 March:

	2008 £m	2007 £m
Bank borrowings	77.5	-
Gross borrowings	676.0	764.2
Bank borrowings as a percentage of gross borrowings	11.5%	0.0%

It is not company policy to guarantee the borrowings of subsidiaries or to allow the creation of any mortgages or other charges over group assets.

Maturity of borrowings

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

	2008				2007			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	0.3	36.8	43.0	80.1	4.8	44.3	39.8	88.9
Between one and two years	1.2	36.5	-	37.7	4.8	44.4	-	49.2
Between two and five years	-	185.1	-	185.1	15.1	133.0	-	148.1
Due in more than five years	-	828.5	-	828.5	228.9	1,213.3	-	1,442.2
	1.5	1,086.9	43.0	1,131.4	253.6	1,435.0	39.8	1,728.4
Effect of interest and discount	(0.1)	(412.3)	-	(412.4)	(200.0)	(724.4)	-	(924.4)
	1.4	674.6	43.0	719.0	53.6	710.6	39.8	804.0

It should be noted that the 2007 analysis assumes that the NATS loan notes (principal amount £53.6m) and NATS priority loan notes (principal amount £48.7m) are repaid on 31 March 2031, consistent with the loan agreements, and that the perpetual £65m NERL loan notes are also repaid on 31 March 2031. The latter were actually repaid in December 2007 and the former in March 2008.

In order to manage the liquidity risk arising on the contractual maturity of its borrowings, it is the group's intent to replace bank facilities and bonds with facilities of a similar nature at least 12 months in advance of contractual maturity. The group also intends to re-finance existing bank borrowings through a bond issue as and when market conditions are favourable.

Notes forming part of the consolidated accounts

19. Financial instruments (continued)

The following table sets out the maturity profile of the group's derivative financial liabilities. Cash flows under the RPI swap are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the RPI swap have been derived from the group's long term forecasts of inflation as used for business planning purposes. The table shows undiscounted net cash inflows/(outflows) on these derivatives.

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2008					
Gross settled:					
Index-linked swap receivable	10.5	10.5	31.5	92.9	145.4
Index-linked swap payable	(7.0)	(7.2)	(22.7)	(215.6)	(252.5)
Foreign exchange forward contract receivables	72.3	-	-	-	72.3
Foreign exchange forward contract payables	(77.2)	-	-	-	(77.2)
	(1.4)	3.3	8.8	(122.7)	(112.0)
2007					
Gross settled:					
Index-linked swap receivable	10.5	10.5	31.5	103.4	155.9
Index-linked swap payable	(6.8)	(6.9)	(22.0)	(222.7)	(258.4)
Foreign exchange forward contract receivables	70.4	-	-	-	70.4
Foreign exchange forward contract payables	(71.6)	-	-	-	(71.6)
	2.5	3.6	9.5	(119.3)	(103.7)

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 fair value of the index-linked swap is determined independently by reference to contractual cash flows, the break-even inflation rate which is calculated as the difference in yields on fixed interest and index-linked gilts of similar maturity to the swap contract and discounted to present value. The fair value of the £600m bond has been derived from its externally quoted price. The fair value of shareholder loan notes is stated at amortised cost. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount		Fair value	
	2008 £m	2007 £m	2008 £m	2007 £m
Financial assets				
Accounts receivable, cash and bank balances	201.0	238.7	201.0	238.7
Financial liabilities				
Trade and other payables (including current tax liabilities)	(43.0)	(39.8)	(43.0)	(39.8)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.1)	(596.9)	(552.1)	(593.1)
8.5% shareholder loan notes	-	(102.3)	-	(102.3)
11.3575% shareholder loan notes	-	(65.0)	-	(65.0)
Bank loans	(77.5)	-	(77.5)	-
Other loans	(1.4)	-	(1.4)	-
Derivative financial instruments				
Forward foreign exchange contracts	(4.9)	(1.2)	(4.9)	(1.2)
Index-linked swap	(69.2)	(50.2)	(69.2)	(50.2)
	(793.1)	(855.4)	(748.1)	(851.6)

Notes forming part of the consolidated accounts

20. Financial and other liabilities

Trade and other payables

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

	2008 £m	2007 £m
Current		
Trade payables	11.0	8.5
Other payables	14.7	13.3
Tax and social security	9.4	8.9
Accruals and deferred income		
- deferred grants	2.4	3.6
- other	100.8	83.4
	138.3	117.7
Non-current		
Accruals and deferred income		
- deferred grants	10.2	10.5
	148.5	128.2

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. The directors consider that the carrying amount of the trade payables approximates to their fair value.

21. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Financial instruments £m	Other £m	Total £m
At 1 April 2006	68.1	62.1	(8.5)	(2.6)	119.1
Charge/(credit) to income	13.6	(6.2)	(0.8)	1.3	7.9
Charge to equity	-	15.7	0.8	-	16.5
At 31 March 2007	81.7	71.6	(8.5)	(1.3)	143.5
At 1 April 2007	81.7	71.6	(8.5)	(1.3)	143.5
Charge/(credit) to income	10.5	(3.4)	(3.1)	(0.9)	3.1
Charge/(credit) to equity	-	47.6	(0.2)	-	47.4
At 31 March 2008	92.2	115.8	(11.8)	(2.2)	194.0

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.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Deferred tax liabilities	(208.0)	(153.3)
Deferred tax assets	14.0	9.8
	(194.0)	(143.5)

Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

22. Share capital

	Authorised: Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2008 and 31 March 2007	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2008 and 31 March 2007	54,272,594	43.4	12,048,193	9.6
		187.5		140.6

Share capital also included one £1 special rights redeemable preference share at 31 March 2008 and 31 March 2007.

Special share
The authorised and issued share capital of NATS Holdings Limited as at 31 March 2008 included one special rights redeemable preference share with a nominal value of £1. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:
- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

If an attempt is made to approve any of these events or to pass a resolution to wind up the company at a general meeting, on an ordinary resolution the special shareholder will have no less than one vote more than the total number of all other votes cast and, on a special resolution, he shall have no less than one vote more than 25% of the total votes cast.

23. Share premium account

	£m
Balance as at 31 March 2007 and 31 March 2008	0.4

24. Reserves

	AESOP reserve £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2006	(0.3)	(1.9)	(34.7)	263.0	226.1
Movement in statement of recognised income and expense	-	1.7	-	36.8	38.5
Net profit for the year	-	-	-	69.4	69.4
Balance at 31 March 2007	(0.3)	(0.2)	(34.7)	369.2	334.0
Balance at 1 April 2007	(0.3)	(0.2)	(34.7)	369.2	334.0
Movement in statement of recognised income and expense	-	(0.2)	-	144.4	144.2
Net profit for the year	-	-	-	49.2	49.2
Dividends paid	-	-	-	(2.4)	(2.4)
Balance at 31 March 2008	(0.3)	(0.4)	(34.7)	560.4	525.0

The AESOP reserve represents the cost of the ordinary A shares of 80 pence each, held by NATS Employee Sharetrust Limited (NESL) (see Accounting Policies). Other reserves arose on completion of the PPP transaction in July 2001.

25. Notes to the cash flow statement

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating profit from continuing operations	134.4	144.0
Adjustments for:		
Depreciation of property, plant and equipment	75.0	70.1
Amortisation of intangible assets	8.5	6.5
Impairment losses	1.3	12.5
Deferred grants released	(3.2)	(4.6)
Loss/(gain) on disposal of property, plant and equipment	0.4	(8.5)
Non-cash element of charge for pension costs	17.1	20.9
Decrease in provisions	-	(0.2)
Operating cash flows before movements in working capital	233.5	240.7
Increase in trade and other receivables	(13.6)	(9.7)
Increase in trade and other payables	34.9	8.9
Cash generated from operations	254.8	239.9
Tax paid	(15.7)	(25.2)
Net cash from operating activities	239.1	214.7

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.

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26. Financial commitments

	2008 £m	2007 £m
Amounts contracted but not provided for in the accounts.	124.1	86.3
Minimum lease payments under operating leases recognised in the income statement.	19.6	13.3
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	0.9	1.5
In the second to fifth years inclusive	8.2	10.9
After five years	76.5	54.0
	85.6	66.4

Operating lease payments represent rentals payable by the group for certain of its properties, equipment used for air navigation and vehicles. Leases are negotiated on varying terms depending on the type of asset leased. The prior year comparative for minimum lease payments has been re-stated to be consistent with the 2008 amount.

Guarantees
NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its contract with the MoD.

Breach of loan agreement
NERL is required by its loan documents to seek consent from its lenders to enter into certain capital and revenue contracts that are above a certain value or exceed a specified duration. In December 2007, NERL entered into a contract which met these criteria. However, consent was not sought until March 2008. Any breaches associated with this action were waived by lenders in April 2008.

27. Share based payments

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

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding
21 September 2001	3,353,742	1,881,615
20 October 2003	2,459,000	1,974,000
10 September 2004	1,966,000	1,646,800
11 January 2008	1,070,470	1,064,800
		6,567,215
Dividend shares issued on 28 June 2005		214,990
Total employee shares in issue at 31 March 2008		6,782,205

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

Notes forming part of the consolidated accounts

28. Retirement benefit scheme

Background

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

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 before retirement will be 1.9% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and the annual investment return for pensions in payment will be 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.

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

The 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 over the page:

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Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

28. Retirement benefit scheme (continued)

	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.

