

NATS Holdings Limited

Annual Report and Accounts 2009

NATS

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Directors, officers & advisers

Directors* of NATS Holdings Limited

Other companies within the group for which they are also directors



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



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



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



Lawrence Hoskins
NATS Limited,
NATS (Services) Limited,
NATSNav 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

Registered office
5th Floor, Brettenham House South,
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Company No. 4138218

Auditors
Deloitte LLP

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

Chairman's statement

I am pleased to report that in spite of some challenging market conditions we have had another successful year and delivered a strong set of results.



I am pleased to report that in spite of some challenging market conditions we have had another successful year and delivered a strong set of results. The group maintained its safety record, provided customers with good operational service and it continued to deliver its critical investment projects. I would like to thank all our people for their hard work which I know will continue in the year ahead.

The group reported a pre-tax profit of £135.5m for the year against a backdrop of lower traffic volumes and considerable restructuring costs. The result included a one-off profit of £43.5m realised from the sale of the former control tower at Heathrow. The Board agreed to distribute this as a dividend to its shareholders. Taken together with dividends of previous years, this provides a moderate return to our shareholders in the period since PPP when the priority has been on reducing the overall debt of the group.

I am pleased that the group is continuing to make good progress in pursuing its important strategic objectives. The two-centre strategy, which will give NATS control centres at Swanwick in Hampshire, and Prestwick in Ayrshire, will be a reality by spring 2010. With the Prestwick Centre on target and on budget, this is a group which has come a very long way in terms of project management capability and is now on a par with some of the most respected companies in infrastructure projects.



Chairman's statement



Chairman's statement

Two centres will produce economies of scale as well as operational efficiency and capacity. The executive continues to pursue its goals of delivering on other major projects and the development of new tools and next generation systems. In time, these will also deliver significant benefits for our customers.

The renegotiation of critical airport service contracts at Manchester, London City, Cardiff and Gibraltar were also all completed during the year.

We live in an era of difficult and volatile market conditions, and unprecedented pressure on costs. In order to manage the future costs and risks of final salary pension benefits provided to existing employees, we have had to take the difficult decision to close the scheme to new entrants while at the same time introducing a money purchase scheme for new employees. I am pleased that significant risks to the group's stability have been mitigated in part and that the decision was supported by trades unions and validated by the majority of staff voting.

We have also started to implement a cost reduction programme, under which a significant number of people have left the business. I commend the management team and the trades unions for their constructive approach in dealing with these challenges.

The SESAR (Single European Sky ATM Research) project to redraw the airways and transform air traffic management across Europe continues to gain momentum. In spite of economic conditions, traffic is still forecast to double by

2020 and, with it, the need to ensure it is handled safely and efficiently.

NATS' inclusion as one of the group of air navigation service providers in the SESAR Joint Undertaking is measurable progress of the group's part in an ambitious project. The business will benefit from its technological developments and its expertise being more closely aligned with this vision for the future.

SESAR has also set an environmental target of reducing emissions by ten per cent by 2020, and NATS has ensured its own environmental stance aligns with this goal. Last year, I expressed my support for the group's position on the environment plan, which has now been approved by the Board and launched.

NATS continues to demonstrate its willingness to lead and to set the pace for a sustainable future for air traffic management. My Board colleagues from the airlines have been active in this field for some years and welcome this engagement from NATS.

Board changes included the retirement of Derek Stevens. We thank Derek for his commitment to NATS since joining in 2002. Peter Read replaced Derek as Chairman of the Airline Group. Neil Mills joined the Board for a short period until he left easyJet. He has now been replaced by Andy Lord, British Airways' Operations Director. I look forward to working with Andy and have every confidence that the Board will benefit from his 20 years with British Airways. My thanks go to the entire Board for their continued work.

Chairman's statement



Chairman's statement

This will be Paul Barron's final year as Chief Executive. He has performed an outstanding job over the past five years...

The coming year promises many challenges, not least the CAA's review of NATS (En Route) plc's (NERL) charges for Control Period Three (2011-2015). NATS (Services) Limited (NSL) continues to hone its competitiveness in the commercial marketplace and to build relationships both here and internationally. The way in which it responds to changing airport ownership in the UK marketplace will also be critical to its long-term success.

This will be Paul Barron's final year as Chief Executive. He has performed an outstanding job over the past five years and he deserves full recognition for his achievements. The Board is now seeking his successor.

I remain confident that, despite the changing fortunes of the global aviation economy, NATS will continue to be a leader in global air traffic control.

John Devaney
Chairman

Chief Executive's review

Traffic levels are now comparable to those last seen in 2004 with the rapid fall-off happening in the second half of the year.



Overview of the business

Visitors to my office sometimes ask what the crystal ball in the middle of my meeting table is for. I tell them that it's a constant reminder to me of our limited powers to look into the future.

