NATS Holdings Limited

Annual Report and Accounts 2010

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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,
NATSNav Limited.

Richard Deakin
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.

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

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

Roger Cato

Giovanni Bisignani

Barry Humphreys

Peter Read

Sigurd Reinton

Nigel Turner

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

Andrew White

Andy Lord

General Counsel and Company Secretary
Richard Churchill-Coleman

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Auditors
Deloitte LLP

*A brief biography is provided for each director on pages 56-59

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Chairman's statement

The impact of the eruption was challenging for NATS operationally and financially yet its focus remained resolutely on providing a safe service to customers

The unprecedented disruption from the volcanic ash cloud since the start of this year has served to highlight the importance of decisions taken to ensure safe air travel. I am satisfied that the restrictions implemented on flights in controlled airspace were timely, proportionate and in keeping with the legal duties and safety responsibilities entrusted to the Civil Aviation Authority (CAA), the aviation safety regulator, and us.

The impact of the eruption was challenging for NATS operationally and financially yet its focus remained resolutely on providing a safe service to customers.

Even without ash clouds, the operating environment over the last financial year was even tougher than the one before, as the aviation industry continued to suffer from the weak economic environment, resulting in an 8% reduction in the volume of air traffic handled by NATS.

Mindful of the difficulties our customers were facing, we provided a strong operational service with air traffic-related delays reduced to an all time low, helped in part by lower traffic volumes, discounted our charges to them, maintained our excellent safety record and delivered on our critical investment projects. I would like to congratulate and thank our staff for these outcomes.

We also continued to implement our cost reduction programmes to mitigate against the effects of lower traffic volumes and higher pension costs. Overall the group reported a pre-tax profit of £78.3m, £57.2m lower than the result last year, which included a £43.5m gain from a property disposal. In May 2010, the Board approved the payment of an interim dividend for 2011 of £20m which was paid to shareholders in June.

A key highlight was the January opening of the new Prestwick air traffic control centre, on time and within budget. This marked the end of 35 years of en route air traffic control provision from Manchester and was the culmination of a ten-year strategy to manage the UK's controlled airspace from two centres, at Swanwick and Prestwick, instead of four.

In 2009, NATS (En Route) plc's (NERL) economic regulator, the CAA, agreed with our suggestion that Customer Consultation should form the first stage of its review of charges for the next control period from 2011 (Control Period 3). For the first time, NERL was able to talk directly to customers as part of this formal process to understand better their requirements and to enable them to influence key aspects of NERL's plans, as an input into the remainder of the CAA's review. This review is now reaching its final stages with the economic regulator having published its proposals in May 2010 for consultation.

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Chairman's statement

Chairman's statement

The story of 2010 has been one of change and challenge in equal measure

NATS (Services) Ltd (NATS Services) continues to perform well in the commercial marketplace, as it seeks to extend its service offering both at home and abroad across its product lines of air traffic control services, data management, engineering and consultancy.

Both NERL and NATS Services have made good progress with their cost saving programmes this year. While difficult for our staff, these economies are vital and management continued to ensure that Trade Unions were fully involved. I would like to acknowledge the support of Trade Unions in this process and to recognise their continuing and evolving partnership with the business in our Working Together principles.

The story of 2010 has been one of change and challenge in equal measure but a final chapter was the departure of Paul Barron as Chief Executive, on completion of his contract. Since his appointment in 2004, Paul's strong managerial and leadership qualities were a force for change and continuous improvements in safety standards, service performance, financial performance and project delivery. The delivery of the two-centre strategy is the pinnacle of these accomplishments and should enable NATS to realise cost efficiencies and benefits in rolling-out new technology and air traffic control systems in future. On behalf of the Board, I wish Paul well for the future and thank him for bringing NATS this far.

Lawrence Hoskins retired in April 2010. During his tenure he was able to grow the NATS Services business and to develop its strategy, ensuring it is well positioned to take advantage of future opportunities. I would like to thank Lawrence for his significant contribution.

At this time last year, I said the Board was seeking a successor to Paul. I am very pleased that we have appointed Richard Deakin to lead the group into a future which will bring further opportunities and challenges at home, in Europe and in our alliances across the world.

John Devaney
Chairman

Chief Executive's review

I saw at first hand the capability of NATS and its people to rise to a challenge which created headlines around the globe

Overview of the business

Few Chief Executives can have factored into their first 100 days the emergence of a crisis unprecedented in the history of the company they have joined. Just two weeks into my new role I saw at first hand the capability of NATS and its people to rise to a challenge which created headlines around the globe and grounded aircraft in the UK for six days.

The eruption of the Eyjafjallajökull volcano in Iceland in April 2010, coupled with unseasonal winds, created an ash cloud which rose to 35,000 feet and covered much of the UK's controlled airspace. Through this period, we worked hard with others to ensure flights could resume safely and swiftly.

The urgency behind this imperative meant working around the clock with our safety regulator, the Civil Aviation Authority, the Met. Office, the airlines, the government and the rest of Europe to learn more about the cloud which had covered much of the continent's airspace. In doing so, a new understanding of how to deal with this risk was developed, both technically, and operationally, to minimise the impact on our customers. Throughout this period of uncertainty all parties remained focused on the industry's priority: to resume operations whilst at all times ensuring safety.

I am grateful for the efforts of everyone in NATS who contributed to this demanding process to limit what is – and remains – an unpredictable risk to the company operationally and financially.

Chief Executive's review

We focused our efforts on maintaining our high safety standards, reducing air traffic delay and delivering our infrastructure projects

The airspace restrictions meant a 21% reduction in flights for April 2010 alone (compared with 2009 figures) and the industry has suffered intermittent disruptions since then. This will have an impact on our results for 2011, with the cash shortfall estimated at around £12m, though the revenue loss will be c. £5m reflecting protections provided by the economic regulatory formula.

The results for the 2010 financial year were affected by the continuing difficult economic environment, higher pension costs and the costs of restructuring our cost base. These factors outweighed the benefit of cost savings achieved in the year of £20m, most of which are sustainable. Overall, the group reported a pre-tax profit of £78.3m, £57.2m lower than the result for 2009, which included a £43.5m profit from the sale of the old Heathrow control tower. A more detailed review of the results is provided on page 22 and in the Financial Review on page 28.

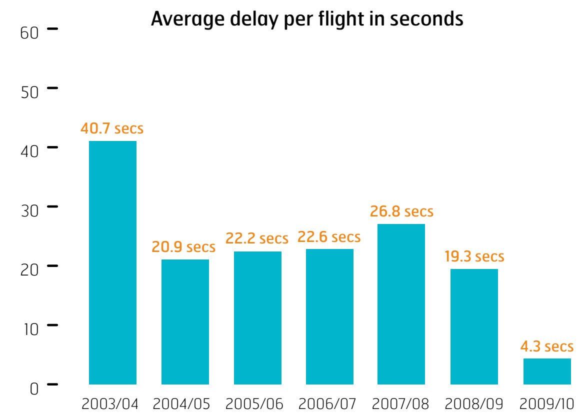
The volume of air traffic was 8.4% lower than the year before and although the rate of decline reduced towards the end of the year, there are no indications that volumes will recover to previous levels in the short-term and probably not to the peak experienced in 2007 until 2013.

	2010 ('000s)	2009 ('000s)	% change in year
Chargeable Service Units	**9,564**	10,601	(9.8)
Chargeable Distance (km)	**693,702**	771,270	(10.1)
Total UK traffic (flights):			
Domestic	**429**	470	(8.7)
Transatlantic	**307**	336	(8.6)
Other	**1,436**	1,566	(8.3)
Total	**2,172**	2,372	(8.4)
Oceanic traffic (flights):			
Total flights	**386**	416	(7.2)

We also recognise the significant impact the economic downturn continues to have on our customers. As such, we focused our efforts on maintaining our high safety standards, reducing air traffic delay and delivering our infrastructure projects with minimal impact on our customers. Our customer feedback scores have continued to improve, and we shall maintain this focus with new initiatives and even more challenging KPIs in the year ahead.

We maintained our safety record in the year, with no risk-bearing airprox attributable to NATS. Delay was also at an historical low with just 4.3 seconds of delay per flight attributable to NATS, compared to 19.3 last year. This was achieved with improved operational performance but was also helped by lower traffic volumes.

Chief Executive's review



A further major achievement was the completion of NATS' two-centre strategy when the doors opened to the Prestwick Centre in January. Delivered on time and to budget, this project required the effort, professionalism and dedication of hundreds of people from across our business. Their significant contribution was formally recognised when HRH The Princess Royal opened the new centre in February.

The last financial year also saw clear progress on the cost savings programmes that were launched in 2009 in response to reduced traffic, higher pension costs and the imperative of ensuring that we provide a cost effective service to customers. NATS (En Route) plc (NERL) set itself a target of reducing its cost base by March 2011 by £45m from the level originally planned in 2008. This target is on track, with plans in place to achieve it.

Princess gives Prestwick royal seal of approval

The Princess Royal formally opened the Prestwick Centre in a ceremony to celebrate the successful completion of one of NATS' most high-profile projects.

As she unveiled the plaque to mark the occasion, she said: "It is excellent to see the level of investment and the care that has been taken not only with the technology but also with the people." Four operations rooms moved into the new, all-encompassing operations room at the centre; Oceanic, Scottish Airways, Military and the staff from the Manchester Area Control Centre.

The transition is the culmination of a ten-year strategy to manage the UK's controlled airspace from two centres instead of four. Prestwick, near Glasgow, and Swanwick, in Hampshire, are now in charge of the UK's controlled airspace after the closure of the Manchester Centre and, three years ago, the centre at West Drayton near Heathrow. Both new centres will enable greater efficiencies and the roll-out of new technology and air traffic control systems.

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Chief Executive's review

Chief Executive's review

We are pleased that the CAA has accepted our proposals for capital expenditure and pensions protection for all our employees in the defined benefit scheme

Similarly, NATS (Services) Ltd (NATS Services) continues to progress plans to respond to the target it has set itself to reduce its cost base by £10m relative to previously planned levels. 2010 saw NATS Services reduce layers of management within its business and plans have been developed to further reduce costs through the implementation of new technology and changes to working practices. Inevitably, with the largest part of the group's cost base being staff, our workforce was reduced and by year end we employed 336 fewer staff and contractors.

Since the Public Private Partnership in 2001, NERL's charges have been economically regulated by the CAA. The CAA is currently reviewing NERL's charges for Control Period 3 (CP3), which starts in January 2011. As part of the CP3 review, the CAA agreed in 2009 to NERL's suggestion of 'Customer Consultation', by which NERL consulted customers on its draft business plan for CP3. This process has enabled NERL to develop a better understanding of customer requirements and offered deeper insights into their priorities for safety, service quality, flight efficiency and the environment, airspace capacity, investment and cost effectiveness. This consultation has helped to shape NERL's strategy in each of these areas.

In addition to Customer Consultation, the CAA has scrutinised elements of NERL's draft business plan for CP3, including projected operating costs, pensions and capital expenditure, using benchmarking and other techniques, and has proposed a level of cost of capital.

The CAA published its proposals on CP3 charges in May 2010. For our UK en route business, the CAA proposes a one-off price increase in January 2011 of 6.2%, primarily to reflect higher pension costs and lower traffic than was assumed in CP2. From then on, prices would reduce by an average of some 4% each year for the next three years of CP3. For North Atlantic en route services, the CAA proposes a one-off price increase in January 2011 of 18.6% and then a similar average reduction of some 4% each year for the rest of CP3.

We welcome the CAA's recognition of our high level of performance and financial resilience in CP2 which reflects immense hard work and effort across the company: and we are pleased that the CAA has accepted our proposals for capital expenditure and pensions protection for all our employees in the defined benefit scheme.

We will study very carefully the CAA's methodology around their proposals on operating costs and cost of capital and respond accordingly during the consultation period.

NATS is also an active and successful participant in the markets where prices are not economically regulated. NATS Services operates in the competitive airport air traffic control (ATC) market and acts as the vehicle for selling other products and services to a wide group of customers. The business has made good progress in implementing this strategy by improving the performance of its core business and beginning to grow in existing and new market sectors (particularly data management, engineering, airside services, training and consultancy). We will continue to focus on promoting our core competencies to the commercial markets in the year ahead.

During the year, NATS Services secured an extension to its contract with Manchester Airport, the only dual runway operations airport in the UK other than Heathrow, through to 2015 and also extended its contract with Luton. It also won contracts overseas including designing procedures that will enable South Africa's seven biggest airports to handle increased traffic for the World Cup and beyond and a re-design of Oman airspace in order to increase capacity, efficiency and safety in the region.

In March, NATS Services teamed up with my previous employer, Thales, and VT Group as a step towards bidding for the JMATS (Joint Military Air Traffic Services) contract to manage the armed forces' ATM infrastructure needs both here and abroad. NATS Services has also launched an aeronautical database management system, Nucleus, which was well received at the ATC Global trade show in Amsterdam. This suite of products meets the new data integrity and management standards adopted by International Civil Aviation Organisation (ICAO) and incorporated into EU law in January 2010.

One of the major challenges that our industry faces is the Single European Sky (SES) initiative which aims to reform European air traffic control and improve the performance of the European aviation system. NATS is an active

Customer Consultation: NATS consults with airline and trade body customers on price review

Customer Consultation was a set of six meetings during summer 2009 with airline customers in which NERL consulted on its draft business plan for Control Period 3 (CP3). The Customer Consultation Working Group (CCWG) meetings required more than 60 man-days of director and senior manager time and produced 1,038 pages of transcripts. The team delivered 63 presentations and, with support from experts from across the business, prepared 68 papers.

The CCWG meetings have enabled us to be clear about what areas we see as critical, the timescales and costs – and to respond to questions and concerns.

Customer Consultation forms an input into the remainder of the CAA's CP3 review. The CAA now leads a second stage of consultation with a view to finally deciding the price control by December 2010.

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Chief Executive's review

Chief Executive's review

The target will provide us with the momentum to ensure safety improvements against recovering traffic in future

participant in, and strongly supports, SES and believes that the performance improvements demanded by our customers are only possible through co-operation with our European partners.

NATS is also playing an important role in SESAR (SES ATM Research) – the industry-wide programme to develop the new generation of air traffic management tools. The aim is to give Europe a high performance air traffic control infrastructure to deliver the SES goals in terms of performance, safety and sustainability.

It is vital that we play a leading role in influencing the outcome and we are well placed to lead on a number of important projects which make up SESAR, including the terminal manoeuvre area work package and the transverse package on the environmental component, which is a common thread running through the programme to deliver a 10% environmental efficiency improvement.

To ensure NATS is best placed to respond to the changes that SES will bring and to leverage the significant skills and expertise across both NERL and NATS Services to grow our business, I have re-organised the management team to create one NATS Executive.

I have appointed Ian Mills as Managing Director for NERL and Paul Reid as Managing Director for NATS Services. Our key priority is to make sure that we shape our own future, through actively engaging in the opportunities both businesses see ahead of them.

Proactive in Safety

Safety is at the heart of our regulated and un-regulated business and our strategy remains to continue to improve our own safety performance, as well as playing a leading role in galvanising the industry to anticipate and prevent safety-related incidents. Our strategic targets are to achieve zero risk-bearing airprox and to reduce our safety risk index by 20% by March 2011 and then by 10% per year through the rest of CP3, with particular emphasis on the London Terminal Control operation and other safety hotspots. We have shared our strategic plan for safety with our customers and they support our plans. They agree that safety is our first and foremost priority and that the target will provide us with the momentum to ensure safety improvements against recovering traffic in future.

For the year, there were no risk-bearing airprox attributable to NATS. This result is testament to the continuing hard work of our operations and safety teams.

NATS continues to act beyond its remit to make lasting connections with the general aviation community as part of its commitment to being proactive in safety. In a bid to improve safety around Stansted Airport, private pilots have been mandated to fit a transponder. Also, in partnership with Airbox, NATS has developed a low-cost, GPS-based navigation device for light aircraft called Aware. The tool gives pilots greater visibility of the boundaries of controlled airspace. Both of these initiatives should help drive down the risk of infringements in controlled airspace.

Our people continue to innovate in safety practice. NATS Services successfully launched multilateration in the North Sea to aid helicopter navigation. The system uses signal transmitters and receivers fitted to offshore oil and gas platforms in the central area of the North Sea, to track and identify individual helicopters once they are offshore beyond the reach of our land-based radars. The system will be fully operational in summer 2010.

Another pioneering safety enhancement is the Callsign Confusion Identification Application (CCIA). This software programme enables airlines to automatically filter out similar callsigns that could cause confusion and generates an alternative callsign before the aircraft takes off. NATS absorbed the cost of creating the software and has passed on the application to its customers, free of charge.

Finally, Dr David Harrison takes over as NATS Director of Safety from Gretchen Burrett, who has joined the CAA as Group Director, Safety Regulation. I would like to thank Gretchen for the significant contribution she made to our impressive safety record and we will continue to work closely with her.