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

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

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

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

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

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

28. Retirement benefit scheme (continued)

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

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

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

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

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

	Fair value of assets		Expected return	
	2008 £m	2007 £m	2008	2007
Equity Instruments	1,716.8	1,799.3	7.60%	7.50%
Property	447.1	449.3	7.60%	7.50%
Bonds	653.4	573.8	4.95%	4.73%
Cash	28.9	10.7	4.95%	4.73%
	2,846.2	2,833.1	6.97%	6.86%

The four-year history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(2,432.7)	(2,594.5)	(2,461.6)	(2008.8)
Fair value of scheme assets	2,846.2	2,833.1	2,668.6	2,077.8
Surplus in the scheme	413.5	238.6	207.0	69.0
Experience adjustments in scheme liabilities				
Amount (£m)	100.6	30.7	27.8	70.1
Percentage of scheme liabilities	(4.1%)	(1.2%)	(1.1%)	(3.5%)
Experience adjustments in scheme assets				
Amount (£m)	(175.6)	(5.2)	428.1	95.7
Percentage of scheme assets	(6.2%)	(0.2%)	16.0%	4.6%

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Notes forming part of the consolidated accounts

29. 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).

AG is a consortium of seven airlines: British Airways, British Midland, EasyJet, Monarch, My Travel, Thomsonfly, and Virgin Atlantic. AG 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 AG have not been disclosed in this set of accounts.

A loan of £2.2m was made by AG to one of the group companies (NERL) on 28 June 2005. The loan was repaid in full in the year to 31 March 2007 and the interest rate applicable to the loan was 200 basis points above the Interbank Rate. The interest was rolled up every six months into the loan value.

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 plc. 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'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 service amounted to £9.8m (2007: £9.5m).

On 26 July 2001, NATS issued £50m of fixed rate unsecured loan notes, £15m to AG and £35m to HMG. On 19 March 2003, NATS issued £27.5m secured priority loan notes and NERL issued £32.5m undated, secured, fixed rate loan notes to each of BAA and the Crown. These loans, which were repaid during the year, are described more fully in note 17.

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Trading transactions

During the year, group companies 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 £m	Year ended 31 March 2007 £m	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Ministry of Defence (MoD)	45.0	41.8	3.6	3.1	4.0	4.3	2.2	1.6
Department for Transport (DfT)	0.5	0.3	-	-	-	-	-	-
Meteorological Office	0.2	-	0.5	0.7	-	-	0.2	0.2

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Notes forming part of the consolidated accounts

29. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, Related party disclosures. Key management includes the board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Director's Remuneration Report.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Short-term employee benefits	4.4	3.5
Post-employment benefits	0.5	0.5
Termination benefits	0.1	-
	5.0	4.0

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

Directors' transactions

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

30. Subsidiaries

The group's principal subsidiaries at 31 March 2008, all of which have been consolidated in these accounts were:

Name of Company	Principal activity	Proportion of ordinary shares held and voting rights	Country of Registration	Country of operation
NATS Limited	Corporate Services	100%	England and Wales	United Kingdom
NATS (En Route) plc	En-route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited	Airport air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited	Satellite based navigation	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited	Administration of employee share plan	100%	England and Wales	United Kingdom

31. Contingent liabilities

During the year, NATS (En Route) plc undertook a public consultation in respect of airspace changes in the Terminal Control South West region. The Civil Aviation Authority approved the proposals put forward by NERL and directed that the changes be implemented as of 10 April 2008. The CAA's decision is subject to a Judicial Review. NERL has been included in that process at its own request due to its status as an interested party. If the Judicial Review reverses the CAA's decision a new consultation may be necessary. The CAA may require the costs of a new consultation to be borne by NERL. In addition, NERL may incur significant legal costs through the Judicial Review process which may not be recoverable even if the decision is upheld.

Company Accounts

Company balance sheet
at 31 March 2008

	Notes	2008 £m	2007 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Net assets		141.0	141.0
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings	6	-	-
Total equity		141.0	141.0

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

John Devaney
Chairman

Nigel Fotherby
Finance Director

Notes to the financial statements

1. Cash Flow Statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are designated as held to maturity and stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own income statement for the year.

Profit for the year has been arrived at after charging:

	2008 £m	2007 £m
Staff costs	-	-
Auditors' remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2007: nil).

Dividends	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year of 1.75 pence per ordinary share (2007: nil).	2.4	-

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2008 and 1 April 2007	141.0

The company's investments in subsidiary undertakings are part of the group's principal subsidiaries as set out in note 30 to the consolidated financial statements.

5. Share capital and share premium accounts

The movements on these items are disclosed in notes 22 and 23 to the consolidated financial statements.

6. Retained earnings

	£m	£m
Balance at 1 April 2007	-	-
Net profit for the year	2.4	-
Dividends paid	(2.4)	-
Balance at 31 March 2008	-	-

7. Statement of changes in equity

	£m	£m
Balance at 1 April 2007	141.0	141.0
Net profit for the year	2.4	-
Dividends paid	(2.4)	-
Balance at 31 March 2008	141.0	141.0

8. Financial instruments

The company held no financial instruments at 31 March 2008 (2007: none).