But even if the crystal ball did have magical, predictive powers, I'm not sure I'd have believed what I may have glimpsed about the turmoil in the global economy over the past year.

Few forecast the strength of the economic storm, which still hangs over us now, and which threatens to be more severe and more long-lasting in its effects than the events of 9/11 on the aviation industry.

Traffic levels are now comparable to those last seen in 2004 with the rapid fall-off happening in the second half of the year. Overall, there was a 4.4 per cent fall in traffic year on year. This compares with an average increase of three per cent a year over the last six years of growth.

	2009 ('000s)	2008 ('000s)	% change in year
Chargeable Service Units	10,601	10,850	(2.3%)
Chargeable Distance (km)	771,270	799,071	(3.5%)
Total UK traffic (flights):			
Domestic	470	495	(5.0%)
Transatlantic	336	343	(2.0%)
Other	1,566	1,642	(4.6%)
Total	2,372	2,480	(4.4%)
Oceanic traffic (flights):			
Total flights	416	422	(1.4%)

That the group has maintained safety standards, continued to reduce air traffic delay and posted pre-tax profits of £135.5m is an achievement of which the entire organisation can be rightly proud. I would like to thank all of our employees for working so hard to achieve these outcomes.

As I write, there is no authoritative call on when the recession will end, no sign of a recovery in traffic that saw its first year-on-year monthly reverse in July 2008 and no firm indication of when anything like normal market conditions will return.

On the other hand, there are challenges we knew were approaching. One of the most fundamental is our pricing framework for NATS (En Route) plc (NERL), which accounts for 80 per cent of our business, and is a monopoly service regulated by the Civil Aviation Authority.



Chief Executive's review



Chief Executive's review

The framework has been set, since NATS became a Public Private Partnership in 2001, for five-year periods. In this most challenging of years, the CAA has begun the process to establish the pricing framework for Control Period Three (CP3) from 2011 to 2015.

We are pleased that the CAA is taking a customer-centred approach to this review. During 2009, NERL will consult its customers on key strategic issues for CP3 including service quality, fuel and environmental efficiency, long-term investment and costs enabling us to reflect these priorities in our plans.

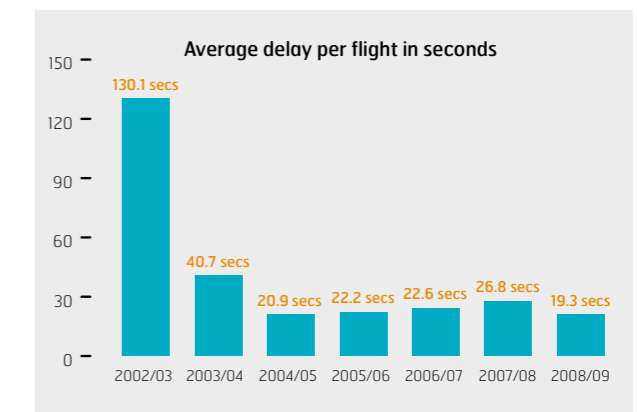
The current economic recession places NATS and its customers under pressure to reduce costs. In NERL, we are committing to cut £45m (15%) from our previously planned operating cost base. This will enable us to keep prices as low as possible in CP3 bearing in mind reduced traffic and rising pension costs. NATS (Services) Limited (NSL), is seeking to reduce its cost base by £10m to tackle the challenges in the market place. In addition, it is also engaged in dialogue with existing customers to optimise contract performance without prejudicing safety or service. Similarly, with new customers, NSL is seeking to demonstrate the value-for-money propositions it can offer, as well as reviewing innovative proposals for services in airport applications.

The future cost and risk of the group's final salary pension scheme were also other pressures on the business which had to be managed – and have now been largely addressed. It was critical to address the risk posed by the escalating costs of the scheme, which were becoming unsustainable.

Together with our trade union colleagues, we spoke to everyone in NATS in a number of sessions as part of a formal consultation late last year. This was a challenging discussion on a subject our people feel very strongly about. However, they also recognised that change was vital and voted in favour of introducing a defined contribution scheme for new employees from 1 April 2009.

I am grateful for a constructive and mature debate, ensuring the right outcome for the pension scheme and the future of the group.

During 2009 we have reduced air traffic-related delay from 26.8 seconds per flight in 2008 to 19.3 seconds. Although some of this reduction is due to the traffic downturn, 98.2 per cent of the flights we handled experienced no NATS attributable delay.



Chief Executive's review



Significant efforts are being made to address early morning delays during peak periods, such as redesigning airspace over the London airports and the south coast last March. We have agreed stretching targets jointly with our airline customers through the Operational Partnership Agreement, which have been integrated into monthly and weekly targets at our control centres.

It is nearly two years since NATS completed the reorganisation of its economically regulated and non-regulated businesses. NERL and NSL each have their own robust management and distinct business focus.