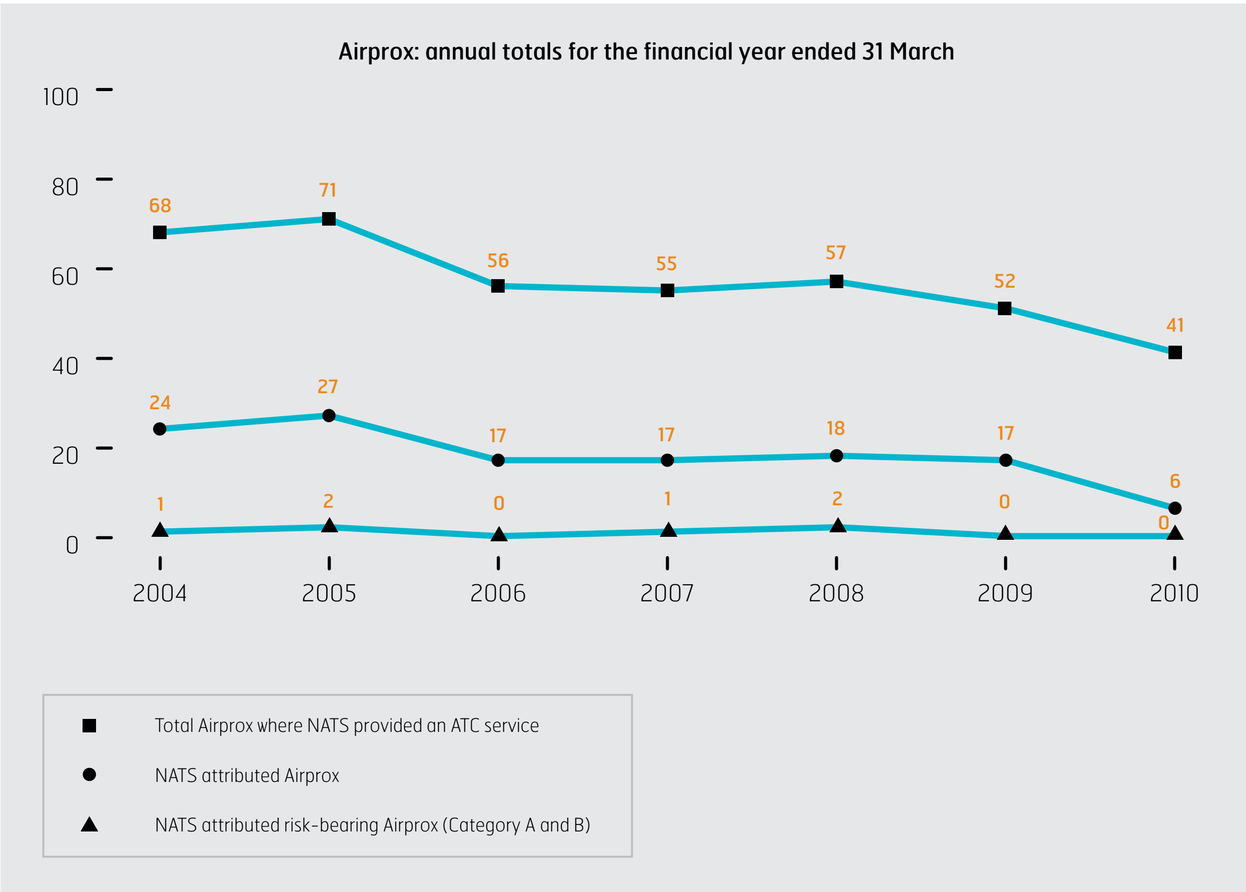
NATS Services joins up to prepare bid for military air traffic services

NATS Services, Thales UK and VT Group signed an agreement under the name AQUILA Air Traffic Management Services to bid for the UK Ministry of Defence (MoD) Joint Military Air Traffic Services (JMATS) programme.

The three companies bring proven expertise to satisfy the requirements of the JMATS programme, which will deliver enhanced capability and significant through-life cost savings in military air traffic management (ATM).

The programme, made up of ATM systems and services, will be delivered at all of the MoD-operated airbases and flying ranges in the UK and overseas and will also provide an out of area ATM capability in support of expeditionary air operations.

Chief Executive's review



Note: Safety statistics for 2010 include NATS' assessment of the outcome of the UK Airprox Board reviews

Chief Executive's review

Tuned in to Customers and Driving Efficiency

Our focus continues to be on maintaining consistent service performance for our customers, implementing our capital investment programme with minimal disruption to this service and providing our service cost-effectively. Through Customer Consultation, NERL's customers re-affirmed these priorities. Customers require the low levels of delay achieved in 2010 to be sustained in the future with a specific focus on early morning delay, long delays and day-to-day service consistency. To this end, we expect the CP3 review to establish performance metrics with demanding targets, including average delay per flight, a measure of the delay impact on customers (based on duration and time of day) and service consistency. The CAA's proposals include a proposed average delay per flight target of 12.5 seconds, compared with 45 seconds for CP2.

We are also developing our contingency capability to ensure that service recovers quickly should we lose one of our two main centres, Swanwick in Hampshire or Prestwick in Ayrshire.

In May 2010 we completed a joint project with the military and airline customers and started providing an air traffic control service outside of controlled airspace. This service will be further developed in 2010 to enable us to operate up to 85% capacity within 48 hours of such a loss.

Software solution sorts out similar-sounding callsigns

NATS web specialists have devised a new tool to make sure that similar-sounding aircraft callsigns can be detected and changed before flights leave the ground.

A callsign – the sequence of letters and numbers by which a flight is identified – is automatically generated by computer. The new application highlights when two similar callsigns are likely to be operating in the same airspace sector and suggests an alternative.

Developed together with some of our airline customers, the application will be shared free of charge with any airline which wants to benefit from the automated check-and-change, instead of having to do it manually.

In 2010, NATS managed just less than 2.2m aircraft in controlled airspace and this cost-effective innovation is a further advance in UK airspace safety.

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Chief Executive's review

The completion of NERL's two-centre strategy during the year with the opening of the new Prestwick Centre and closure of Manchester was achieved with minimal disruption to service

The completion of NERL's two-centre strategy during the year with the opening of the new Prestwick Centre and closure of Manchester was achieved with minimal disruption to service and will provide operational synergies and economies of scale that will contribute to our overall efficiency in future, for the benefit of our customers.

We continued to make good progress with other key projects that will deliver cutting-edge tools into our operations rooms and control towers and increase efficiency.

Our project to introduce interim Future Area Control Tools Support (iFACTS) at Swanwick has reached a critical phase. This pioneering system will revolutionise the way we provide air traffic control by introducing automatic trajectory prediction and in doing so, deliver significant benefits both in terms of enhanced safety and a reduced controller workload. Due to its complexity the system has cost us more to develop than we expected but it is now operating on certain sectors for a limited period of time and is on track for a launch in 2011.

NATS Services continues to introduce Electronic Flight Progress Strips at its airports, with Edinburgh and London City being the latest to be upgraded from paper strips. Aberdeen and Glasgow will implement the system in summer 2010. This innovation enables services to be provided more cost effectively.

NERL's strategic target for CP3 is to provide the lowest efficient cost base consistent with meeting customer and shareholder requirements. Its plans for CP3 include a target reduction in real unit operating expenditure of c. 2% per annum, compared to the projection for the year ending 31 March 2011. Over CP3 this represents cumulative savings in real terms for the four year period of c. £35m over a period when traffic levels are projected to increase. This will need to be considered in light of the CAA's May 2010 proposals.

During 2010, realising the severe difficulties that airline customers were experiencing in the current economic climate, NERL offered a three-fold response. First, a focus on service performance and minimising delay, which aids airline operations; second, continued cost efficiencies which will mean future prices are lower than they would otherwise be; and third, a one-off discount on the 2010 UK en route unit rate of £0.37 per chargeable service unit (depending on traffic volumes, this may be c. £3.7m). The discount was offset against the service performance bonus earned for the 2009 calendar year, recognising that a part of this performance related to lower traffic volumes.

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Chief Executive's review

Chief Executive's review

Developing leadership and management capability continues to be a priority in NATS

Liberating and Inspiring People

Our performance stands or falls on the commitment, ingenuity and hard work of our people. We measure their engagement with the business each year through our talkback survey to which there was a healthy 66% response this year. Once again the results showed another good improvement, especially in relation to questions about how people are managed. Developing leadership and management capability continues to be a priority in NATS in order that we can deliver exceptional results through our people.

NATS maintains a constructive relationship with its union colleagues and regards working together as important in maintaining good industrial relations. During the year, both parties agreed to strengthen the 'Working Together' relationships by introducing specific training programmes for managers and union representatives to enhance understanding of industrial relations principles. In addition, we have also jointly established a key performance indicator that allows us to monitor the strength of this important relationship.

Acting Responsibly

When NATS became the world's first air traffic control organisation to set a target to reduce average ATM CO_2 emissions by an average of 10% per flight by 2020, it was seen by many in the industry as a daring step. However, this long-term project is now at the centre of our business planning and service provision with both our main centres working towards more environmentally friendly management of air traffic. There is a tangible awareness of the growing role this activity will have in our business.

Customers have confirmed their very high priority for flight profiles that reduce fuel burn and emissions and strongly support our targets. This target represents potential fuel burn and financial savings for the airlines: a one per cent reduction in emissions across our network at today's fuel prices (and £/$ exchange rates) would mean today's fleet saving around £36m per year. NATS is committed to working with the industry to turn this aspiration into a reality.

What is also clear is that the measurement and achievement of ATM environmental performance is still an emerging science and one our experts continue to work on. In the meantime, initiatives like night-time fuel-saving routes, allowing aircraft to fly more direct routes at quieter times, are already delivering an environmental benefit. We are also developing continuous climb departure profiles to contribute to the total benefit.

Our experts continue to engage with Sustainable Aviation (SA), the cross-industry effort which NATS helped to found. This coalition of UK airlines, airports, airframe and engine manufacturers and air traffic controllers was established in 2005 to address the future sustainability of the UK aviation industry. Its roadmap is to curb CO_2 emissions by 2050 to 2000 levels. SA's primary objective is to engage with policy makers and key influencers in order to ensure that aviation issues are taken seriously and factored properly and responsibly into environmental policy development.

NATS is also playing its part in helping the UK achieve its targets on renewable energy as part of a government initiative to work in partnership to solve obstacles to the construction of windfarms. Aviation – both military and civil – has been one of the principal objectors to large-scale projects because of the "clutter" effect wind turbines potentially cause on radar screens. Together with Raytheon, NATS is managing a contract for £5.2m awarded by government and industry, to research a software solution to mitigate this effect and, potentially, release planning restrictions on wind turbine proposals. In this area, we have gone from being one of the biggest obstacles to one of the central partners to unlocking the potential of this natural energy source.

Chief Executive's review

Great Partners to Work With

It is clear that partnership is central to our environment strategy – to engage and influence industry partners. It is also at the heart of our safety strategy, our capital investment programme, and our response to SES and key to future business growth. We are often a unifying factor in a highly competitive industry and can act as a spur to enrol disparate interests.

Our work with the Irish Aviation Authority on Europe's first Functional Airspace Block (FAB) continues. The two businesses are working collaboratively to explore the potential of streamlining routes and making more efficient use of the UK and Irish airspace to deliver benefits to our airline customers in terms of fuel savings and reduced CO_2 emissions.

We have a strong partnership with Indra Sistemas of Spain, which has extensive experience of developing operational ATM systems, and with DFS and Aena, the German and Spanish air traffic controllers, in the development of the next generation flight data processing system (iTEC). This will help NATS support the vision of a single European sky by providing interoperability with our German and Spanish partners and other EU systems and by collaborating in this way we are able to share both the risks of development and the costs of the new system.

Our second biggest capital expenditure project, the 13-year programme to refurbish and replace our radar network reached its ten-year anniversary and is being carried out with Raytheon. By 2012, 23 radar sites will have been upgraded.

NATS prides itself on building strong relationships with industry partners to deliver advances in air traffic control. Our ability to work collaboratively with other organisations was recognised in the year by The British Standards Institution (BSI).

The scale of NATS Services' AQUILA teaming agreement with Thales and VT Group as the first step in a process to bid for 22-years of services and systems for military aviation here and abroad is an indication of where we believe partnership can take us.

We also signed a Memorandum of Co-operation with eight other air traffic control service providers to become part of NEAP (North European air navigation service providers) to strive for safety, efficiency and environmental improvements in North Atlantic and European airspace.

Coupled with our active membership of CANSO (Civil Air Navigation Services Organisation) and ICAO (International Civil Aviation Organisation), the reach and influence of NATS now extends far beyond just the airspace it controls.

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 commercial services through its subsidiary NATS Services. The activities of other subsidiaries are set out in note 28 to the accounts.

The group recorded a profit before tax for the year of £78.3m (2009: £135.5m). This result, and that of the last financial year, included some exceptional items. The underlying result, excluding exceptionals, was a profit of £100.7m (2009: £143.9m). The group's result is explained in more detail in the Financial Review on page 28.

NERL reported a profit before tax of £54.9m (2009: £66.8m), including exceptional charges of £20.2m (2009: £51.2m). Before these exceptional items, the underlying result was a profit of £75.1m (2009: £118.0m), £42.9m lower than previously. This mainly reflected the impact of lower traffic volumes on revenues and higher staff costs, due to pensions and pay, which offset the benefits of cost savings achieved and lower finance costs.

NATS Services reported a profit before tax of £23.3m (2009: £68.4m), including exceptional charges of £2.1m (2009: net exceptional income £42.8m). Before these exceptional items, the underlying result was a profit of £25.4m (2009: £25.6m), almost in line with prior year as improved revenues offset operating cost pressures.

Chief Executive's review

UK air traffic services

	2010 £m	2009 £m
Turnover	**561.4**	587.6
Operating costs	**(369.1)**	(352.8)
Depreciation, amortisation, impairment and deferred grants	**(80.6)**	(74.8)
Exceptional items	**(19.6)**	(50.2)
Operating profit	**92.1**	109.8
Chargeable Distance (millions km)	**693.7**	771.3
Chargeable Service Units (000)	**9,564**	10,601

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:

UK air traffic services

	2010 £m	2009 £m
UK en route services	**502.0**	527.0
London Approach services	**8.3**	8.4
Support services to MoD	**44.0**	44.9
North Sea helicopters	**7.1**	7.3
Total	**561.4**	587.6

Income from UK en route services, which are provided to traffic operating in those parts of UK airspace which constitute controlled airspace, decreased by £25.0m in the year to £502.0m (2009: £527.0m) mainly due to the significant reduction in volume of air traffic handled (down 10.1% to 693.7m kilometres flown). The volume impact was offset in part by higher charges which, for the calendar year 2009, were derived from higher RPI in August 2008 built into the annual adjustment to charges under the RPI minus "X" economic regulatory formula.

Tenth anniversary of radar overhaul programme

Engineering teams across NATS have marked the decade stage of its radar renewal by delivering on time to hit a Board milestone.

At £165m, the programme is the second largest capital project in the company and will have replaced or refurbished all 23 NATS En Route radars across the UK by 2012. It takes approximately two years from design to completion for each radar.

Allanshill, Lowther Hill and Sandwick – all in Scotland – had to be accelerated so they were in place in time for the Prestwick Centre to open. This meant extra complexity for the teams testing, checking and validating the work.

Since 1999, hundreds of people from across NATS have been involved in the dedicated team of up to 30 working on the project, often in very challenging conditions. Lowther Hill is nearly 500m above Scotland's highest village, Wanlockhead, and much of the work through the winter was amid heavy snow.

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The volume risk sharing mechanism in the economic regulatory formula has provided some protection against the traffic downturns, enabling NERL to recover 50% of the shortfall below a regulatory baseline through an upward revision to charges for the subsequent year. This mechanism also provides for further protection against even more severe traffic downturns. No protection is provided against deflation, with charges from 1 January 2010 being based on August 2009 RPI of -1.3%.

NERL recognised a service performance bonus in the year of £6.4m (2009: £6.9m), which was net of the estimated discount to NERL's regulatory price cap, explained above.

London Approach services, which are provided to aircraft arriving at or departing from Heathrow, Gatwick and Stansted airports, generated £8.3m (2009: £8.4m). Revenues from these services are combined with those from UK en route services and capped by the economic regulatory formula. The specific charge for London Approach is levied based on aircraft landed tonnage. Landed tonnage decreased by 5.1% to 51.1m tonnes (2009: 53.9m tonnes). This effect was partly offset by a 1 pence rate increase to 21 pence per tonne for aircraft weights up to 100 tonnes. The charge per tonne for aircraft weights above 100 tonnes remained at 8 pence.

NERL has a contract to provide services and support infrastructure to the MoD for military air traffic services. Revenues generated under the contract amounted to £44.0m (2009: £44.9m) with the decrease reflecting the sharing of operating cost savings under the contract.

Charges for services to North Sea helicopter operators are levied on the basis of a charge per round trip flight. Revenues decreased by £0.2m to £7.1m (2009: £7.3m), reflecting a fall in the volume handled to 37,335 (2009: 40,728), which was partly offset by an increase in the rate charged.

The costs of UK air traffic services, including asset-related charges and exceptional items, fell by £8.5m to £469.3m (2009: £477.8m) as the benefit of operating cost savings, lower charges for staff restructuring and a rebate of business rates offset the impact of higher pension costs and asset depreciation. Overall, UK air traffic services generated an operating profit of £92.1m (2009: £109.8m), £17.7m lower than the prior year.

Chief Executive's review

North Atlantic air traffic services

	2010 £m	2009 £m
Turnover	22.2	23.5
Operating costs	(17.5)	(18.5)
Depreciation, amortisation, impairment and deferred grants	(3.8)	(2.8)
Exceptional items	(0.7)	(1.0)
Operating profit	0.2	1.2
Total flights (000)	386	416
Chargeable flights (000)	386	414

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 a separate economic regulatory formula that allows for the annual adjustment of prices by the movement in the RPI less a specified percentage. Revenues at £22.2m (2009: £23.5m) were £1.3m lower than the prior year. Chargeable flight volumes decreased by 6.6% to 386,118 (2009: 413,600) and more than offset a 0.8% increase in price controlled rate per flight from £55.73 to £56.18. The rate per flight for 2011 is £53.20, reflecting the effect of deflation when applied to the economic regulatory formula.

Chief Executive's review

Costs, including asset-related charges and exceptional items, fell by £0.3m to £22.0m (2009: £22.3m) due mainly to lower staff numbers and economies of scale following the transfer of operations to Prestwick.

Overall, North Atlantic air traffic services generated an operating profit of £0.2m, £1.0m lower than the previous year (2009: £1.2m).

Airport air traffic services

	2010 £m	2009 £m
Turnover	152.1	138.7
Operating costs	(127.6)	(117.0)
Depreciation, amortisation, impairment and deferred grants	(2.7)	(2.1)
Exceptional items	(1.9)	42.8
Operating profit	19.9	62.4

NATS Services provides air traffic control services at 15 of the UK's major airports and at Gibraltar. NATS Services also provides engineering services to airport operators in the UK and abroad. Revenues from these services improved by £13.4m to £152.1m (2009: £138.7m) mainly reflecting increases in contract earned value or improved contract pricing following re-negotiation or indexation uplifts.

Costs, including asset-related charges and exceptional items, increased by £55.9m to £132.2m (2009: £76.3m, net of a gain of £43.5m) – the exceptional items in 2009 included a gain from the sale of the former Heathrow control tower building of £43.5m. Staff and lease rental costs increased in the year.

Overall, operating profit for airport air traffic services at £19.9m (2009: £62.4m) was £42.5m worse than the prior year.

Other revenues

In addition, NATS Services provides other engineering, consultancy, training and airport data management services to customers in the UK and overseas. Revenues from these services at £19.2m (2009: £17.5m) were £1.7m higher than prior year, mainly due to higher revenue from engineering contracts.

Operating profit at £2.7m (2009: £3.4m) was £0.7m lower than the prior year as higher staff costs and higher hardware costs associated with engineering projects offset the improvement in revenues.

Outlook

This economic downturn is more significant for air traffic than that which followed 9/11. Major world economies are only now beginning to emerge from the recession, making it difficult to forecast air traffic volumes with the same level of assurance as previously. Current forecasts indicate a slow return to growth in traffic demand in UK airspace in 2010, but we do not expect volumes to recover to the peak levels experienced in 2007 until 2013. In addition, we are seeing an increasing emphasis by governments on limiting aviation's impact on the environment, with decisions made about airport capacity and runway expansion. We also expect policies to include further taxes on air travel. Clearly these remain difficult times for our customers and we need to react accordingly. Air traffic controllers like NATS will also play a prominent role in providing more fuel efficient routes to airlines.

For now the immediate priorities are responding to the challenging revenue allowance that the CAA is proposing to set for NERL during CP3, growing our NATS Services business, completing the cost savings programmes we have set ourselves, delivering iFACTS into service and focusing on our closer integration with Europe and positioning ourselves to play a leading role in the SESAR project, in particular.

Each of these challenges will require energy, determination and creative thinking – all of the attributes which I saw in my first weeks here as the organisation dealt with the impact of the ash cloud. I am confident these qualities will help to move the group forward.

Richard Deakin
Chief Executive Officer

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The group's results for this and the last financial year included certain revenue and expense items that were material in terms of their size and incidence and which have been reported as exceptional items. The table below shows the underlying result, before these items, as well as the impact of these items on the result.

	2010 £m	2009 £m
Turnover	**754.9**	767.3
Operating profit		
- Operating profit before exceptional items	137.3	185.2
- Exceptional operating costs (net)	(22.4)	(8.4)
	114.9	176.8
Profit before taxation		
- Profit before tax and exceptional items	100.7	143.9
- Exceptional items (net)	(22.4)	(8.4)
	78.3	135.5
Profit after tax		
- Profit after tax before exceptional items	74.2	103.3
- Exceptional items (net)	(16.1)	(8.1)
	58.1	95.2

The underlying result was a profit before tax of £100.7m (2009: £143.9m), £43.2m lower than last year, and reflects a challenging 2010 financial year. Revenues fell because of the impact of the economic recession on traffic volumes and operating costs increased due mainly to higher pension costs and a below inflation pay award. Pension cash contributions were also increased in the year and are set to rise further in future.

Our response to these factors has been to make significant reductions in operating costs, especially in non-operational areas. Non-controller headcount is planned to fall by 22% by the end of CP2, compared with the position at 31 March 2009, whilst maintaining our service to customers. In the year we achieved cost savings of £20m (most of which are sustainable) driven mainly by fewer staff and contractors. Further operating cost efficiencies are planned in CP3 for NERL leading to non-controller headcount reductions of up to a further 5%.

We have also strongly argued our case to NERL's economic regulator and to its customers for the continued recovery of pension contributions through revenue allowances in CP3, given that we have taken all mitigating actions to control the cost and risks of the pension scheme through the reforms announced last year. The CAA's May 2010 proposals adopt NERL's March 2010 pension cost projections for CP3 and propose the continuation of the pass-through arrangements for CP3 for all employees currently enrolled in the defined benefit scheme.

In addition, mindful of the volatility and risk to revenues from the economic recession and other external factors (most recently volcanic ash), the size of the pension scheme relative to that of the company and the previously high level of borrowings, NATS has been consistently strengthening its financial position over recent years and lowering its gearing to ensure that it remains robust to these challenges.

Exceptional items

The result for 2010 included exceptional staff redundancy costs of £21.2m (2009: £25.9m) and £6.3m (2009: £26.0m) for the costs of relocating staff following site rationalisations, net of a refund of business rates for Swanwick of £5.1m relating to previous years. The prior year result also included a gain from a property sale of £43.5m and the tax effect of the withdrawal of industrial buildings allowances.

Exceptional items	2010 £m	2009 £m
Redundancy and related costs	**(21.2)**	(25.9)
Relocation costs	**(6.3)**	(26.0)
Swanwick business rates rebate	**5.1**	-
	(22.4)	(51.9)
Profit on disposal of non-current assets	**-**	43.5
Net exceptional items before tax	**(22.4)**	(8.4)
Tax effect of the items above	**6.3**	14.5
Tax effect of the withdrawal of IBAs	**-**	(14.2)
	(16.1)	(8.1)

Revenues

Group turnover fell by £12.4m (1.6%) to £754.9m (2009: £767.3m). The impact of lower UK and North Atlantic en route revenues was partly offset by improved revenues from airport contracts and growth in engineering business. Revenues are explained in detail in the Chief Executive's business review above.

Turnover	2010 £m	2009 £m
UK air traffic services:		
UK en route services	**502.0**	527.0
Support services to MoD	**44.0**	44.9
London Approach services	**8.3**	8.4
North Sea helicopters	**7.1**	7.3
	561.4	587.6
North Atlantic air traffic services	**22.2**	23.5
Airport air traffic services	**152.1**	138.7
Miscellaneous services	**19.2**	17.5
Total	**754.9**	767.3

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Operating costs

Before exceptional items and asset-related charges, operating costs increased by £27.9m to £529.8m (2009: £501.9m).

	2010 £m	2009 £m
Before exceptional items:		
Employee costs	(382.0)	(349.3)
Services and materials	(71.7)	(72.4)
Repairs and maintenance	(36.6)	(30.8)
External research and development	(0.3)	(0.3)
Other operating charges (net)	(39.3)	(49.1)
Share of results of associate	0.1	-
	(529.8)	(501.9)
Depreciation and amortisation	(86.5)	(79.3)
Asset impairment charges	(3.0)	(2.7)
Deferred grants	2.0	2.1
Loss on disposal of non-current assets	(0.3)	(0.3)
Operating costs	(617.6)	(582.1)

Employee costs of £382.0m (2009: £349.3m) increased by 9.4% on the previous year and accounted for 61.9% (2009: 60.0%) of the group's total operating costs. Through its cost savings programme the group reduced staff numbers, saving £8.1m in the year. The average number of staff employed during the year was 4,920 (2009: 5,084) and those in post at 31 March 2010 fell by 283 (5.6%) to 4,778 (2009: 5,061). Other staff cost savings of £3.8m were also achieved and a lower valuation for employee shares reduced costs further by £1.9m. However, these savings were more than offset by a higher charge (by £37.5m) for pensions (see below) due to a higher accrual rate (2010: 31.6% before salary sacrifice, 2009: 18.3%), and the costs of a below inflation pay award and salary progression of £9.0m.

Non-staff costs at £147.8m (2009: £152.6m) fell by £4.8m or 3.1% reflecting the benefit of cost savings, including 53 fewer contractors, as well as lower charges for airline bad debts. These were partly offset by higher maintenance costs.

Depreciation and amortisation charges of £86.5m (2009: £79.3m) were £7.2m higher than the previous year, including charges relating to the new Prestwick Centre.

Net finance costs

Net finance costs, before exceptional items, at £36.6m (2009: £41.3m) were £4.7m lower than last year. This mainly reflected lower charges of £6.3m (2009: £11.5m) from marking to market the index-linked swap. The value of the latter is dependent on market expectations of future inflation and gilt yields. Net interest payable was £0.5m more than last year.

Taxation

The tax charge, before exceptional items, of £26.5m (2009: £40.6m) was at an effective rate of 26.3% (2009: 28.2%). This is lower than the headline rate of corporation tax of 28% due to research and development tax credits and deductions for the costs of a staff share award. After exceptional items, the tax charge represents an effective rate of 25.8% (2009: 29.7%).

Factors affecting the tax charge for the year are set out in note 10 to the accounts.

Dividends

The Board declared an interim dividend in March 2009 of 30.41 pence per share (totalling £43.5m), which was paid to shareholders in April 2009. No further dividend was declared or paid in the year to 31 March 2010.

In May 2010, the Board declared an interim dividend of 13.98 pence per share (totalling £20m) which was paid to shareholders in June.

Financial review

Balance sheet

The group balance sheet can be summarised as follows:

	2010 £m	2009 £m
Goodwill	351.0	351.0
Tangible and intangible fixed assets	839.3	787.2
Other non-current assets	4.6	6.3
Cash and short-term deposits	161.1	189.1
Other net current assets/(liabilities)	21.3	(54.1)
Derivatives	(87.2)	(82.2)
Pension scheme surplus/(deficit)	79.9	(69.4)
Borrowings	(680.8)	(669.4)
Provisions and other non-current liabilities	(152.2)	(95.2)
Net assets	537.0	363.3

Shareholders' funds increased by £173.7m to £537.0m during the year. This increase was primarily due to retained profit of £58.1m and the improvement in the pension scheme's financial position by £107.5m (net of deferred tax) as measured on an accounting basis – see below.

The increase in other net current assets/(liabilities) reflects higher accrued UK en route income and lower provisions for staff redundancies and relocation costs. The balance at 31 March 2009 also included the dividend payable of £43.5m which was paid during the year. The fair value liability of derivative financial instruments increased in the year principally due to the change in the mark to market of the index-linked swap. The valuation of the swap is driven primarily by market expectations of future inflation, which have increased since the prior year, leading to an increase in expected payments under the swap contract. Provisions and other non-current liabilities of £152.2m (2009: £95.2m) include deferred tax provisions which, at £138.8m, were £60.4m higher than the prior year mainly due to the pension scheme returning to surplus measured on an accounting basis. Changes in intangible and tangible fixed assets, pensions and cash and borrowings are explained below.

Capital expenditure

The group invested £141.8m in the year, £11.1m less than the previous year, in the following areas:

	2010 £m	2009 £m
Airspace development	5.4	3.4
Business systems	4.5	4.6
Future centres programme	55.0	47.2
Communications, navigation and surveillance	6.5	8.4
Radar site services	12.2	13.8
Current software systems	29.1	35.3
Prestwick/Manchester programme	24.4	31.7
Swanwick/West Drayton programme	–	0.4
Airports	4.3	7.3
Other	0.4	0.8
Total	141.8	152.9

The group continued to increase investment in its future centres systems which include: the development of the next generation flight data processing system which will be compatible with European systems; interim future area control tools which introduces automatic trajectory prediction and enhances safety and reduces controller workload; and Electronic Flight Data which replaces paper flight data strips by electronic strips. The group also incurred further significant expenditure in completing the final stages of the new Prestwick Centre and related systems, the development of voice communication systems and the ongoing development of its operational platforms. Airspace developments included the provision of air traffic services outside of controlled airspace and an improved contingency capability.

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Pensions

At 31 March 2010, measured under international accounting standards requiring best estimate assumptions, the pension scheme was in surplus with assets exceeding liabilities by £79.9m. This compared with a deficit of £69.4m at 31 March 2009. The increase in the scheme's valuation was mainly due to the performance of the scheme's investments which were £734m higher, reflecting the rise in global stock markets over the year. This effect was partly offset by an increase in pension obligations of £585m due to a reduction in the discount rate to 5.65% from 6.4%.

The scheme actuary's triennial valuation performed as of 31 December 2009 was approved by Trustees on 27 April 2010. This valuation, which is for funding purposes, uses assumptions which include a margin for prudence and leads to a lower valuation than under international accounting standards. The valuation reported a deficit of £351.1m in scheme assets to liabilities (equivalent to a funding ratio of 89%) and a future service cost of 36.7%. The future service cost represents a reduction on the rate reported at the 31 December 2006 valuation (of 37.3%), reflecting the benefit of pension reforms introduced in 2009 which included limiting increases in pensionable pay to RPI plus 0.5%.

During the year the group paid cash contributions to the scheme of £103.0m (2009: £67.6m). This amount included £15.8m (2009: £nil) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 27.5% (2009: 22.0%) of pensionable pay. The group is increasing these cash contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost. In response to the triennial valuation, NATS has also agreed a deficit recovery plan with Trustees and from January 2011 it will make further contributions of £2.0m per month (for calendar year 2011), increasing these by 3.5% each January thereafter.

Treasury management

The gross borrowings of the group at £680.8m were £11.4m higher than the previous year (2009: £669.4m). Cash and investments decreased by £28.0m to £161.1m (2009: £189.1m), mainly attributable to the payment of the 2009 dividend of £43.5m. Overall, net debt increased by £39.4m to £519.7m (2009: £480.3m).

Movements in net debt

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2009	189.1	(669.4)	(480.3)
Cash flow	(17.9)	(10.6)	(28.5)
Short-term deposits	(10.1)	-	(10.1)
Non-cash movements	-	(0.8)	(0.8)
Balance at 31 March 2010	**161.1**	**(680.8)**	**(519.7)**

Cash flow

Overall, the group's balance of cash and cash equivalents fell by £17.9m in the year to £145.6m (2009: £163.5m).

Net cash from operating activities at £177.5m was £13.7m lower than 2009 (2009: £191.2m) and remains robust. The reduction was mainly due to the effects of lower traffic levels on cash receipts, higher cash contributions to the pension scheme and higher staff redundancy and relocation payments, offset in part by lower tax payments. Cash outflows from investing activities were funded by operating cash flows. Capital expenditure outflows were slightly lower than previously. The previous year benefited from the proceeds of a property sale. Net cash outflows from financing activities were £63.8m (2009: £35.2m), increasing following the payment of the dividend.

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Cash flows	2010 £m	2009 £m
Cash generated from operations	**185.4**	209.9
Taxation	**(7.9)**	(18.7)
Net cash from operating activities	**177.5**	191.2
Interest received	**1.5**	6.6
Capital expenditure	**(143.1)**	(147.6)
Costs/(proceeds) from the sale of property, plant and equipment	**(0.1)**	43.6
Investment in associate	**–**	(0.1)
Change in short-term investments	**10.1**	(8.4)
Net cash outflow from investing activities	**(131.6)**	(105.9)
Interest paid	**(34.3)**	(38.3)
Interest received on derivative financial instruments	**3.4**	3.4
Bank drawings and other loans	**10.6**	(0.3)
Dividends paid	**(43.5)**	-
Net cash outflow from financing costs	**(63.8)**	(35.2)
(Decrease)/increase in cash and cash equivalents	**(17.9)**	50.1

The group made drawings of £11.8m on its bank facilities and repaid other loans of £1.2m.

Risks and uncertainties

The principal operational risks and uncertainties of the group are described in the Chief Executive's business review and above. Specifically, these are:

- the risk of aircraft collision;
- a loss of service from an air traffic control centre;
- the pension scheme's funding position;
- industrial relations;
- the "Single Skies" European regulatory framework;
- the delivery of capital investment projects;
- the outcome of NERL's CP3 review; and
- the security of assets and systems.

The main financial risks of the group relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties 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 66% (2009: 69%) 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 entered into to buy and sell sterling, designated as cash flow hedges, equivalent to £82.3m (net) were outstanding (2009: £61.0m) as detailed in note 18.

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- 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. NERL's strategy is to hedge 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 does not qualify for hedge accounting under international accounting standards and is classified as held for trading. As such, movements in the fair value are taken to the Income Statement. As at 31 March 2010 (after derivatives), approximately 94.7% (2009: 96.7%) of NERL's net debt was either at fixed rates or at rates indexed to inflation.