NSL operates in the unregulated market place and has re-structured its organisation around a number of product lines based on air traffic control services, engineering, consultancy, training and aviation data. In these areas it continues to look for the right partnerships and joint ventures to enable it to grow and to access new markets in the UK and overseas. In spite of the challenging environment, I am confident NSL will continue to go from strength to strength.

This sentiment was supported by the Airport Operators' Association, which awarded NSL its annual best service provider award for "demonstrating excellence in service delivery" and "responsiveness to changing needs and requirements".

Chief Executive's review

As explained later, NSL had another profitable year. Whilst its core air traffic control operation at 15 airports in the UK plus Gibraltar was the main contributor, other related product services also performed well as the business continues its drive to balance its portfolio and maximise its potential.

I am delighted that this year NSL signed a contract with Manchester Airport for the next six years; renegotiated the contract for two years on new terms at London City, and secured a further three-year contract at Gibraltar. Building from that core business NSL is developing products in air traffic and engineering services, aviation data services, consulting and training. As a result of its expertise it has won work in Hong Kong, South Africa, Romania and Norway as well as closer to home in the Isle of Man, Jersey and Newcastle. Our relationship with the Ministry of Defence (MoD) was further strengthened during the year when we were awarded a five-year contract to provide military users with aeronautical messaging services and the contract to redesign flight procedures at 54 MoD aerodromes.

NERL and NSL share six brand values which inform and underpin what NATS is and what we stand for in every area of our business. My comments on the group's overall progress are grouped under each of these values.



Prestwick to mark the successful delivery of two-centre strategy

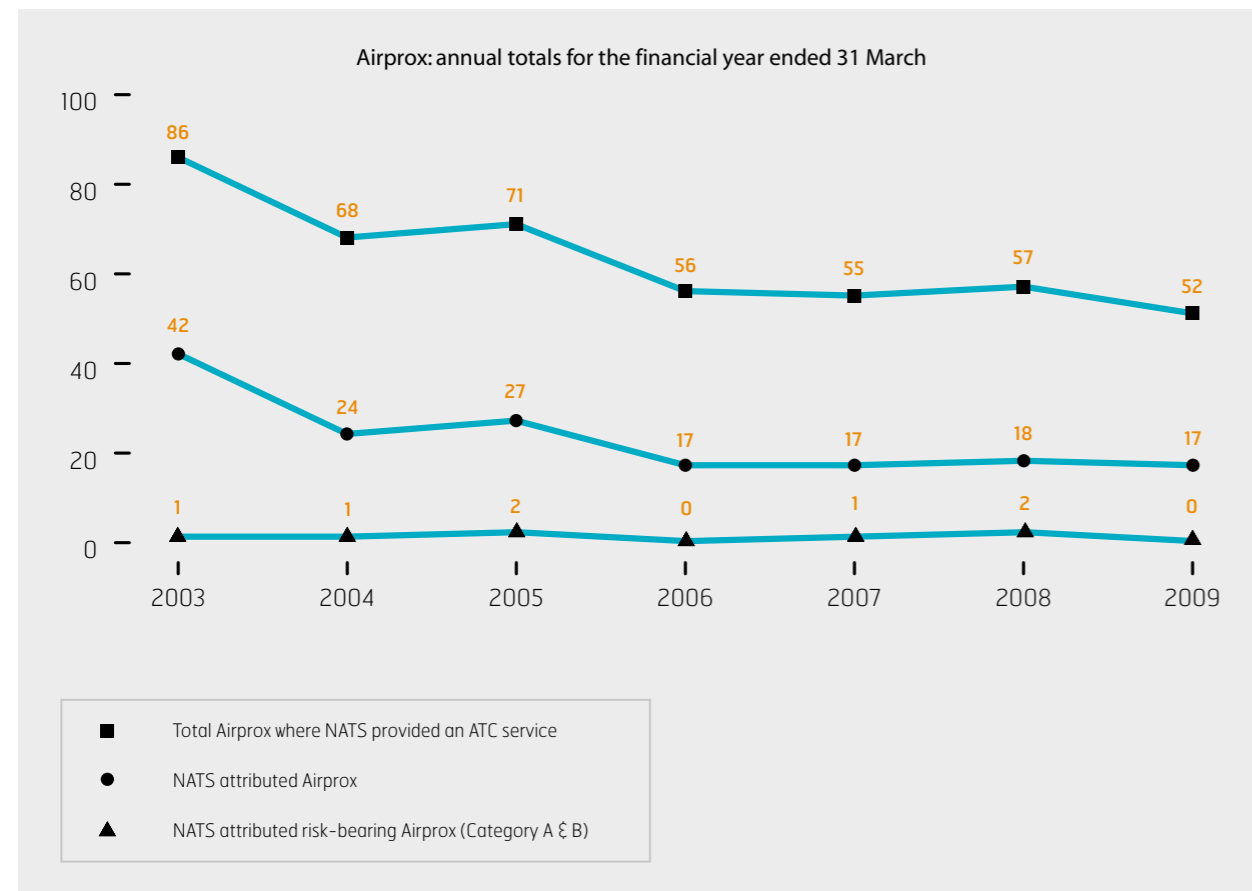
NERL is on course to complete next year, on time and on budget, its strategy to reduce the number of UK air traffic control centres from four to two.