- counterparty risk: as at 31 March 2010 the group had cash and deposits (shown as short-term investments) totalling £161.1m (2009: £189.1m). 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 £126.9m, as at 31 March 2010 the group had cash and short-term deposits totalling £161.1m. Included in cash of £145.6m is a liquidity reserve account balance held by NERL 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 £15.5m represents a debt service reserve account held by NERL to fund interest and fees scheduled for payment in the 6 months ending 30 September 2010. The group's policy is to hold free cash within NERL equivalent to between one and two months' of projected UK en route services revenue (being between £43m and £86m for 2010/11) and to use surplus cash to reduce borrowings. The policy for NATS Services is to hold sufficient cash to fund new business development opportunities in line with targets approved by the Board and to meet future pension obligations as they fall due.

- 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 c. £170.95m in 2012.

Going concern

The group's business activities, together with the factors likely to affect its performance and the financial position of the group, its cash flows, liquidity position and borrowings are set out in the Business and Financial Review above. In addition, note 18 to the financial statements describes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The group has significant undrawn committed bank facilities, the majority of which do not expire until 2012, and adequate levels of cash holdings. The group's forecasts and projections, taking account of reasonably possible changes in trading performance and its best view of the outcome of the CP3 review, show that the group should be able to operate within the level of its existing facilities for the foreseeable future. The UK en route business also benefits from some protections against traffic volume risk afforded by its regulatory charge control conditions. Other sources of income are generated mainly from long-term contracts. The group is also actively seeking to reduce its operating cost base through the cost saving programmes described above to provide mitigation for future revenue shortfalls and cost pressures from legacy pension arrangements. As a result, the directors believe that the group is well placed to manage its business risks successfully despite the uncertain current economic outlook.

After making enquiries, 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 2010.

Nigel Fotherby

Nigel Fotherby
Finance Director

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Corporate governance

Code of Best Practice

NATS is committed to maintaining the highest standards of corporate governance. The Strategic Partnership Agreement (SPA) between the Secretary of State for Transport, The Airline Group (AG) and BAA Limited 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 2008 which are applicable for reporting years beginning on or after 29 June 2008. The year ended 31 March 2010 is therefore the first year for which the revised code is applicable to NATS.

NATS has applied the principles of the 2008 Combined Code throughout the period under review, to the extent considered appropriate by the Board in light of the strategic partnership 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, C.3.1: 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, C.3.1: 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 do not meet the independence criteria as set out in 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 AG nominee directors and Partnership Directors do not have service contracts with NATS and as a result, the terms and conditions of appointment 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 which can be terminated on six months' notice, and the BAA nominee director has a service contract with NATS which can be terminated by BAA or through resignation. Further information on the terms of appointment for the Chairman and BAA nominee director may be obtained from the Company Secretary.

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 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.

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 Roles of the Chairman and Chief Executive Officer

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

During the year under review, the NATS and NERL Chief Executive Officer, Paul Barron had direct charge of the executive management of the NATS group and of NERL. As the Chief Executive Officer of NATS Services reporting to Paul Barron, Lawrence Hoskins was responsible for the executive management of NATS Services during the year and until his retirement at the end of April 2010.

On 1 April 2010, Richard Deakin succeeded Paul Barron as Chief Executive Officer of NATS and with effect from 1 May 2010, a new organisation structure was put in place. Details of this new structure are set out in the 'Executive Management' section below.

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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.

Following the resignation of Paul Barron and Lawrence Hoskins and the appointment of Richard Deakin, the Board currently comprises a non-executive Chairman and 13 directors, made up as follows:

Executive Directors
- Chief Executive Officer, NATS;
- Managing Director, NERL;
- Finance Director, NATS; and
- Operations Strategy and Standards Director, NERL.

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 56 to 59. 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 group's expense.

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 due to their appointment by specific shareholders. 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, but no such meeting occurred during this financial year on a formal basis.

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. The two meetings during the year under review were the Annual General Meeting held on 9 July 2009, and a meeting on 28 January 2010. Shareholders may also meet informally with the Chairman, Chief Executive, Finance Director or other members of the executive management teams upon request.

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

Name	Number of meetings attended
John Devaney	7/7
Paul Barron[1]	7/7
Nigel Fotherby	7/7
Ian Hall	7/7
Lawrence Hoskins[2]	6/7
Ian Mills	7/7
Barry Humphreys	7/7
Peter Read	7/7
Baroness Dean	7/7
Andrew White	7/7
Nigel Turner	5/7
Sigurd Reinton	7/7
Giovanni Bisignani	3/7
Roger Cato	6/7
Andy Lord	6/7

[1] Paul Barron resigned from the Board with effect from 31 March 2010 and was succeeded by Richard Deakin with effect from 1 April 2010.
[2] Lawrence Hoskins resigned from the Board with effect from 30 April 2010.

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 the monitoring of NATS' safety performance, appointments to the 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.

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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 NATS Services 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.

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

	Audit	Nomina-tion	Remun-eration	Safety Review	Technical Review
No. of meetings	**3**	**1**	**10**	**4**	**4**
John Devaney	3/3	1/1			
Barry Humphreys			10/10		
Peter Read		1/1		4/4	4/4
Baroness Dean			10/10		
Andrew White				4/4	4/4
Sigurd Reinton	3/3	1/1			
Andy Lord			7/8		
Nigel Turner	3/3				
Roger Cato		1/1		4/4	4/4

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 group'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. The results of the most recent review were assessed at the March 2010 Board meeting.

Executive Management

During the year under review, the day-to-day management of the NATS group was the responsibility of the Chief Executive Officer, Paul Barron. The management role was further divided between the NERL and NATS Services executive teams:

- The NERL Executive, under Paul Barron's leadership, was responsible for the day-to-day management of NERL. The focus of their work was on strategy development and performance management, including people development.
- The NATS Services Executive, under Lawrence Hoskins' leadership, was responsible for the day-to-day management of NATS Services, with Lawrence reporting in turn to Paul Barron. The focus in NATS Services was on developing its strategy and measuring and monitoring performance in achieving the business strategy and plan, including in relation to people development.

With effect from 1 May 2010, these arrangements have been superseded. A NATS Executive Team has been established under Richard Deakin's leadership and Managing Directors have been appointed to lead NERL and NATS Services. The NATS Executive Team is responsible for setting NATS' overall strategy and for deciding how best to position the group to take advantage of future opportunities, and comprises the following:

- Managing Directors of NERL and NATS Services;
- Safety Director;
- Finance Director;
- HR Director;
- Operations Strategy and Standards Director;
- European and Government Affairs Director;
- Corporate, Customer and Environmental Affairs Director;
- Corporate Strategy Director; and
- General Counsel and Company Secretary.

Audit Committee

The Audit Committee meets three times per 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. Sigurd Reinton and Nigel Turner are the remaining two members of the Committee. The members all have wide-ranging financial, commercial and management experience. Mr Turner has recent, relevant financial experience.

The NATS 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 executive management present.

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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. The Committee also advises on matters relating to the appointment, independence and remuneration of the external auditors, and reviews arrangements by which staff may confidentially report matters about which they hold genuine concerns, but feel unable to raise through normal channels.

Non-Audit work performed by the external auditors

From time-to-time the external auditors perform non-audit services for the group. Part of the Audit Committee's remit is to ensure that such engagements do not impair audit objectivity or independence. Non-audit services performed by Deloitte LLP in the year ended 31 March 2010 were taxation advice in connection with NATS' employees based abroad, and certification of certain expenditure incurred in relation to work undertaken by NATS for the European Commission.

Details of the cost of these services are set out in note 6b of the 'Notes forming part of the consolidated accounts'.

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, Peter Read, Sigurd Reinton and Roger Cato. The Committee may invite executives and advisors to attend meetings as appropriate.

The Committee meets when considered necessary by its members. During the year under review it met once, in September 2009, primarily to discuss the appointment of a new NATS Chief Executive.

As noted above, appointments to the Board are made by the relevant sponsoring shareholder under the terms of the Strategic Partnership Agreement. 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.

The terms of reference of the Committee have recently been extended to include advising the Board on proposals from the Chief Executive in respect of key executive appointments.

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 Andy Lord (who was appointed in May 2009). 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 Chief Executive and HR 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 and for security. 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. Professor James Reason, formerly Professor of Psychology at Manchester University and an expert on human factors, acts as special adviser to the Committee. Until June 2009 Dr Tony Barrell, formerly Chief Executive of North Sea Safety at the Health and Safety Executive, also advised the Committee.

The following are invited to attend each meeting by standing invitation:

- Chief Executive Officer, NATS;
- Director of Safety, NATS;
- Managing Director, NERL;
- Managing Director, NATS Services;
- Director of Safety, NATS Services;
- Head of Corporate Security, NATS;
- Operations Director, Swanwick;
- Operations Director, Prestwick; and
- Operations Director, Airports.

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Technical Review Committee

This Committee's 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 other non-executive directors as members, Andrew White and Roger Cato. The NATS Chief Executive Officer and NERL's Managing Director 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;
- Roger Graham, former Chairman and CEO of the BIS Group and an adviser to companies in the internet area;
- David Mann, former CEO and Deputy Chairman of Logica Group; and
- Matthew Lee resigned from his role as an adviser to the Committee during the year.

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 business area 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 2010 and agreed actions for the 'Top Risks' for the year ending 31 March 2011. Regular monthly reporting to the NERL and NATS Services 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.

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 Andy Lord.

Where appropriate, the Committee takes advice on specific issues from the Chief Executive Officer, the HR Director and independent consultants. The independent consultants advising the Committee are Kepler Associates, who have no other connection with the company. Kepler Associates are supporting the Committee with its ongoing review of performance bonus arrangements.

The Committee met ten times in 2009/10 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 Group staff (comprising members of the executive team and other senior staff whose terms of employment are not subject to negotiation with the recognised trade unions through collective bargaining);
- 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
- Confirming 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 required method of performance management for all Personal Contract Group staff.

Managers' rewards are related not only to what they achieve but to 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 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 (including utilities, those in the transport sector and PPPs of similar size), based on a basket of companies selected with advice from Kepler Associates. 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.

Employment contracts

Paul Barron and Lawrence Hoskins had employment contracts that expired on 31 March and 30 April 2010 respectively. Richard Deakin has an employment contract commencing 1 March 2010 (and was appointed as Chief Executive Officer with effect from 1 April 2010) which provides for 12 months' notice in the event of termination by the company. Nigel Fotherby, Ian Hall and Ian Mills have employment contracts which provide for 6 months' notice. John Devaney has a fixed term contract with the company which expires on 30 June 2011 and which provides for 6 months' notice in the event of termination. Except for Roger Cato, the BAA nominee director, other non-executive directors do not have contracts with the company. Roger Cato has a contract specifying the remuneration he receives from the company, which is terminable at BAA's discretion or through resignation.

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 for all Personal Contract Group staff (see below). For Paul Barron, Nigel Fotherby, Ian Hall and Ian Mills the long-term bonus was based on the performance of NERL over Control Period 2 (2006 – 2010) (see below). In addition, Paul Barron's bonus arrangements included a rolling bonus scheme with incentives in

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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 was based on the performance of the NATS Services business with targets for profitability and the NATS Services order book.

Richard Deakin's bonus arrangements similarly include provision for both annual and long-term bonuses.

Full details of directors' remuneration for 2009/10 are set out on page 52.

In addition to his remuneration from NATS, Paul Barron received a fee of £42,000 per annum from London and Continental Railways for his services as a non-executive director of that company.

Salaries

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

Charges for the services of 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 and the BAA director each received annual remuneration of £33,600 in the financial year. AG directors received 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 made direct to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Remuneration for the Partnership and BAA directors increased to £36,000 with effect from 1 April 2010 and the AG fee to £180,000. This was the first increase in fees paid to non-executive directors since July 2004.

Pensions and life assurance

Executive directors' pensions and life assurance are based on salary only, with bonuses and other discretionary benefits excluded. There are two principal methods of securing pensions for executive directors. The first is through the Civil Aviation Authority Pension Scheme (CAAPS). All executive directors except Richard Deakin are members of CAAPS. The second method is through the NATS Defined Contribution Pension Scheme which came into operation on 1 April 2009. Richard Deakin is a member of this scheme.

Following the PPP, the CAA Pension Scheme remains one scheme, although from 31 March 2001, it has been split into two sections. The NATS section of CAAPS was closed to new entrants with effect from 1 April 2009.

Non-executive directors do not participate in CAAPS.

Company bonus scheme

The Committee oversees a scheme of objective setting and related bonus arrangements. An Annual Bonus Scheme is in place for executive directors and all staff in the Personal Contract Group. In addition, a Long-Term Bonus Scheme is in place for executive directors and members of the NERL executive team. Non-executive directors do not participate in either of these schemes which are designed to:

- Ensure rigour and differentiation in the system of performance bonus rewards; and
- Drive up management performance.

Annual bonus scheme

The bonus opportunity is set at a range of levels for Personal Contract Group staff depending on seniority; generally in the range from 15% to 45% of salary. For the group in general, 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. For directors of the company, more weighting is given to company performance: 100% in the case of the Chief Executive; 66.67% in the case of the Managing Directors of NERL and NATS Services; and 50% for other directors. The scheme incorporates an 'ability to pay' clause to override all other triggers, based on:

- A minimum EBITDA outturn below which no bonus payments are made; and
- NATS-attributable safety incidents. No bonus is payable if there has been a NATS-attributable safety event which, in the Board's view, has serious business implications.

Based on the 2009/10 NERL and NATS Services business plans, the company bonus scheme awards different levels of payout against base and stretch target performance. The following tables show outturn against base and stretch targets:

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NERL targets

Financial Performance
NERL Management EBITDA:

Base	£196.0 million
Stretch	£210.0 million
Outturn	£219.5 million

NERL and NATS Services "Management EBITDA" are EBITDA adjusted for factors outside management control such as pension and employee share plan costs and exceptional items.

Service Performance
a. Average delay per flight:

Base	22.5 seconds
Stretch	20.0 seconds
Outturn	4.2 seconds

b. Flights delayed in morning peak:

Base	6,940
Stretch	6,440
Outturn	1,344

c. Staffing delay:

Base	182,900 minutes
Stretch	129,800 minutes
Outturn	28,817 minutes

Key Projects

Base	8 milestones achieved
Stretch	15 milestones achieved
Outturn	12 milestones achieved

Customer Satisfaction
20 airlines/ associations consulted:

Base	65% approval rating
Stretch	75% approval rating
Outturn	75% approval rating

Overall payout against NERL company targets was 90.63%.

NATS Services targets

Financial Performance
NATS Services Management EBITDA:

Base	£21.7 million
Stretch	£23.7 million
Outturn	£29.8 million

Service
New contracts secured:

Base	Over £0.50 million
Stretch	Over £1.50 million
Outturn	£1.67 million

BAA Service Quality Incentive Penalty:

Base	Less than 0.50% penalty
Stretch	Less than 0.25% penalty
Outturn	0.25% penalty

Key Projects

Base	4 milestones achieved
Stretch	6 milestones achieved
Outturn	6 milestones achieved

Overall payout against NATS Services company targets was 100%.

Equivalent arrangements are in place for 2010/11.

Long-term bonus scheme

The Committee has established a long-term incentive scheme for executive directors and members of the NATS executive team linked to the achievement of targets for Control Period 2 and, in the case of the Managing Director, NATS Services, against targets for NATS Services business performance. This incentive scheme was developed with support from Kepler Associates.

The scheme provides for a deferred cash bonus in the event of achieving profitability, service and shareholder value performance targets, all subject to safety thresholds being achieved and adjusted to take account of traffic levels.

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.

Paul Barron and Lawrence Hoskins held the following interests in ordinary shares of the company at the time of their departure: Paul Barron held 834 shares and Lawrence Hoskins held 200 shares. Nigel Fotherby currently holds 1,977 shares; Ian Hall holds 1,977 shares and Ian Mills holds 200 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2010 to 30 June 2010, values the shares at 230p each.

Barry Humphreys

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Audited information
Directors' remuneration

Emoluments (excluding pension arrangements which are reported in the tables below) of the Chairman and directors were as follows:

		Salary or fees (*) £000	Benefits (*) £000	Performance related payments (*) £000	Total 2010 (*) £000	Total 2009 (*) £000
Chairman						
John Devaney		160	-	-	160	158
Executive directors						
Paul Barron	1	672	50	931	1,653	747
Nigel Fotherby		220	12	97	329	322
Ian Hall		207	9	84	300	316
Lawrence Hoskins	2	511	33	158	702	531
Ian Mills		206	10	90	306	310
Non-executive directors						
Baroness Dean of Thornton-le-Fylde		34	-	-	34	34
Andrew White		34	-	-	34	34
Sigurd Reinton		34	-	-	34	34
Barry Humphreys	3	-	-	-	-	-
Peter Read	3	-	-	-	-	-
Nigel Turner	3	-	-	-	-	-
Giovanni Bisignani	3	-	-	-	-	-
Andy Lord	3	-	-	-	-	-
Roger Cato		31	-	-	31	-
		2,109	114	1,360	3,583	2,486

* For year, or from date of appointment or up to date of resignation.

The comparative figures have been restated to include amounts paid in respect of long-term incentive plans and rolling bonuses to reflect a change in basis of the presentation of emoluments introduced this year.

Richard Deakin commenced employment with NATS on 1 March 2010 and was appointed to the Board on 1 April 2010. Accordingly his emoluments are not included in the table above. During March 2010 he received a salary of £33,000 and benefits of £94,000 (including £93,000 in respect of relocation costs). All the other directors served throughout the year ended 31 March 2010 unless otherwise stated in the notes below:

1 Paul Barron resigned from the Board on 31 March 2010. A non-pensionable salary payment of £165,000 was made to him as part of the completion of his contract.
2 As part of the completion of his contract, Lawrence Hoskins received a non-pensionable salary payment of £174,500. Included in his benefits is an amount of £20,000 in respect of relocation costs.
3 These directors are appointed by The Airline Group (AG) who charged NATS a total of £42,000 per quarter (2009: £42,000 per quarter) for the services of the directors.

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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 have been included in the table above when paid. The former Chief Executive, Paul Barron, had two bonus schemes which are reflected in the table below; a rolling bonus and a long-term incentive plan. The table below provides estimates of executive directors' entitlements which have been accrued based on progress made to date as follows:

Year bonus accrued:	Paul Barron (Note 1) £000	Nigel Fotherby (Note 3) £000	Ian Hall (Note 3) £000	Lawrence Hoskins (Note 2) £000	Ian Mills (Note 3) £000
2006/07	-	35	28	71	-
2007/08	-	38	29	137	2
2008/09	-	40	30	183	29
2009/10	274	45	31	197	35
Total	274	158	118	588	66

1 Paul Barron's accrued rolling bonus and long-term incentive plan were paid to him in May 2010.
2 Lawrence Hoskins' accrued long-term incentive plan was paid to him in May 2010.
3 These long-term incentive plans will vest on 31 January 2011.

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Pensions of the directors who were members of the CAA Pension Scheme were as follows:

		Accrued entitlement at 31 March 2009 £000	Real change in accrued pension £000	Inflation £000	Accrued entitlement at 31 March 2010 £000	Transfer value at 31 March 2010 £000	Transfer value at 31 March 2009 £000	Director's contributions in year £000	Cost of benefits accrued during year £000
Executive directors									
Paul Barron	1	97	13	1	111	3,053	2,449	-	363
Nigel Fotherby	1,2	31	7	-	38	1,002	720	-	175
Ian Hall	3	74	(14)	-	60	1,685	1,814	-	-
Lawrence Hoskins	1	22	7	-	29	807	558	-	193
Ian Mills	1	13	5	-	18	460	289	-	124
Totals		237	18	1	256	7,007	5,830	-	855

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

1 The NATS Section of the Civil Aviation Authority Pension Scheme operates a salary sacrifice arrangement which commenced on 1 April 2009. All four directors are members of this arrangement and so have not directly paid contributions to the Scheme.
2 Nigel Fotherby secured additional pensionable service following a bonus sacrifice in the year. The benefits in respect of this additional service is not included in the figures above.
3 Ian Hall became a pensioner member of the pension scheme on 24 November 2008, having previously accrued maximum pensionable service.

Richard Deakin is a member of the defined contribution pension scheme. He joined NATS on 1 March 2010 and was appointed a director on 1 April 2010. The company contributed £2,656 to the defined contribution scheme on his behalf for his service as an employee in March 2010.

Remuneration Committee report

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's All-Employee Share Ownership Plan. Details of shares sold during the year are as follows:

	Shares sold	Share price at date of sale £	Gain on sale £
Name of Director			
Paul Barron	834	2.30	1,918

Details of shares held by directors who served during the year are as follows:

	Date from which exercisable: Exercisable	10/01/2013 (brought forward)	17/09/2014 (granted in year)	Total holding (number of shares)	Value at 31 March 2010 (at £2.30 each) £	Value at 31 March 2009 (at £2.50 each) £
Name of Director						
Nigel Fotherby	1,557	220	200	1,977	4,547	4,443
Ian Hall	1,557	220	200	1,977	4,547	4,443
Lawrence Hoskins	-	-	200	200	460	-
Ian Mills	-	-	200	200	460	-
	3,114	440	800	4,354	10,014	8,886

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Directors of NATS Holdings Limited

The directors of the company at 1 July 2010 were:

John Devaney

John joined the Board in July 2005 and was appointed Chairman with effect from 1 September. He is also Chairman of National Express plc, Cobham plc and Tersus Energy plc.

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 to 2002 and, until December 2007, was Chairman of telent plc, formerly Marconi, the global telecommunications equipment company. His previous non-executive directorships have included Northern Rock plc from 2007 to 2009, HSBC Bank plc from 1994 to 2000 and British Steel plc from 1998 to 1999. John chairs the Audit and Nomination Committees.

Richard Deakin

Richard was appointed as Chief Executive Officer of NATS on 1 April 2010. He was previously Senior Vice President of Thales Group's Air Systems Division based in Paris and, before that, was Managing Director of Thales Group's Aerospace Division in the UK. Richard has over 25 years experience of major programmes in the aerospace and defence industry sector with BAE Systems, TRW Aeronautical Systems, GKN Aerospace Services and Thales Group.

A Chartered Engineer, Richard holds a first-class honours degree in Aeronautical Engineering from Kingston University and an MBA from Cranfield School of Management. He is also a Fellow of the Royal Aeronautical Society, and was awarded an Honorary Doctorate in Engineering from Kingston University in January 2007.

Nigel Fotherby

Nigel joined NATS in 1999 as Finance Director and led the Finance team through the transition to PPP (2001) and, following the events of 9/11, the financial restructuring and refinancing of NERL in 2003. In addition to his current responsibilities for finance and business IT systems, Nigel leads NERL's economic regulatory team and represents the company in the economic regulator's review of NERL's charges for Control Period 3, which starts in 2011. Previously, he worked for Lex Service plc as Finance Director of its retail group and then for BT Cellnet, where he was Deputy Finance Director. He began his career with Coopers & Lybrand where he qualified as a Chartered Accountant.

Ian Hall

Ian was appointed Operations Strategy and Standards Director on 1 May 2010, having previously held the posts of Development and Investment Director, NERL and Operations Director, NERL. 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 and then Director Operations for NATS and subsequently for NERL.

Ian Mills

Ian was appointed Managing Director, NERL on 1 May 2010, having previously held the post of Chief Operating Officer, NERL. 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.

Directors of NATS Holdings Limited

Directors of NATS Holdings Limited

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 the 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, partly 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 the Chairman 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. He retired in 2009 as Director of External Affairs and Route Development for Virgin Atlantic Airways. Barry is a Fellow of the Royal Aeronautical Society and formerly of the Chartered Institute of Logistics and Transport and the Tourism Society. He is currently an aviation consultant and Chairman of the British Air Transport Association. He is also a director of AG, a Board Member of the UK India Business Council and Chairman of the Caribbean Britain Business Council. Among his charity work Barry is a Trustee of the Loomba Trust and Executive Director of the ISTAT Airlink. Barry chairs the Remuneration Committee.

Andy Lord

Andy graduated from Manchester University in 1992 with an honours degree in Mechanical Engineering, having joined British Airways in 1989 as part of the airline's sponsored Engineering Undergraduate programme. On completing his apprenticeship, Andy held a number of technical and design engineer positions before moving to Flight Operations in 1996. He has worked overseas and throughout the UK and is still the only non-flying manager in BA's history to have held the position of Chief Pilot. He moved to Operations in 2004.

As Director of Operations, Andy is responsible for the control and performance, safety, compliance and IT systems of the worldwide operation, corporate business resilience and delivery of customer services at all UK and Irish Airports, excluding Heathrow. He is a director of AG and an Associate Member of the Institute of Mechanical Engineers. Andy is a member of the Remuneration Committee.

Nigel Turner

Nigel rejoined the Board at the beginning of 2008. He has been with bmi for over 20 years and was appointed as Chief Executive Officer in 2004 having previously held a number of senior positions within the company. Before joining bmi he worked for Next and Northern Foods. Nigel stood down as CEO in 2009 and took up the position of Deputy Chairman of bmi with effect from December 2009. 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. Nigel is a member of the Audit Committee and the Treasury Committee.

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 Sharetrust and is a member of the Remuneration Committee.

Sigurd Reinton

Sigurd was Chairman of the London Ambulance Service NHS Trust for ten years until 2009 and before that of Mayday University Hospitals NHS Trust. He was a member of the board of the Ambulance Services Network of the NHS Confederation 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 annual report on the affairs of the group, together with the financial statements and the auditors report for the year ended 31 March 2010. The Corporate Governance statement, which has not been subject to audit, is set out on pages 36 to 45 and forms part of this report.

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 Public Private Partnership (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 Limited 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 4-7 and the Chief Executive's and Financial Review on pages 8-35.

Use of financial instruments

The company's operating subsidiaries, NATS (En Route) plc and NATS (Services) Limited, use 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.

Results and dividends

The group's results for the year are shown in the income statement on page 66 . No interim dividend was approved in the year (2009: £43.5m) and the Board recommends a final dividend for the year of £nil (2009: £nil). The 2009 interim dividend of £43.5m was paid in April 2009.

In May 2010 the Board approved an interim dividend of £20m which was paid to shareholders in June 2010.

Charitable donations

The group made aggregate donations of £22,798 (2009: £18,322).

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 NATS CEO maintains high visibility with staff through annual visits to each NATS location where he talks to them about 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 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, age, 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.

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 2006 is 39 days (2009: 36 days).

Directors and their interests

The directors of the company as at 1 July 2010 are set out on page 3.

Paul Barron resigned from the Board on 31 March 2010. He was succeeded by Richard Deakin who was appointed on 1 April 2010. Lawrence Hoskins resigned from the Board on 30 April 2010. 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 55.

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

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Accounts. The directors have prepared the Accounts for 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 2006.

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 s418 of the Companies Act 2006.

Auditors

Deloitte 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.

Approved by the Board of Directors and signed on behalf of the Board by:

Richard Churchill-Coleman
Secretary
1 July 2010

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Independent auditors' report to the members of NATS Holdings Limited

We have audited the financial statements of NATS Holdings Limited for the year ended 31 March 2010 which comprise the group Income Statement, the group Statement of Comprehensive Income, the group and parent company Balance Sheets, the group and parent company Statements of Changes in Equity, the group Cash Flow Statement, the statement of accounting policies and the related notes 1 to 29 of the group and 1 to 6 of the parent company. The financial reporting that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's profit and the parent company's result for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS as issued by the IASB

As explained in note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company; or
- the parent company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Clennett

John Clennett, Senior Statutory Auditor
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
1 July 2010

Consolidated financial statements

Consolidated income statement
for the year ended 31 March 2010

		Year ended 31 March 2010			Year ended 31 March 2009		
	Notes	Before exceptional items £m	Exceptional items (note 6a) £m	Total £m	Before exceptional items £m	Exceptional items (note 6a) £m	Total £m
Revenue	4	754.9	-	754.9	767.3	-	767.3
Staff costs	7	(382.0)	(21.2)	(403.2)	(349.3)	(25.9)	(375.2)
Services and materials		(71.7)	5.1	(66.6)	(72.4)	-	(72.4)
Repairs and maintenance		(36.6)	-	(36.6)	(30.8)	-	(30.8)
External research and development		(0.3)	-	(0.3)	(0.3)	-	(0.3)
Depreciation, amortisation and impairment	6	(89.5)	-	(89.5)	(82.0)	-	(82.0)
(Loss)/profit on disposal of non-current assets		(0.3)	-	(0.3)	(0.3)	43.5	43.2
Other operating charges		(39.3)	(6.3)	(45.6)	(49.8)	(26.0)	(75.8)
Other operating income		-	-	-	0.7	-	0.7
Deferred grants released	6	2.0	-	2.0	2.1	-	2.1
Share of results of associate	28	0.1	-	0.1	-	-	-
Net operating costs		(617.6)	(22.4)	(640.0)	(582.1)	(8.4)	(590.5)
Operating profit	6	137.3	(22.4)	114.9	185.2	(8.4)	176.8
Investment revenue	8	1.6	-	1.6	6.7	-	6.7
Finance costs	9	(38.2)	-	(38.2)	(48.0)	-	(48.0)
Profit before tax		100.7	(22.4)	78.3	143.9	(8.4)	135.5
Tax	10	(26.5)	6.3	(20.2)	(40.6)	0.3	(40.3)
Profit for the year attributable to equity shareholders		74.2	(16.1)	58.1	103.3	(8.1)	95.2

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

Consolidated statement of comprehensive income
for the year ended 31 March 2010

		Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Profit for the year after tax		58.1	95.2
Other comprehensive income/(expense) for the year net of tax			
Actuarial gain/(loss) on defined benefit pension scheme	26	160.4	(493.2)
Change in fair value of hedging derivatives		1.3	3.3
Transfer to income statement on cash flow hedges		(1.1)	(2.4)
Deferred tax relating to components of other comprehensive income/(expense)	20	(45.0)	137.9
		115.6	(354.4)
Total comprehensive income/(expense) for the year attributable to equity shareholders		173.7	(259.2)

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Consolidated financial statements

Consolidated balance sheet
at 31 March 2010

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	201.4	150.2
Property, plant and equipment	14	637.9	637.0
Interest in associate	28	0.2	0.1
Retirement benefit asset	26	79.9	-
Trade and other receivables	15	4.4	6.2
		1,274.8	1,144.5
Current assets			
Trade and other receivables	15	171.2	151.8
Short-term investments	18	15.5	25.6
Cash and cash equivalents	18	145.6	163.5
Derivative financial instruments	17	0.8	0.3
		333.1	341.2
Total assets		1,607.9	1,485.7
Current liabilities			
Trade and other payables	19	(145.9)	(198.7)
Borrowings	16	-	(1.2)
Current tax liabilities		(4.0)	(7.2)
Derivative financial instruments	17	(88.0)	(82.5)
		(237.9)	(289.6)
Net current assets		95.2	51.6
Non-current liabilities			
Borrowings	16	(680.8)	(668.2)
Trade and other payables	19	(13.4)	(16.8)
Retirement benefit obligations	26	-	(69.4)
Deferred tax liability	20	(138.8)	(78.4)
		(833.0)	(832.8)
Total liabilities		(1,070.9)	(1,122.4)
Net assets		537.0	363.3
Equity			
Called up share capital	21	140.6	140.6
Share premium account	22	0.4	0.4
AESOP reserve		(0.3)	(0.3)
Hedge reserve		0.4	0.3
Other reserves		(34.7)	(34.7)
Retained earnings		430.6	257.0
Total equity		537.0	363.3

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 1 July 2010 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Consolidated financial statements

Consolidated statement of changes in equity
for the year ended 31 March 2010

	Equity attributable to equity holders of the Company						
	Share capital £m	Share premium account £m	AESOP reserve £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2008	140.6	0.4	(0.3)	(0.4)	(34.7)	560.4	666.0
Profit for the year	-	-	-	-	-	95.2	95.2
Other comprehensive income/ (expense) for the year	-	-	-	0.7	-	(355.1)	(354.4)
Total comprehensive income/ (expense) for the year	-	-	-	0.7	-	(259.9)	(259.2)
Dividends payable	-	-	-	-	-	(43.5)	(43.5)
At 31 March 2009	140.6	0.4	(0.3)	0.3	(34.7)	257.0	363.3
At 1 April 2009	140.6	0.4	(0.3)	0.3	(34.7)	257.0	363.3
Profit for the year	-	-	-	-	-	58.1	58.1
Other comprehensive income for the year	-	-	-	0.1	-	115.5	115.6
Total comprehensive income for the year	-	-	-	0.1	-	173.6	173.7
At 31 March 2010	140.6	0.4	(0.3)	0.4	(34.7)	430.6	537.0

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Consolidated financial statements

Consolidated cash flow statement
for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Net cash from operating activities	23	177.5	191.2
Cash flows from investing activities			
Interest received		1.5	6.6
Purchase of property, plant and equipment and other intangible assets		(143.1)	(147.6)
(Cost)/proceeds of disposal of property, plant and equipment		(0.1)	43.6
Investment in associate		-	(0.1)
Changes in short-term investments		10.1	(8.4)
Net cash outflow from investing activities		(131.6)	(105.9)
Cash flows from financing activities			
Interest paid		(34.3)	(38.3)
Interest received on derivative financial instruments		3.4	3.4
Bank and other loans		10.6	(0.3)
Dividends paid		(43.5)	-
Net cash outflow from financing activities		(63.8)	(35.2)
(Decrease)/increase in cash and cash equivalents during the year		(17.9)	50.1
Cash and cash equivalents at 1 April		163.5	113.4
Cash and cash equivalents at 31 March		145.6	163.5
Net Debt (representing borrowings net of cash and short-term investments)		(519.7)	(480.3)

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. 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 Directors' 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 statements have been prepared on the going concern basis. For further detail please refer to page 35. 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 Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

Two interpretations issued by the International Financial Reporting Interpretations Committee become effective for this period. These are: IFRIC 13: *Customer Loyalty Programmes* and; IFRIC 15: *Agreements for the Construction of Real Estate*. The adoption of these Interpretations has not led to any changes in the group's accounting policies.