Progress on the Prestwick Centre in Ayrshire, has stepped up over the past year as it moves towards operational status. This year, fifty staff took part in simulations to assess the centre's systems. 170 staff will move from Manchester to the new centre. Together with Swanwick in Hampshire, it will be the base for en route and terminal manoeuvre area operations across the UK.

Chief Executive's review

We have continued to forge closer links with the general aviation community as part of a broader approach to ensure the skies remain safe.

Proactive in Safety



Note: Safety statistics for 2009 include NATS assessment of the outcome of the UK Airprox Board reviews

Chief Executive's review

We continue to maintain safety standards and to enhance those standards wherever possible. We remain committed to the principle of anticipating and preventing safety incidents before they can happen, and avoiding risk bearing airproxes. To this end we have developed a new safety risk index and our strategic plan for safety places emphasis on reducing this risk index particularly in the London terminal control operation.

The Lower Airspace Radar Service (LARS) managed by our controllers at Farnborough Airport to advise private flyers of the boundaries of controlled airspace in the London Terminal Manoeuvring Area has been extended from Heathrow and Gatwick to Luton and Stansted. We estimate that this service, for which NATS absorbs the £0.5 million cost, has prevented more than 450 infringements of controlled airspace in the last 18 months.

We have also introduced the Controlled Airspace Infringement Tool (CAIT) which alerts controllers to infringers that have transponders. By doing this we have seen a significant reduction in the severity of events when infringers are transponding.

At Heathrow Airport, the implementation of the Advanced Surface Movement Guidance and Control System following the opening of Terminal 5, and the first civil microwave landing system (MLS) in the world have provided safety benefits to our airport customer as well as improving efficiency in low visibility conditions.

We have continued to forge closer links with the general aviation community as part of a broader approach to ensure the skies remain safe. From our work on the Aeronautical Information Service to support the flow of safety-related information to private flyers, to the production of a safety DVD for helicopters using the routes over London, we continue to exceed the requirements of our licence.

Our safety focus extends to sharing our observations and successes with our worldwide partners through ICAO (International Civil Aviation Organisation) and CANSO (Civil Air Navigation Services Organisation) to promote advances and to influence international safety policy. There is no question that such an exchange of ideas and strategy is in everyone's interest.

Chief Executive's review

Tuned in to Customers and Driving Efficiency

Our relationship with our customers defines us, our service and how we work. Our focus is to improve the consistency of the service quality we deliver, to implement our programmes in a way which minimises the impact on customers, and to continue driving efficiency to keep prices as low as possible.

Turning first to service quality, we are consulting customers on new targets for CP3 aimed at ensuring that NATS' attributable delay does not exceed an average of 25 seconds per flight. We are also upgrading our operational contingency arrangements to make them even more robust.

With the CP3 review now under way for NERL, there has never been a better opportunity to understand what our customers' requirements are and for them to influence key aspects of our future plans to help us provide them with the best possible service in a cost effective way. Our drive to cut 15% from our cost base is essential to keeping prices as low as possible for the life of that control period. NSL is also responding to its changing market conditions and its customers' expectations by seeking to reduce its cost base by £10m from savings across its business areas.

Our two-centre strategy will be completed next year when the new Prestwick centre opens. The operational synergies and economies of scale will contribute greatly to our overall efficiency.

Many people have been working very hard for several years to ensure this transfer is as trouble-free as the

Terminal Control transfer in 2007 from West Drayton to Swanwick – which went so smoothly, few outside the group knew it had happened! As the Manchester Area Operations Room will be co-located with the Scottish Area at Prestwick, it is vital they are synchronised well ahead of time. The move north by our Manchester Area team means great change for our staff and their families. We are doing all that we can to ease this transition.

Already, the two operations' rosters are aligned and system and project milestones continue to be met. The move is on course to be on budget and on time and we plan to move the Oceanic team to their new home later this year – two years ahead of schedule. Further evidence, I might add, of the confidence we now have in our project capability.

2008 saw the opening of Terminal 5 at Heathrow, whilst the world's media focused on the difficulties faced by passengers, the planning and training by NSL and BAA resulted in a smooth transition of air traffic services. The tactical difficulties faced by BAA in the first stages of transition gave NSL the opportunity to demonstrate its capabilities by working flexibly with the airport customers to mitigate the impact of the problems and to completely reschedule the airline Terminal switch programme.

NERL's project capability rating, using an internal equivalent to the internationally recognised CMM standard (on a scale of 0 to 5) now places NATS at level 4, an increase from last year's 3.7. Given that the company was at 1.4 five years ago this progress suggests that the highest mark of 5 now looks increasingly achievable. One project which has been some

Chief Executive's review

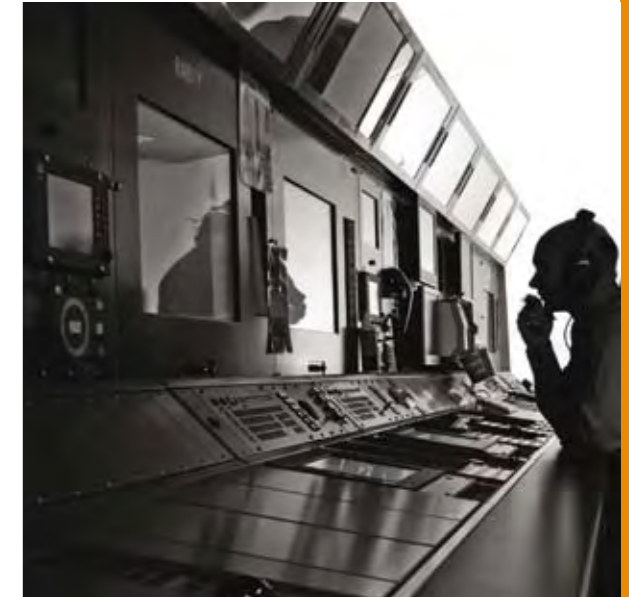
seven years in development is iFACTS – or interim Future Area Control Tools Support.

This enormously complex project is at the leading edge of pioneering engineering expertise and software innovation. Introducing automatic trajectory prediction, it will enhance safety whilst reducing controllers' workload per aircraft – enabling us to increase capacity.

The system has been "shadowing" the live operation in Swanwick's Area Control since March, helping the core project team assess how the system operates in the live environment. It is proving immensely successful and is planned to enter into limited operational service later this year. One of its unique features is a "what if" calculation that looks ahead 20 minutes to warn against any losses of safe separation between aircraft.

In the airports and associated services sector, NSL continues to work hard at providing competitive services that really add value for customers. Contracts to fit out airport control towers on the Isle of Man and Jersey were complemented by work won to redesign MoD flight procedures at 54 airfields and a memorandum of co-operation with Slovakia. The company continues to develop new opportunities with customers at home and abroad.

NSL engineers were also instrumental in installing the new microwave landing system at Heathrow, which will ensure more aircraft can be safely handled during periods when the airfield is blanketed with fog – increasing the efficiency of this key hub airport.



NATS takes next step in air traffic software

After seven years of development, iFACTS has reached an important landmark in its development and is now "shadowing" the live operation. This innovation is the next generation in air traffic control technology, offering valuable improvements to safety and capacity. It incorporates a "what if" function, which enables controllers to predict any potential loss of separation between aircraft 20 minutes into the future. From winter 2010/2011, a permanent iFACTS operational service will be in place across all sectors at Swanwick Area Control.

Chief Executive's review

Great Partners to Work With

We have worked hard to bring NATS closer to the heart of European air traffic strategy and to help create an environment in our industry where sharing experience and best practice is the norm.

NATS is a member of a group of air traffic management companies in the SESAR Joint Undertaking. Along with those of France, Germany, Italy, Spain, Ireland, Austria, Estonia and Scandinavia we are helping to identify the systems solutions that will help achieve the Single European Sky (SES).

We are also the first to set up one of the building blocks of the SES. Our development of the Anglo-Irish FAB (Functional Airspace Block), which I announced a year ago, continues and one of our first tangible successes was the implementation of revised airspace over the Irish Sea to streamline arrival and departure flows through our joint airspace.

The FAB has been in existence for nine months and we now have a strategic plan for our first full year of operations as

we strengthen the ties which are benefiting our customers with more direct routeings, fewer track miles and lower emissions.

New partnerships in commercial ventures are taking shape in NSL, a prime example is the team formed with Thales and VT Group to bid for the contract for Joint Military Air Traffic Services – air traffic control services at the UK's military airfields in Britain and abroad.

In partnership with its airport customers, NSL is seeking to find ways to increase the efficiency and cost effectiveness of individual operations. This was demonstrated when NSL was awarded the contract for Master Planning at London City Airport.

Our membership of ICAO's Committee on Aviation and Environmental Protection and our leadership of CANSO's environmental work are also helping us forge more meaningful links with our fellow air traffic control providers as the industry seeks to understand the best way to ensure sustainable growth. We also continue to work in the UK as part of the Sustainable Aviation coalition which brings together manufacturers, airports, airlines and ourselves to find long-term solutions to the environment challenge.