In addition, the group adopted IAS 1 (Revised): *Presentation of Financial Statements* for the first time. This has resulted in a number of changes in presentation and disclosure. The revised presentation requirements of IAS 1 permit a choice of presenting one or two performance statements; the group has elected to present two statements. The Statement of Changes in Equity is now presented as a primary statement. The revised standard has no impact on the reported results or financial position of the group. The group also adopted IFRS 7 (Revised): *Financial instruments: Disclosures*. The impact of the revised standard is additional disclosures on the fair value measurement and liquidity risk within notes 17 and 18. The group also adopted IAS 23 (Revised): *Borrowing Costs*. Previously the group adopted the option to expense borrowing costs on qualifying capital assets. The revised standard has removed this option, therefore, the group has capitalised all qualifying borrowing costs in the year. The impact of this change has been to capitalise £0.1m of borrowing costs in the current year, at a capitalisation rate of 0.7%.

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Notes forming part of the consolidated accounts

The following interpretations, revisions and amendments to IFRSs which are not yet effective but have been adopted early in the current year and have had no effect on the accounting policies of the group: Amendments to IFRS 1 and IAS 27: *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*; Amendments to IFRS 2: *Share-based Payment-vesting Conditions and Cancellations* and IFRS 2: *Group Cash-settled Share-based Payment Transactions;* Revisions to IFRS 3 and IAS 27: *Business Combinations and Consolidated and Separate Financial Statements;* Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation;* IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*; Amendments to IAS 39: *Eligible Hedged Items;* IFRIC 17: *Distributions of Non-cash Assets to Owners;* Improvements to IFRSs (May 2008); Amendments to IFRIC 9 and IAS 39: *Embedded Derivatives* and Revisions to IAS 39, IFRS 7: *Reclassification of Financial Assets (updated)* and IFRIC 18: *Transfers of Assets from Customers.*

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 (including volume risk sharing and service performance incentives) and airport contracts 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.

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. 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.

The group does not have any finance 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: 10-40 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: 3-15 years.
- Furniture, fixtures and fittings: 10 years.
- Vehicles: 5-8 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.

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Borrowing costs
Following the introduction of IAS 23: *Borrowing Costs*, the costs of borrowings directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset (i.e. there is no longer a choice to expense such costs). Qualifying assets are those which take a substantial time to get ready for intended use. These do not include assets which are ready for use when acquired.

For NATS this assumes qualifying assets relate to any additions to new projects that begin from 1 April 2009, included in assets under construction, and excludes acquisitions that are acquired in a state ready for use.

When funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual cost of borrowing incurred in the period. IAS 23 requires that where a qualifying asset is funded from a pool of general borrowings, the amount of borrowing costs eligible for capitalisation should be determined by applying an appropriate capitalisation rate (based on the weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to the expenditure during the period, to determine the borrowing costs eligible for capitalisation.

For NATS, the percentage rate for interest capitalisation is calculated as a proportion of the interest costs to the average level of borrowings in the period that relate to qualifying capital expenditure. All qualifying capital expenditure is then inflated by this percentage which has the effect of capitalising related interest costs.

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.

Investments in associates
An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Notes forming part of the consolidated accounts

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 3 to 12 years. Assets in the course of construction are not amortised. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets 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.

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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 free of charge 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, or are more likely than not to be, agreed with the customer.

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

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

Share-based payments
In 2001, the company established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by The Airline Group (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.

In March 2010, employees were offered the option of subscribing to partnership shares at fair value by deductions from gross salary over a 12 month accumulation period. At the end of the accumulation period employees will receive partnership shares at a share price which is the lower of the share price at point of offer or the share price at the end of the accumulation period. In addition, staff will receive one free matching share for every partnership share purchased. At the end of the accumulation period, and after the shares are awarded, the extent to which the company has a liability to staff for their holdings of partnership and matching shares will be reassessed in the light of subsequent share valuations.

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 substantively 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.

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

Notes forming part of the consolidated accounts

Notes forming part of the consolidated accounts

The carrying amount 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 offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

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

In order to hedge its exposure to certain foreign exchange risks, the 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
NATS Ltd, the company's wholly-owned subsidiary, 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.

In January 2009, the group introduced a number of pension reforms, as explained in note 26. This included closing the defined benefit scheme to new entrants with effect from 1 April 2009, introducing a limit on increases in pensionable pay from 1 January 2009 and establishing a defined contribution scheme for new entrants effective from 1 April 2009.

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme. 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 comprehensive income.

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 15 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.

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.

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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 (with a maturity of 3 months or less) 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.

Notes forming part of the consolidated accounts

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 18 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 forecast 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 bases, market premiums for regulated businesses and the outcome of the regulatory price control determination for Control Period 3 (from January 2011). If the actual outcome 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 6% or a reduction in market premium by 3% would result in the recoverable amount being equal to the carrying amount of goodwill. Refer to notes 12, 13 and 14.

Retirement benefits
The group accounts for its defined benefit pension scheme such that the net pension scheme asset or liability is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. To the extent that there is a net pension scheme asset, this assumes that 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 position and the group's reserves and income statement. Refer to note 26 of the notes to the consolidated accounts for a summary of the main assumptions and sensitivities. 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. 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.

Notes forming part of the consolidated accounts

4. Revenue

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

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
UK air traffic services	561.4	587.6
North Atlantic air traffic services	22.2	23.5
Airport air traffic services	152.1	138.7
Miscellaneous services	19.2	17.5
	754.9	767.3

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 is included in note 8.

A portion of the group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. Included in 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 £1.1m (2009: £2.4m).

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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 air space, 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. Segment information is presented below.

Airport air traffic services include air traffic control and associated engineering services provided at airports. Miscellaneous services include engineering services provided to other customers, air traffic consultancy, training services and airport data management.

Year ended 31 March 2010	UK air traffic services	North Atlantic air traffic services	Airport air traffic services	Miscellaneous services	Total
	£m	£m	£m	£m	£m
Revenue					
Revenue from external customers	561.4	22.2	152.1	19.2	754.9
Segment result	92.1	0.2	19.9	2.7	114.9
Operating profit					114.9
Investment revenue					1.6
Finance costs					(38.2)
Profit before tax					78.3
Tax					(20.2)
Profit for the year					58.1
Other information					
Exceptional items	19.6	0.7	1.9	0.2	22.4
Capital expenditure	134.8	2.7	2.8	1.5	141.8
Depreciation and amortisation	79.9	3.7	2.6	0.3	86.5
Impairment losses recognised in income	2.4	0.1	0.4	0.1	3.0
Deferred grants released	(1.7)	-	(0.3)	-	(2.0)
Balance Sheet					
Assets					
Segment assets	1,329.5	34.3	53.3	28.9	1,446.0
Unallocated assets					161.9
Consolidated total assets					1,607.9
Liabilities					
Segment liabilities	(114.3)	(3.9)	(33.5)	(7.4)	(159.1)
Unallocated liabilities					(911.8)
Consolidated total liabilities					(1,070.9)

Notes forming part of the consolidated accounts

5. Business and geographical segments (continued)

Year ended 31 March 2009	UK air traffic services	North Atlantic air traffic services	Airport air traffic services	Miscellaneous services	Total
	£m	£m	£m	£m	£m
Revenue					
Revenue from external customers	587.6	23.5	138.7	17.5	767.3
Segment result	109.8	1.2	62.4	3.4	176.8
Operating profit					176.8
Investment revenue					6.7
Finance costs					(48.0)
Profit before tax					135.5
Tax					(40.3)
Profit for the year					95.2
Other Information					
Exceptional items	50.2	1.0	(42.8)	-	8.4
Capital expenditure	142.5	3.1	5.8	1.5	152.9
Depreciation and amortisation	74.2	2.8	2.1	0.2	79.3
Impairment losses recognised in income	2.7	-	-	-	2.7
Deferred grants released	(2.1)	-	-	-	(2.1)
Balance Sheet					
Assets					
Segment assets	1,201.5	31.3	46.5	17.0	1,296.3
Unallocated assets					189.4
Consolidated total assets					1,485.7
Liabilities					
Segment liabilities	(180.4)	(7.8)	(43.9)	(9.1)	(241.2)
Unallocated liabilities					(881.2)
Consolidated total liabilities					(1,122.4)

All assets are allocated to reportable segments with the exception of derivative financial instruments, interest receivable, short-term investments and cash and cash equivalents.

All liabilities are allocated to reportable segments with the exception of taxation, borrowings, derivative financial instruments, interest payable and dividends payable.

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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 2010 £m	Year ended 31 March 2009 £m
UK	404.0	404.5
Rest of Europe	204.0	217.5
North America	100.6	106.7
Other	46.3	38.6
Total	754.9	767.3

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 £107.9m (2009: £99.8m) which arose from the group's largest customer.

6. Operating profit for the year

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

a. Exceptional items

Redundancy and relocation costs

During the year staff relocation costs were incurred following the closure of the air traffic control centres at West Drayton in 2008 and Manchester in 2010, and the relocation of staff from the Hurn training college. To the extent that staff could not be redeployed, termination terms were agreed. In response to the economic downturn and changes in technology, voluntary redundancy was offered to staff in some areas of the business.

Profit on disposal of non-current assets

The old Heathrow control tower was disposed of during the year ended 31 March 2009 resulting in a one off profit on disposal.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Redundancy costs	21.2	25.9
Relocation of staff to the Swanwick area	5.3	11.4
Relocation of staff to the Prestwick area	(0.1)	14.6
Relocation of staff from Hurn to the Corporate Technical Centre	1.1	-
Swanwick business rates rebate relating to prior years	(5.1)	-
Profit on disposal of non-current assets	-	(43.5)
	22.4	8.4

The tax effect of the items above is shown as exceptional on the face of the income statement.

Notes forming part of the consolidated accounts

6. Operating profit for the year (continued)

b. Other items	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
CAA regulatory charges in respect of NERL's air traffic services licence	5.8	4.4
CAA regulatory charges for safety regulation at airports	2.7	2.7
Depreciation of property, plant and equipment	76.5	71.0
Impairment of property, plant and equipment	1.3	2.6
Amortisation of internally generated intangible assets	10.0	8.3
Impairment of internally generated intangible assets	1.7	0.1
Deferred grants released	(2.0)	(2.1)
Research and development costs	8.6	3.7
Auditors' remuneration for audit services (see below)	0.2	0.2

The analysis of auditors' remuneration is as follows:

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £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

Total non-audit fees of £0.1m (2009: £0.1m) included tax services of £47,000 (2009: £17,000) and other services of £30,700 (2009: £40,000). Total fees payable to the company's auditors for the audit of the subsidiary accounts was £41,700 (2009: £40,800).

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

7. Staff costs

a. Staff costs	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	298.3	325.2
Social security costs	28.5	29.9
Pension costs (note 7b)	114.3	57.3
	441.1	412.4
Less: amounts capitalised	(37.9)	(37.2)
	403.2	375.2

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

b. Pension costs	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Defined benefit pension scheme costs for year (note 26)	114.1	57.3
Defined contribution pension scheme costs for year	0.2	-
	114.3	57.3

Wages and salaries and pension costs reflect the implementation of pension salary sacrifice arrangements for staff with effect from 1 April 2009.

c. Staff numbers	Year ended 31 March 2010 No.	Year ended 31 March 2009 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	2,003	1,998
Air traffic service assistants	964	1,021
Engineers	1,054	1,128
Others	899	937
	4,920	5,084

Notes forming part of the consolidated accounts

8. Investment revenue

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest on bank deposits	1.5	6.4
Other loans and receivables	0.1	0.3
	1.6	6.7

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

9. Finance costs

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	1.4	5.3
Bond and related costs including financing expenses	30.3	30.3
Other	0.2	0.9
	31.9	36.5
Loss on derivatives not qualifying for hedge accounting	6.3	11.5
	38.2	48.0

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Notes forming part of the consolidated accounts

10. Tax

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Current tax (including a credit of £2.7m in respect of prior years, 2009: £1.5m charge)	(4.8)	(18.0)
Deferred tax (see note 20. Including a charge of £2.2m in respect of prior years, 2009: £1.7m credit)	(15.4)	(22.3)
	(20.2)	(40.3)

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year.

	Year ended 31 March 2010		Year ended 31 March 2009	
The charge for the year can be reconciled to the profit per the income statement as follows:	£m	%	£m	%
Profit on ordinary activities before tax	78.3		135.5	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2009: 28%)	(21.9)	(28.0)	(37.9)	(28.0)
Tax effect of abolition of Industrial Building Allowances	-	-	(14.2)	(10.5)
Tax effect of prior year adjustments	0.5	0.7	0.2	0.1
Other permanent differences (includes sale of Heathrow control tower in 2009)	1.2	1.5	11.6	8.7
Tax charge for year at the effective tax rate of 25.8% (2009: 29.7%)	(20.2)	(25.8)	(40.3)	(29.7)
Deferred tax charge/(credit) taken directly to equity (see note 20)	45.0		(137.9)	

Notes forming part of the consolidated accounts

11. Dividends

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Amounts recognised as dividends to equity shareholders in the year:		
Interim dividend for the year ended 31 March 2010 of nil (2009: 30.41 pence)	-	43.5

In May 2010, the Board declared an interim dividend for 2011 of 13.98 pence per share (totalling £20m) which was paid to shareholders in June 2010.

12. Goodwill

	£m
Carrying amount	
At 31 March 2010 and 31 March 2009	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 (assumed at 10%, 2009: 10%). 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 group's business plans reflect the impact of the challenging economic environment on traffic volumes and the activities which the group is taking to mitigate this. The discount rate is a pre-tax nominal rate of 10.26% (2009: 7.07%). See note 3.

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Notes forming part of the consolidated accounts

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2008	35.0	27.4	12.4	79.9	154.7
Additions internally generated	1.0	0.2	2.6	9.5	13.3
Additions externally acquired	2.0	0.7	-	28.3	31.0
Disposals during the year	-	(1.5)	-	-	(1.5)
Other transfers during the year	0.1	2.1	2.5	(4.7)	-
At 1 April 2009	38.1	28.9	17.5	113.0	197.5
Additions internally generated	0.6	0.2	0.6	13.5	14.9
Additions externally acquired	1.4	2.5	0.2	44.0	48.1
Disposals during the year	(0.1)	-	-	(12.6)	(12.7)
Other transfers during the year	8.5	0.5	0.3	(9.2)	0.1
At 31 March 2010	48.5	32.1	18.6	148.7	247.9
Accumulated amortisation and impairment					
At 1 April 2008	10.9	8.3	5.1	16.1	40.4
Charge for the year	4.1	2.8	1.4	-	8.3
Provisions for impairment	-	-	-	0.1	0.1
Disposals during the year	-	(1.5)	-	-	(1.5)
At 1 April 2009	15.0	9.6	6.5	16.2	47.3
Charge for the year	5.1	3.3	1.6	-	10.0
Provisions for impairment	-	-	-	1.7	1.7
Utilisation of impairment provision	-	-	-	(12.5)	(12.5)
At 31 March 2010	20.1	12.9	8.1	5.4	46.5
Carrying amount					
At 31 March 2010	28.4	19.2	10.5	143.3	201.4
At 31 March 2009	23.1	19.3	11.0	96.8	150.2

The accumulated amortisation of assets in the course of construction represents impairment provisions.

Notes forming part of the consolidated accounts

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2008	214.7	56.1	1,058.1	14.0	135.4	1,478.3
Additions during the year	1.8	1.0	37.9	2.2	65.7	108.6
Disposals during the year	-	(11.4)	(83.7)	(0.1)	-	(95.2)
Other transfers during the year	5.1	1.9	33.2	1.6	(41.8)	-
At 1 April 2009	221.6	47.6	1,045.5	17.7	159.3	1,491.7
Additions during the year	1.0	0.2	35.9	0.1	41.6	78.8
Disposals during the year	-	-	(16.7)	(0.1)	(1.6)	(18.4)
Other transfers during the year	0.9	0.4	72.0	0.1	(73.5)	(0.1)
At 31 March 2010	223.5	48.2	1,136.7	17.8	125.8	1,552.0
Accumulated depreciation and impairment						
At 1 April 2008	71.4	40.6	756.0	6.8	1.3	876.1
Provided during the year	6.6	1.4	61.6	1.4	-	71.0
Provisions for impairment	-	-	-	-	2.6	2.6
Disposals during the year	(0.1)	(11.4)	(83.4)	(0.1)	-	(95.0)
At 1 April 2009	77.9	30.6	734.2	8.1	3.9	854.7
Provided during the year	6.9	1.6	66.6	1.4	-	76.5
Provisions for impairment	-	-	0.3	-	1.0	1.3
Utilisation of impairment provision	-	-	-	-	(1.7)	(1.7)
Disposals during the year	-	-	(16.6)	(0.1)	-	(16.7)
At 31 March 2010	84.8	32.2	784.5	9.4	3.2	914.1
Carrying amount						
At 31 March 2010	138.7	16.0	352.2	8.4	122.6	637.9
At 31 March 2009	143.7	17.0	311.3	9.6	155.4	637.0

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £3.0m (2009: £2.7m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

During the year the group capitalised £0.1m of interest costs at a capitalisation rate of 0.7%, in accordance with IAS 23: *Borrowing Costs*, adopted prospectively for the first time this year.

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Notes forming part of the consolidated accounts

15. Financial and other assets

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

Trade and other receivables

	2010 £m	2009 £m
Non-current		
Other debtors	4.4	6.2
Current		
Receivable from customers gross	46.8	46.4
Allowance for doubtful debts	(5.7)	(5.8)
	41.1	40.6
Amounts recoverable under contracts	8.0	10.6
Other debtors	4.8	7.6
Prepayments	13.6	17.8
Accrued income	103.7	75.2
	171.2	151.8

The average credit period taken on sales of services is 29 days (2009: 28 days). Interest is charged by Eurocontrol to UK en route customers at 11.58% (2009: 9.86%) 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 £5.7m (2009: £5.8m). 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 or where there is evidence of a reduction in the recoverability of the cash flows.

Ageing of past due but not impaired trade receivables:

	2010 £m	2009 £m
30-90 days	0.3	1.3
91-150 days	0.4	0.1
	0.7	1.4

Movement in the allowance for doubtful debts:

	2010 £m	2009 £m
Balance at the beginning of the period	5.8	2.7
Increase in allowance recognised in the income statement	0.1	3.5
Amounts written off as irrecoverable	(0.2)	(0.4)
Balance at end of year	5.7	5.8

Notes forming part of the consolidated accounts

15. Financial and other assets (continued)

As of 31 March 2010, of the allowance for doubtful debts, £1.0m was deferred to the balance sheet in respect of 2009 doubtful debts in accordance with the licence which limits NERL's exposure to bad debts from UK en route services to £1.5m arising in relation to a calendar year.

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 UK en route revenues from losses exceeding £1.5m a calendar 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 £4.6m (2009: £4.8m) 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.

Ageing of impaired receivables:

	2010 £m	2009 £m
Current	0.2	-
30-90 days	-	0.5
91-365 days	0.2	4.2
more than 365 days overdue	5.3	1.1
	5.7	5.8

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

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.

Overall, the maximum credit risk for the items discussed above would be £323.1m (2009: £347.1m).

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Notes forming part of the consolidated accounts

16. Borrowings

	2010 £m	2009 £m
Unsecured loans at amortised cost		
Other loans (not interest bearing)	-	1.2
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	597.6	597.4
Bank overdraft	1.2	-
Bank loans (revolving term loan and revolving credit facility expiring 2010-2012)	88.1	77.5
Total secured loans	686.9	674.9
Gross borrowings	686.9	676.1
Unamortised bond issue costs	(6.1)	(6.7)
	680.8	669.4
Amounts due for settlement within 12 months	-	1.2
Amounts due for settlement after 12 months	680.8	668.2

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NERL 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 £89.3m made by NERL under its £216.2m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and by NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is c. £1,257m (2009: £1,135m).

The average effective interest rate on the bank loans in the year was 1.6% (2009: 6.5%) and was determined based on LIBOR rates plus a margin.

Costs associated with the issue of the £600m bond are being amortised over the life of the bond.

Undrawn committed facilities	2010 £m	2009 £m
Undrawn committed facilities expire as follows:		
Less than one year	11.0	-
Between one and two years	34.3	11.0
After more than two years	81.6	127.7
	126.9	138.7

NERL has outstanding drawings of £89.3m on its committed facilities. The bank facilities expire as follows: £11.0m in November 2010; £34.25m in November 2011 and the balance of c.£170.95m in November 2012.

NATS Services has an uncommitted overdraft facility of £2m that was undrawn as at 31 March 2010 and 31 March 2009 and is not included in the table above.

Notes forming part of the consolidated accounts

17. Derivative financial instruments

Fair value of derivative financial instruments

	2010 £m	2009 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.8	0.3
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(1.0)	(1.8)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(87.0)	(80.7)
	(88.0)	(82.5)

Further details on derivative financial instruments are provided in note 18. 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 and previously qualified as a hedge under UK generally accepted accounting principles prior to the group's adoption of international accounting standards.

Fair value measurements recognised in the statement of balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010				2009			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative instruments in designated hedge accounting relationships	-	0.8	-	0.8	-	0.3	-	0.3
Financial liabilities								
Derivative instruments in designated hedge accounting relationships	-	(1.0)	-	(1.0)	-	(1.8)	-	(1.8)
Derivative financial instruments classified as held for trading	-	(87.0)	-	(87.0)	-	(80.7)	-	(80.7)
	-	(88.0)	-	(88.0)	-	(82.5)	-	(82.5)

There were no transfers between individual levels in the period.

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Notes forming part of the consolidated accounts

18. 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 NERL is able to meet its obligations under the air traffic services licence, for NATS Services 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 16, cash and cash equivalents and short-term investments, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

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 2010, NERL had a corporate rating of AA- negative outlook from Standard & Poor's (2009: A+ stable outlook) and A2 stable outlook from Moody's (2009: A2 stable 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). NATS Services and NATS Ltd, the group's intermediate holding company, have no borrowings.

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:

	2010 £m	2009 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	58.3	65.0
Cash and cash equivalents and short-term investments	161.1	189.1
Derivative financial instruments in designated hedge accounting relationships	0.8	0.3
	220.2	254.4
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(1.0)	(1.8)
Derivative financial instruments classified as held for trading	(87.0)	(80.7)
Other financial liabilities at amortised cost	(726.3)	(752.9)
	(814.3)	(835.4)

Other financial liabilities at amortised cost includes balances for trade and other payables, the £600m bond, bank borrowings and other loans.

The index-linked swap is categorised as held for trading. The loss on the movement in its market value of £6.3m has been recorded in the income statement in the year (2009: £11.5m).

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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 three times a year 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, interest rate risk and inflation risk), credit risk and liquidity risk. NATS Ltd and NATS Services had no borrowings. 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 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 revenue, accounting for 66% of the group's turnover (2009: 69%). 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.

The carrying amount of the group's foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m
Euro	115.7	94.1	(3.4)	(1.6)
US Dollar	0.9	0.2	(1.5)	(0.8)
Canadian Dollar	0.6	0.2	(0.9)	(0.1)
Hong Kong Dollar	-	0.1	-	-
Norwegian Krone	-	0.6	-	-
Danish Krone	0.5	0.5	-	(0.1)
	117.7	95.7	(5.8)	(2.6)

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Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Foreign currency sensitivity analysis

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

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

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

Currency	2010 Impact £m	2009 Impact £m
Euro	(2.9)	(2.6)
US Dollar	-	(0.3)
Canadian Dollars	-	(0.1)
Hong Kong Dollars	-	-
Norwegian Krone	-	(0.1)
Danish Krone	(0.1)	(0.2)
	(3.0)	(3.3)

The group's sensitivity to the Euro increased during the year reflecting forward contracts taken out to hedge future purchase commitments. Exposure to other currencies has decreased due to a closer matching of foreign currency assets and liabilities. 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.

Notes forming part of the consolidated accounts

18. 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 respect of UK en route revenues. In addition, the group entered into other forward foreign exchange contracts to fund purchases of equipment. The group has designated these forward contracts as cash flow hedges. The following contracts were outstanding at year end:

	2010				2009		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-3 months	103.3	116.5	0.8867	0-3 months	69.3	77.0	0.9002
Over 3 months	1.4	1.5	0.9075	Over 3 months	-	-	N/A
	104.7	118.0	0.8869		69.3	77.0	0.9002
Euro bought	€m	£m		Euro bought	€m	£m	
0-3 months	6.9	6.1	0.8813	0-3 months	1.7	1.5	0.8556
Over 3 months	17.2	15.2	0.8847	Over 3 months	1.3	1.1	0.8366
	24.1	21.3	0.8841		3.0	2.6	0.8473
US Dollar bought	US$m	£m		US Dollar bought	US$m	£m	
0-3 months	0.3	0.2	1.4715	0-3 months	1.2	0.8	1.4733
Over 3 months	-	-	N/A	Over 3 months	3.6	2.4	1.4720
	0.3	0.2	1.4715		4.8	3.2	1.4723
Canadian Dollar bought	C$m	£m		Canadian Dollar bought	C$m	£m	
Over 3 months	0.1	0.1	1.792	Over 3 months	1.5	0.9	1.8
Norwegian Krone bought	NOKm	£m		Norwegian Krone bought	NOKm	£m	
Over 3 months	-	-	N/A	Over 3 months	4.1	0.4	10.5
Danish Krone bought	DKKm	£m		Danish Krone bought	DKKm	£m	
0-3 months	5.2	0.6	8.3870	0-3 months	1.4	0.2	8.1395
Over 3 months	1.5	0.2	8.4070	Over 3 months	10.3	1.2	8.4241
	6.7	0.8	8.3914		11.7	1.4	8.3892
Danish Krone sold	£m	DKKm		Danish Krone sold	£m	DKKm	
Over 3 months	-	-	N/A	Over 3 months	0.2	1.6	8.1933

At 31 March 2010, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these future transactions was £0.4m (2009: unrealised gains of £0.3m). The majority of 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.

In addition to the above, NERL has entered into average rate forward agreements with a contract date after 31 March 2010 to sell Euro anticipated to be received in July and August 2010 totalling €91.2m, in respect of UK en route revenues. These contracts are also designated as cash flow hedges. They are not included in the table above.

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Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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 Services and NATS, the intermediate holding company, had no borrowings at 31 March 2010 (2009: £nil).

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. The group held no interest rate swaps at 31 March 2010 (2009: nil).

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Economic interest rate exposure
The group's cash and short-term deposits were as follows:

2010

	Cash			Short-term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	139.9	0.5	3	15.5	0.8	183	155.4
Euro	4.2	0.1	4	-	-	-	4.2
US Dollar	0.5	-	1	-	-	-	0.5
Canadian Dollar	0.6	-	1	-	-	-	0.6
Norwegian Krone	-	-	-	-	-	-	-
Danish Krone	0.4	0.3	6	-	-	-	0.4
	145.6			15.5			161.1

2009

	Cash			Short-term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	155.8	0.4	2	25.6	1.3	139	181.4
Euro	6.2	0.2	2	-	-	-	6.2
US Dollar	0.2	-	1	-	-	-	0.2
Canadian Dollar	0.2	-	1	-	-	-	0.2
Norwegian Krone	0.6	1.7	7	-	-	-	0.6
Danish Krone	0.5	-	1	-	-	-	0.5
	163.5			25.6			189.1

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.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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 2010						
Sterling:						
5.25% guaranteed secured bonds	597.6	-	-	597.6	5.27	10.0
Bank loans	89.3	89.3	-	-	1.13	0.5
Other loans	-	-	-	-	-	-
Total	686.9	89.3	-	597.6		
At 31 March 2009						
Sterling:						
5.25% guaranteed secured bonds	597.4	-	-	597.4	5.27	11.0
Bank loans	77.5	77.5	-	-	2.15	0.5
Other loans	1.2	-	-	1.2	-	-
Total	676.1	77.5	-	598.6		

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 2010						
Sterling:						
5.25% guaranteed secured bonds	397.6	-	-	397.6	5.28	10.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.64	0.5
Bank loans	89.3	89.3	-	-	1.13	0.5
Other loans	-	-	-	-	-	-
Total	686.9	89.3	200.0	397.6		
At 31 March 2009						
Sterling:						
5.25% guaranteed secured bonds	397.4	-	-	397.4	5.28	11.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.51	0.5
Bank loans	77.5	77.5	-	-	2.15	0.5
Other loans	1.2	-	-	1.2	-	-
Total	676.1	77.5	200.0	398.6		

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

Notes forming part of the consolidated accounts

18. 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-term investments, as distinct from the definition used for financial covenants purposes.

	2010 £m		2009 £m	
Net debt	519.7		480.3	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.5	75.3	391.9	81.6
Index-linked	200.0	38.5	200.0	41.6
Floating (net of cash and short-term investments)	(71.8)	(13.8)	(111.6)	(23.2)
	519.7	100.0	480.3	100.0

At 31 March 2010, NERL had net debt, including an inter-company loan of £23.0m, of £624.2m (2009: net debt £611.9m), NATS Limited held cash balances of £4.8m (2009: cash £51.0m), NATS Services had cash of £75.5m (2009: cash £54.1m) and NATSNav had cash of £1.1m (2009: cash £0.6m).

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.

	2010 £m		2009 £m	
Net debt	624.2		611.9	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.5	62.7	391.9	64.0
Index-linked	200.0	32.0	200.0	32.7
Floating (net of cash and short-term investments)	32.7	5.3	20.0	3.3
	624.2	100.0	611.9	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. This is an economic hedge whereby exposure to floating rate debt is offset by interest on cash balances.

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.

	2010 Impact £m	2009 Impact £m
Cash on deposit (2010: £161.1m, 2009: £189.1m)	1.6	1.9
Borrowings (2010: £89.3m, 2009: £77.5m)	(0.9)	(0.8)
	0.7	1.1

The group's sensitivity to interest rates has decreased during the year reflecting lower cash balances and higher borrowings.

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Notes forming part of the consolidated accounts

18. 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. Commencing on 31 March 2017, semi-annual payments will be made relating to the inflation uplift on the amortisation of the notional principal.

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to breakeven inflation arising from the index-linked 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%.

	2010 Impact £m	2009 Impact £m
Change in swap interest and mark to market value	(31.8)	(34.5)

The mark to market value of the index-linked swap is also sensitive to the discount rates that are 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. The effect of a 1% increase in the discount rate would be to increase profit and equity by £11.2m (2009: £12.3m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its 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 15. 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, Moody's Investors Service and Fitch Ratings.

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, Moody's and Fitch rating agencies. Where there is a difference in the rating then the lowest of the 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. During 2008 the group tightened its investment criteria and currently only places deposits that have a maturity in excess of seven days with banks rated AA- or better.

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):

Rating (Standard & Poor's)	Number of institutions	2010 £m	By credit rating %	Limit utilised %	Number of institutions	2009 £m	By credit rating %	Limit utilised %
AA	1	20.0	12.4	66.7	1	30.0	15.9	100.0
AA-	2	16.1	10.0	40.3	2	37.4	19.8	93.5
A+	8	85.1	52.8	70.9	6	76.8	40.6	85.3
A	3	18.4	11.4	61.4	5	44.9	23.7	89.8
A-	3	21.5	13.4	95.5	-	-	-	-
		161.1	100.0			189.1	100.0	

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Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity risk management, the risk that the group will have insufficient funds to meet its obligations as they fall due, 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. NATS Services and NATS Limited 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 £15.5m 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 c.£216.2m available until November 2010, c.£205.2m available until November 2011 and c.£170.95m until November 2012. To ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its CP3 business plan, the company anticipates that it will replace these facilities with a new five year facility during the financial year ending 31 March 2012;

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.£170.95m in November 2012.

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

	2010 £m	2009 £m
Average monthly UK en route services income	41.6	42.6
Free cash	42.8	45.2
Ratio of free cash to UK en route services income	1.0	1.1

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

	2010 £m	2009 £m
Bank borrowings	89.3	77.5
Gross borrowings	686.9	676.1
Bank borrowings as a percentage of gross borrowings	13.0%	11.5%

It is not company policy to issue new guarantees in respect of the borrowings of subsidiaries or to allow the creation of any new mortgages or other charges over group assets.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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 based 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.

	2010				2009			
	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	-	35.2	39.4	74.6	1.2	34.4	76.8	112.4
Between one and two years	-	49.7	-	49.7	-	34.7	-	34.7
Due between two and five years	-	268.1	-	268.1	-	242.2	-	242.2
Due in more than five years	-	669.3	-	669.3	-	727.4	-	727.4
	-	1,022.3	39.4	1,061.7	1.2	1,038.7	76.8	1,116.7
Effect of interest, discount and unamortised bond issue costs	-	(341.5)	-	(341.5)	-	(370.5)	-	(370.5)
	-	680.8	39.4	720.2	1.2	668.2	76.8	746.2

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.

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Notes forming part of the consolidated accounts

18. Financial instruments (continued)

The following table sets out the maturity profile of the group's derivative financial liabilities. Cash flows under the index-linked swap are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the index-linked 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	Due between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2010					
Net settled:					
Index-linked swap receivable/(payable)	3.3	3.2	8.1	(112.1)	(97.5)
Gross settled:					
Foreign exchange forward contract receivables	122.6	4.8	-	-	127.4
Foreign exchange forward contract payables	(123.0)	(4.7)	-	-	(127.7)
	2.9	3.3	8.1	(112.1)	(97.8)
2009					
Net settled:					
Index-linked swap receivable/(payable)	3.5	3.5	9.1	(109.1)	(93.0)
Gross settled:					
Foreign exchange forward contract receivables	69.5	-	-	-	69.5
Foreign exchange forward contract payables	(79.8)	-	-	-	(79.8)
	(6.8)	3.5	9.1	(109.1)	(103.3)

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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

	Carrying amount		Fair value	
	2010 £m	2009 £m	2010 £m	2009 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	58.3	65.0	58.3	65.0
Cash and short-term investments	161.1	189.1	161.1	189.1
Derivative financial instruments				
Forward foreign exchange contracts	0.8	0.3	0.8	0.3
	220.2	254.4	220.2	254.4
Financial liabilities				
Trade and other payables (including dividends)	(39.4)	(76.8)	(39.4)	(76.8)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.6)	(597.4)	(608.6)	(543.9)
Bank loans and overdraft	(89.3)	(77.5)	(89.3)	(77.5)
Other loans	-	(1.2)	-	(1.2)
Derivative financial instruments				
Forward foreign exchange contracts	(1.0)	(1.8)	(1.0)	(1.8)
Index-linked swap	(87.0)	(80.7)	(87.0)	(80.7)
	(814.3)	(835.4)	(825.3)	(781.9)

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Notes forming part of the consolidated accounts

19. 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:

	2010 £m	2009 £m
Current		
Trade payables	16.7	13.1
Other payables	12.8	11.1
Dividends payable	-	43.5
Tax and social security	9.9	9.1
Accruals and deferred income		
- deferred grants	1.7	2.1
- other	104.8	119.8
	145.9	198.7
Non-current		
Accruals and deferred income		
- deferred grants	8.6	10.2
- other	4.8	6.6
	13.4	16.8
	159.3	215.5

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2009: 36 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Notes forming part of the consolidated accounts

20. 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 2008	92.2	115.8	(11.8)	(2.2)	194.0
Charge/(credit) to income	20.9	2.9	(0.4)	(1.1)	22.3
Charge/(credit) to equity	-	(138.1)	0.2	-	(137.9)
At 31 March 2009	113.1	(19.4)	(12.0)	(3.3)	78.4
At 1 April 2009	113.1	(19.4)	(12.0)	(3.3)	78.4
Charge/(credit) to income	20.3	(3.2)	(1.5)	(0.2)	15.4
Charge to equity	-	44.9	0.1	-	45.0
At 31 March 2010	133.4	22.3	(13.4)	(3.5)	138.8

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 2010 £m	Year ended 31 March 2009 £m
Deferred tax liabilities	(155.7)	(113.1)
Deferred tax assets	16.9	34.7
	(138.8)	(78.4)

21. Share capital

	Authorised Number of shares	Authorised £m	Called up, allotted and fully paid Number of shares	Called up, allotted and fully paid £m
Ordinary shares of £1 each				
At 31 March 2010 and 31 March 2009	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2010 and 31 March 2009	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 2010 and 31 March 2009.