Chief Executive's review



NATS and Irish set up first FAB

The Anglo-Irish Functional Airspace Block (FAB) is the culmination of four years' work by NATS and the IAA to develop their adjoining airspace into one seamless operation. The FAB's airspace is the natural gateway between America and Europe and handles high levels of traffic; managing it jointly will bring operational efficiencies for routeings and flight profiles, which in turn will also deliver environmental benefit.

The FAB does not include any change to sovereign airspace arrangements, nor does it alter any of the existing safety, regulatory or executive accountabilities in either country.

Chief Executive's review

We are part of a global industry and our focus on the environment is in line with the efforts our customer airlines have been making for some years.

Acting Responsibly

I said last year that the environment would be a priority for NATS, however difficult that challenge may be. Since then, we have become the first air navigation service provider (ANSP) in the world to benchmark our environmental performance, and to set a target to reduce air traffic-related CO₂ by an average of 10% per flight by 2020.

We are proud to be taking the lead in the air traffic management (ATM) sector by setting a course for more sustainable operations. Our pioneering benchmarking work showed that circa 26m tonnes of CO₂ were emitted across the UK's network in our baseline year of 2006.

Over the past year, we have trimmed 70,000 tonnes through tactical airspace management changes. Our long-term strategy will identify more fundamental improvements to procedures and airspace design and we will report on progress towards reducing the average fuel burn and emissions per flight by 10% by 2020.

We are part of a global industry and our focus on the environment is in line with the efforts our customer airlines have been making for some years. By examining the role ATM can play, together we can achieve a greater contribution to reducing carbon emissions.

We've shared our environment plan with our ANSP partners through CANSO and ICAO, launching it at ATC Global in Amsterdam – the world's largest gathering of the ATM industry. Reducing environmental impact by 10% is one of the key targets for the SESAR project by 2020 and our work is a further demonstration of the effort NATS is making to align our targets with the wider goals of the programme to deliver wider customer benefits across European airspace.

We have also pledged that our estate will be carbon-neutral by 2011. From setting up a salary-sacrifice scheme for commuter bicycles to installing solar power panels to service the gatehouse at Swanwick, incremental steps are being taken that will help us down this path.

Chief Executive's review



Chief Executive's review

Chief Executive's review



Liberating and Inspiring People

Difficult times require imaginative solutions and the testing times we and our customers currently face call for renewed commitment from our people, whose efforts already make NATS what it is. Continuing to improve the leadership capability of our managers is also key to this. This year our managers have been involving people in creating and achieving local targets which are consistent with our brand values.

Inspiring our people has never been more important – and knowing how our people feel is central to that. The response to our annual Talkback employee survey is up from a very good 78% last year to 80% this year: evidence that a healthy dialogue is still taking place and people are contributing.

Working together is important in maintaining good industrial relations. We have a constructive relationship with our union colleagues and this has enabled us to tackle a number of challenging issues together over the past year, such as pensions and voluntary redundancy.

We have also encouraged employees to look beyond the workplace and take their acknowledged teamwork and project management capability into the community. More than 250 people across NATS have become involved in dozens of community projects: ranging from beach-clearance and allotment-digging to coaching children to achieve success in GCSE examinations. It's our way of giving something back to the communities where we live and work.

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 NSL. The activities of other subsidiaries are set out in note 29 to the accounts.

The group recorded a profit before tax for the year of £135.5m (2008: £66.7m). This result, and that of the last financial year, included some exceptional items. Exclude these items and the underlying result was a profit of £143.9m (2008: £105.5m). The impact of the exceptional items on the group's results is explained in more detail in the Financial Review on page 32.

NERL reported a profit before tax of £66.8m (2008: £62.5m), including exceptional charges of £51.2m (2008: £35.9m). Its external revenues improved by £6.9m to £611.1m (2008: £604.2m), with better revenues from UK en route services and from services to the MoD.

NSL reported a profit before tax of £68.4m (2008: £11.5m), including exceptional income of £43.5m and charges of £0.7m (2008: £2.9m). External revenues improved by £17.7m to £155.5m (2008: £137.8m) from better airport, engineering and other product line contracts and safety regulatory charges recovered from customers.

World-first plan to cut CO₂ by 10%

A year ago, we set a bold target to cut ATM CO₂ emissions by an average of 10% per flight by 2020 against a 2006 baseline. In developing our strategy to achieve that target, we established that UK flights generate circa 26 million tonnes of CO₂. We have also been able to pinpoint that environmental improvements can be made by more optimal flight profiles, more continuous descent and climb profiles and, where possible, offering pilots the ability to cruise at a plane's optimal level. Overall, we believe we can achieve 3.25% emissions savings during **climb**; 1.5% in the **cruise**; 4.75% during **descent** and 0.5% at **airports**. Together these add up to our overall 10% target.

Find out more about our ATM CO₂ plan at www.nats.co.uk/environment.

Chief Executive's review

UK air traffic services

	2009 £m	2008 £m
Turnover	587.6	580.4
Operating costs	(352.8)	(361.8)
Depreciation, amortisation, impairment and deferred grants	(74.8)	(77.1)
Exceptional items	(50.2)	(20.0)
Operating profit	109.8	121.5
Chargeable Distance (millions km)	771.3	799.1
Chargeable Service Units (000)	10,601	10,850

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	2009 £m	2008 £m
UK en route services	527.0	522.2
London approach services	8.4	8.7
Support services to MoD	44.9	43.2
North Sea helicopters	7.3	6.3
Total	587.6	580.4

Income from UK en route services, which are provided to traffic operating in those parts of UK airspace which constitute controlled airspace, increased by £4.8m in the year to £527.0m (2008: £522.2m). The increase in income reflected higher charges derived from higher RPI in August 2008 built into the annual adjustment to charges under the RPI minus "X" economic regulatory formula. This increase offset the unexpectedly severe reduction in the volume of air traffic handled (down 3.5% to 771.3m kilometres flown). The volume risk sharing mechanism afforded some protection against the traffic downturns, enabling NERL to recover 50% of the shortfall below a regulatory baseline. This mechanism also provides for further protection against even more severe traffic downturns. NERL also recognised a service performance bonus in the year reflecting an improvement in the level of attributable delay per flight.

London Approach services, which are provided to aircraft arriving at or departing from Heathrow, Gatwick and Stansted airports, generated £8.4m (2008: £8.7m). Revenues from these services are combined with those from UK en route services and capped by the charge control conditions. The specific charge for London Approach is levied based on aircraft landed tonnage. Rates per tonne remained unchanged in the year at 20 pence up to 100 tonnes and at 8 pence per tonne above this. Landed tonnage decreased by 3.2% to 53.9m tonnes (2008: 55.7m tonnes).

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 £44.9m (2008: £43.2m) with the increase arising from a combination of higher rates and additional services provided.

Chief Executive's review

Charges for services to North Sea helicopter operators are levied on the basis of a charge per round trip flight. Revenues increased by £1.0m to £7.3m (2008: £6.3m) reflecting both an increase in the rate charged and volume handled to 40,728 (2008: 38,495).

Operating costs for the UK air traffic services, excluding exceptional items, decreased by 2.5% to £352.8m (2008: £361.8m). This was mainly due to lower staff-related costs, including lower charges for holiday pay, employee share scheme costs, overtime and allowances. Non-staff costs were, overall, in line with the previous year. The benefit of lower facility costs, following the closure of West Drayton in 2008, was offset by provisions for a contract termination and bad debts following the failures of Zoom, XL Airways and Futura. The regulatory mechanism limits NERL's losses from bad debts to £1.5m per annum.

Asset-related charges for depreciation net of deferred grants decreased by £3.7m to £72.1m (2008: £75.8m). Lower net depreciation charges reflected a review of the replacement plans for certain assets and that certain Swanwick systems, first implemented in 2001, are now fully depreciated. Charges for asset impairment were £2.7m (2008: £1.3m).

Exceptional charges of £50.2m (2008: £20.0m) related to staff redundancy costs, the costs of relocating staff to Prestwick given the closure of the Manchester control centre in 2010 and the transfer of staff to Swanwick following the closure of West Drayton in 2008.

UK air traffic services generated an operating profit of £109.8m (2008: £121.5m), £11.7m lower than prior year, reflecting higher exceptional charges which offset the benefit of better revenues and lower operating costs.



Chief Executive's review

North Atlantic air traffic services

	2009 £m	2008 £m
Turnover	23.5	23.8
Operating costs	(18.5)	(17.5)
Depreciation, amortisation, impairment and deferred grants	(2.8)	(2.5)
Exceptional items	(1.0)	-
Operating profit	1.2	3.8
Total flights (000)	416	422
Chargeable flights (000)	414	420

North Atlantic air traffic services are en route services provided by NERL in the Shanwick Oceanic Control Area (part of the North Atlantic where the UK provides navigation services by international agreement and where communications are provided by the Republic of Ireland). The charges for these services are levied on a per flight basis and are subject to regulatory charge control conditions that allow for the annual adjustment of prices by the movement in the RPI less a specified percentage. Revenues at £23.5m (2008: £23.8m) were £0.3m lower than the prior year. Flight volumes decreased by 1.6% to 413,600 (2008: 420,267) and more than offset the modest increase in rate per flight from £55.68 to £55.73.

Operating costs at £18.5m were £1.0m higher than the previous year (2008: £17.5m) due mainly to higher non-staff costs. Asset-related charges for depreciation, amortisation and impairment net of deferred grants also increased by £0.3m to £2.8m (2008: £2.5m). Exceptional costs of £1.0m related to redundancy costs.

Overall, North Atlantic air traffic services generated an operating profit of £1.2m, £2.6m lower than the previous year (2008: £3.8m) principally due to higher non-staff costs, depreciation charges and exceptional items.