Special share

The authorised and issued share capital of NATS Holdings Limited includes 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.

Notes forming part of the consolidated accounts

22. Share premium account

	£m
Balance as at 31 March 2010 and 31 March 2009	0.4

23. Notes to the cash flow statement

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Operating profit from continuing operations	114.9	176.8
Adjustments for:		
Depreciation of property, plant and equipment	76.5	71.0
Amortisation of intangible assets	10.0	8.3
Impairment losses	3.0	2.7
Deferred grants released	(2.0)	(2.1)
Loss/(gain) on disposal of property, plant and equipment	0.3	(43.2)
Non-cash element of charge for pension costs	11.1	(10.3)
Share of profits in associate	(0.1)	-
Operating cash flows before movements in working capital	213.7	203.2
Increase in trade and other receivables	(16.3)	(27.4)
(Decrease)/increase in trade and other payables	(12.0)	34.1
Cash generated from operations	185.4	209.9
Tax paid	(7.9)	(18.7)
Net cash from operating activities	177.5	191.2

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.

Notes forming part of the consolidated accounts

24. Financial commitments

	2010 £m	2009 £m
Amounts contracted but not provided for in the accounts	96.8	92.9
Minimum lease payments under operating leases recognised in the income statement	21.8	19.9

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:

	2010 £m	2009 £m
Within one year	1.1	1.5
In the second to fifth years inclusive	32.1	13.4
After five years	49.6	76.0
	82.8	90.9

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.

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its contract with the MoD. NATSNAV has given a shareholders guarantee of £3m in respect of its shareholding in ESSP SAS.

Technical breach of loan agreement

NERL's finance documents require that NERL complies with the terms of its air traffic services licence. In March 2009, NERL failed to comply with Condition 5.8 of its air traffic services Licence in not providing the Civil Aviation Authority (CAA) a certificate prior to declaring and subsequently paying a dividend to its parent company, NATS Limited. Following issuance in May 2010 of a notice under section 22 (11) of the Transport Act 2000 confirming that the CAA intended to take no action as a result of the Licence breach, NERL's lenders agreed to waive any breach of loan documents associated with this action.

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Notes forming part of the consolidated accounts

25. 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, dividend shares, partnership shares and matching shares to be awarded to employees. The free shares and matching 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 the 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 at 31 March 2010	No. employee shares outstanding at 31 March 2009
21 September 2001	3,353,742	625,772	743,598
20 October 2003	2,459,000	595,288	691,402
10 September 2004	1,966,000	1,018,600	1,531,600
11 January 2008	1,071,840	905,960	988,900
18 September 2009	963,200	912,000	-
		4,057,620	3,955,500
Dividend shares issued on 28 June 2005		74,473	88,431
Total employee shares in issue at 31 March		4,132,093	4,043,931

The movement in the number of employee shares outstanding is as follows:

	Movement in the no. of shares during the year ended 31 March 2010	Movement in the no. of shares during the year ended 31 March 2009
Balance at 1 April	4,043,931	6,730,924
Granted during the year	963,200	-
Forfeited during the year	(15,420)	(21,200)
Exercised during the year	(859,618)	(2,665,793)
Balance at 31 March	4,132,093	4,043,931

An award of 200 free shares was made to each eligible employee in September 2009.

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2010 the price of an employee share was valued at £2.30 (2009: £2.50). A valuation at 30 June 2009 valued the shares at £2.10. The liability on the balance sheet for the employee shares at 31 March 2010 was £7.3m (2009: £8.6m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £1.9m (2009: £7.1m).

Notes forming part of the consolidated accounts

26. Retirement benefit scheme

NATS Ltd, the company's wholly-owned subsidiary, 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 became 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 was divided into two sections to accommodate this and a series of common investment funds established in which both sections will participate for investment purposes.

The Civil Aviation 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 NATS Limited (formerly 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.

During 2009 the group introduced a number of reforms to manage the cost and risk of pensions. The defined benefit pension scheme was closed to new joiners with effect from 31 March 2009. In addition, from 1 January 2009, annual increases in pensionable pay were limited to a maximum increase in the retail price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners. NATS has agreed to match employee contributions to this scheme at a ratio of 2:1, up to a total employer cost of 18%. Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

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

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

The two valuations differ in a number of critical respects, including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2009, 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 2009 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 3.0% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and the annual investment returns for pensions in payment will be 0.75% higher than the annual increases in pensions.

The market value of the NATS' section's assets as at 31 December 2009 was £2,793.9m. For the purpose of the Trustees' funding assessment assets were taken at market value. The assets were sufficient to cover 89% of the benefits that had accrued to existing members.

Contributions to the pension scheme

During the year the group paid cash contributions to the scheme of £103.0m (2009: £67.6m). This amount included £15.8m (2009: nil) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 27.5% (2009: 22.0%) of pensionable pay. The group is increasing these cash contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost. In response to the triennial valuation, NATS has also agreed a deficit recovery plan with Trustees and from January 2011 it will make further contributions of £2.0m per month (for calendar year 2011), increasing these by 3.5% each January thereafter.

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Notes forming part of the consolidated accounts

26. Retirement benefit scheme (continued)

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.

A Trustees' funding assessment was carried out as at 31 December 2009 and updated to 31 March 2010 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2010	2009	2008
Inflation	3.65%	3.40%	3.60%
Increase in:			
- salaries	4.15%	3.90%	4.80%
- deferred pensions	3.65%	3.40%	3.60%
- pensions in payment	3.65%	3.40%	3.60%
Expected return on:			
- equities	7.55%	7.05%	7.60%
- property	7.55%	7.05%	7.60%
- bonds	4.90%	4.40%	4.95%
Discount rate for scheme liabilities	5.65%	6.40%	6.20%

The group moderated the salary growth assumption in the first half of the 2009 financial year in line with a general lowering of expectations and its business plan assumptions.

The mortality assumptions have been drawn from actuarial tables 82% S1NMA and 101% S1NFA medium cohort with a 1% underpin (2009: PMA92, PFA92 medium cohort). These tables assume that the life expectancy, from age 60, for a male pensioner is 27.6 years and a female pensioner is 28.7 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 29.3 years and for females to 30.2 years.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 11.1%/increase by 13.0%
Rate of inflation	Increase/decrease by 0.5%	Increase by 13.2%/decrease by 11.3%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.4%/decrease by 4.2%
Rate of mortality	Increase by 1 year	Increase by 1.9%

Notes forming part of the consolidated accounts

26. Retirement benefit scheme (continued)

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

	2010 £m	2009 £m
Current service cost	(96.8)	(98.2)
Past service cost	(9.3)	(5.8)
Expected return on scheme assets	137.0	198.8
Interest cost on scheme liabilities	(145.0)	(152.1)
Total defined benefit charge recognised in arriving at operating profit	(114.1)	(57.3)

Amounts taken to the statement of comprehensive income are as follows:

	2010 £m	2009 £m
Actual return less expected return on scheme assets	578.0	(868.0)
Experience gains and losses arising on scheme liabilities	211.3	43.4
Changes in assumptions underlying the present value of the scheme liabilities	(628.9)	331.4
	160.4	(493.2)

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:

	2010 £m	2009 £m
Fair value of scheme assets	2,923.3	2,188.9
Present value of defined benefit obligations	(2,843.4)	(2,258.3)
Surplus/(deficit) in scheme	79.9	(69.4)

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

	2010 £m	2009 £m
At 1 April	2,188.9	2,846.2
Expected return on scheme assets	137.0	198.8
Actuarial gains and losses	578.0	(868.0)
Contributions from scheme members	0.3	16.0
Contributions from sponsoring companies	103.0	67.6
Benefits paid	(83.9)	(71.7)
At 31 March	2,923.3	2,188.9

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

	2010 £m	2009 £m
At 1 April	(2,258.3)	(2,432.7)
Current service cost	(96.8)	(98.2)
Past service costs	(9.3)	(5.8)
Interest cost	(145.0)	(152.1)
Actuarial gains and losses	(417.6)	374.8
Contributions from scheme members	(0.3)	(16.0)
Benefits paid	83.9	71.7
At 31 March	(2,843.4)	(2,258.3)

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Notes forming part of the consolidated accounts

26. Retirement benefit scheme (continued)

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	
	2010	2009	2010	2009
	£m	£m	%	%
Equity Instruments	1,535.2	1,151.9	7.55	7.05
Property and other assets	379.5	357.3	7.55	7.05
Bonds	967.4	645.5	4.90	4.40
Cash	41.2	34.2	4.90	4.40
	2,923.3	2,188.9	6.64	6.23

The five year history of experience adjustments is as follows:

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	(2,843.4)	(2,258.3)	(2,432.7)	(2,594.5)	(2,461.6)
Fair value of scheme assets	2,923.3	2,188.9	2,846.2	2,833.1	2,668.6
Surplus/(deficit) in the scheme	79.9	(69.4)	413.5	238.6	207.0
Experience adjustments in scheme liabilities					
Amount (£m)	211.3	43.4	100.6	30.7	27.8
Percentage of scheme liabilities	(7.4%)	(1.9%)	(4.1%)	(1.2%)	(1.1%)
Experience adjustments in scheme assets					
Amount (£m)	578.0	(868.0)	(175.6)	(5.2)	428.1
Percentage of scheme assets	19.8%	(39.7%)	(6.2%)	(0.2%)	16.0%

Notes forming part of the consolidated accounts

27. Related party transactions

Since 26 July 2001, the NATS group has had four shareholders – the Crown, The Airline Group (AG), BAA Limited and the NATS Employee Sharetrust Limited. 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), and BAA Limited and AG.

AG is a consortium of seven airlines: British Airways, bmi, easyJet, Monarch, Thomas Cook Airlines, Thomson Airways 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.

Contractual arrangements exist between BAA Limited and NATS Services in relation to air navigation services provided at Aberdeen, Edinburgh, Gatwick (up until its sale to Global Infrastructure Partners on 4 December 2009), Glasgow, Heathrow, Southampton and Stansted airports.

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 2010	Year ended 31 March 2009	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2010	Year ended 31 March 2009
	£m	£m	£m	£m	£m	£m	£m	£m
BAA Ltd	104.5	151.7	10.9	7.0	15.9	12.9	3.4	1.4
Ministry of Defence (MoD)	49.4	51.6	4.2	3.6	0.4	0.4	5.3	4.5
The Airline Group	-	-	0.2	0.2	-	-	-	-
Department for Transport (DfT)	0.6	1.4	-	-	0.1	0.1	-	-
Meteorological Office	0.3	0.1	0.6	0.7	-	-	-	0.1

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. A provision of £0.3m (2009: nil) has been made for doubtful debts in respect of amounts owed by related parties.

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Notes forming part of the consolidated accounts

27. 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 Directors' Remuneration Report.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Short-term employee benefits	5.7	5.1
Post-employment benefits	0.6	0.6
	6.3	5.7

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 2009/10 at a cost of £105,555 (2009: £129,673). This work was at the request of Ian Mills, Managing Director, NERL and Philip James, HR Director who have utilised her skills and understanding in specific leadership tools and techniques being introduced across the company. There was £7,000 outstanding at 31 March 2010 (2009: £nil).

Notes forming part of the consolidated accounts

28. Subsidiaries and associates

The group's principal subsidiaries at 31 March 2010, all of which have been consolidated in these accounts were:

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

The group had one associate as at 31 March 2010, details are as follows :

Name of Company	Principal activity	Date of Acquisition	Proportion of ordinary shares held	Country of Incorporation
ESSP SAS	Satellite navigation services	1 September 2008	16.67%	France

Summarised financial information relating to the associate	At 31 December 2009 £m	At 31 December 2008 £m
Total assets	11.8	0.9
Total liabilities	(10.3)	-
Net assets	1.5	0.9
Group share of net assets of the associate	0.2	0.1
Revenues	27.1	-
Profit/(loss)	0.7	-
Group share of profit/(loss) of the associate	0.1	-

On 1 September 2008, the group acquired 16.67% of the issued share capital of ESSP SAS for cash consideration of €0.2m (£0.1m).

Although the group holds less that 20 per cent of the ordinary shares of ESSP, NATS management has concluded that significant influence can be demonstrated as a result of:

a. representation on the board of directors;
b. participation in policy making processes; and
c. provision of essential technical information.

As the reporting date of ESSP SAS is 31 December 2009 the results have not been restated as the reporting date is within three months of the reporting date of the group.

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Notes forming part of the consolidated accounts

29. Events after the reporting period

Airspace use restrictions were imposed by the UK and European aviation authorities in response to the risks to aircraft safety from a volcanic ash cloud that drifted across UK and European airspace following the eruption of an Icelandic volcano. This resulted in severely reduced air traffic volumes for a period of 6 days from 15 April 2010 and intermittent disruption through May 2010. The financial effects of this were a cash shortfall from lower billings to customers of c. £12m and a reduction in revenues for the financial year ending 31 March 2011 of c. £5m, reflecting volume protections provided to NERL in the economic regulatory formula. No adjustment has been made to the result for the year ended 31 March 2010 or the financial position at that date.

NATS and others have received correspondence from Ryanair in relation to the volcanic ash contamination of UK airspace in April and May 2010. This correspondence may lead to a legal claim for damages for economic losses allegedly incurred as a result of flight restrictions. At this time it is not possible to quantify the amount of any such claim. The Directors believe, based on advice from NATS' solicitors and Leading Counsel, that a claim for damages arising from Ryanair's correspondence would be unlikely to succeed.

In May 2010, the Board declared an interim dividend for 2011 of 13.98 pence per share (totalling £20m) which was paid to shareholders in June 2010.

Company accounts

Company balance sheet
at 31 March 2010

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Current assets			
Trade and other receivables		-	43.5
Total assets		141.0	184.5
Current liabilities			
Dividends payable		-	(43.5)
Net current assets		-	-
Total liabilities		-	(43.5)
Net assets		141.0	141.0
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings		-	-
Total equity		141.0	141.0

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 1 July 2010 and signed on its behalf by

John Devaney
Chairman

Nigel Fotherby
Finance Director

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Company accounts

Company statement of changes in equity
at 31 March 2010

	Share capital £m	Retained earnings £m	Total £m
At 1 April 2008	141.0	-	141.0
Profit for the year	-	43.5	43.5
Other comprehensive income/(expense) for the year	-	-	-
Total comprehensive income for the year	-	43.5	43.5
Dividends payable	-	(43.5)	(43.5)
At 31 March 2009	141.0	-	141.0
At 1 April 2009	141.0	-	141.0
Profit for the year	-	-	-
Other comprehensive income/(expense) for the year	-	-	-
Total comprehensive income/(expense) for the year	-	-	-
At 31 March 2010	141.0	-	141.0

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 2006. 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 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year.

Profit for the year has been arrived at after charging:

	2010 £m	2009 £m
Staff costs	-	-
Auditors' remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2009: £nil).

Dividends	2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year of nil pence per ordinary share (2009: 30.41 pence)	-	43.5

In May 2010, the Board declared an interim dividend for 2011 of 13.98 pence per share (totalling £20m) which was paid to shareholders in June 2010.

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2010 and 1 April 2009	141.0

The company's investments in subsidiary undertakings are part of the group's principal subsidiaries as set out in note 28 to the consolidated financial statements.

Pursuant to a loan agreement entered into by NATS (En Route) plc, the company has granted a legal mortgage and fixed charge over its shares in NATS Limited, NERL's parent company, and a floating charge over all other assets.

5. Share capital and share premium accounts
The movements on these items are disclosed in the consolidated statement of changes in equity in the consolidated financial statements.

6. Financial instruments
The company held no financial instruments at 31 March 2010 (2009: nil).