Airport air traffic services

	2009 £m	2008 £m
Turnover	138.7	125.4
Operating costs	(117.0)	(109.8)
Depreciation and amortisation	(2.1)	(2.0)
Exceptional items	42.8	(3.0)
Operating profit	62.4	10.6

NSL provides air traffic control services at 15 of the UK's major airports and to Gibraltar. NSL also provides engineering services to airport operators in the UK and abroad. Revenues from these services improved by £13.3m to £138.7m (2008: £125.4m). This mainly reflected improved revenues from airport contracts arising from re-negotiation or indexation uplifts, charges of £2.7m levied by the CAA for airport safety regulation which NSL was required to pass on to airport customers (2008: nil) and a full year's charge to customers for the recovery of costs for the new Heathrow control tower.

Operating costs increased by £7.2m to £117.0m (2008: £109.8m), including the regulatory and property re-charges explained above. Asset-related charges for depreciation and amortisation were £0.1m higher at £2.1m (2008: £2.0m).

Net exceptional gains arose from the property sale of £43.5m, net of redundancy costs of £0.7m (2008: £3.0m).

Operating profit at £62.4m (2008: £10.6m) was £51.8m better than the prior year reflecting revenue growth and the profit on disposal of property.

Other revenues

In addition, NSL provides other engineering, consultancy, training and airport data management services to customers in the UK and overseas. Revenues from these services at £17.5m (2008: £12.9m) were £4.6m higher than prior year, mainly due to revenue from engineering contracts including a new messaging service to the MoD.

Chief Executive's review



Volunteers sign up for community causes

More than 250 NATS employees participated in a number of projects to help people in the neighbourhoods where they live and work. From coaching teenagers in socially deprived areas to maths GCSE success, to respite home redecoration and beach clean-ups, people from across NATS have become more involved in their communities.

The business has also set up a social responsibility fund enabling employees to apply for funding to support their projects and a give-as-you-earn scheme to enable employees to make donations to charity in a tax-efficient way.



Chief Executive's review



Chief Executive's review

Whatever the prevailing conditions, NATS will always be built on safety, capacity and the environment.

Outlook

The best long-term view of the future is that demand for aviation will increase. In a global economy, that has to be the case.

Looking back over a career spanning nearly 30 years in management, my view is that whilst ensuring we ride out this current recession, we must be prepared for the upturn when it arrives. Whatever the prevailing conditions, NATS will always be built on safety, capacity and the environment.

The CP3 review will undoubtedly be a challenging process and the demands facing the airline industry mean the pressure on us to reduce costs will be intense and the expectation on us to continue the process of finding savings will remain.

NSL will face an increasingly challenging year with its customers under severe market place pressures. To continue to build a sustainable business it will need to deliver on its core air traffic services contracts whilst pursuing innovative offerings to new and existing customers.

This time next year I will have stepped down after six years as Chief Executive of this incredible group of companies. The next year holds many challenges and milestones, foremost of which is the completion and entry into service of the Prestwick Centre, the culmination of our long-term, two-centre strategy.

Whilst there is always much still to do, I am proud of what we have achieved over the last five years and confident that NATS will continue to deliver exceptional performance well beyond my tenure. I don't need a crystal ball to make such a prediction.

Paul Barron
Chief Executive

Financial review

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. For 2009, the result included: a gain of £43.5m realised on the sale of the former Heathrow control tower building; staff redundancy costs of £25.9m (2008: £17.5m) incurred in response to the downturn in traffic volumes; £26.0m (2008: £5.5m) for the costs of relocating staff from the Manchester control centre to Prestwick and from West Drayton to Swanwick; and a deferred tax charge of £14.2m following the withdrawal of industrial buildings allowances. The result for 2008 also included a redemption charge of £15.8m following repayment of high interest shareholder loans.

The underlying result, before these exceptional items, was a profit before tax of £143.9m (2008: £105.5m) attributable to revenue growth from rate increases, a reduction in operating costs and the benefit of action taken last year to repay shareholder loans. Profit after tax was £95.2m (2008: £49.2m).

Exceptional items	2009 £m	2008 £m
Redundancy and related costs	(25.9)	(17.5)
Relocation costs	(26.0)	(5.5)
	(51.9)	(23.0)
Profit on disposal of non-current assets	43.5	-
Redemption payment	-	(15.8)
Net exceptional items before tax	(8.4)	(38.8)
Tax effect of the items above	14.5	10.9
Tax effect of the withdrawal of IBAs	(14.2)	-
	(8.1)	(27.9)

	2009 £m	2008 £m
Turnover	767.3	742.5
Operating profit		
- Operating profit before exceptional items	185.2	157.4
- Exceptional operating costs (net)	(8.4)	(23.0)
	176.8	134.4
Profit before taxation		
- Profit before tax and exceptional items	143.9	105.5
- Exceptional items (net)	(8.4)	(38.8)
	135.5	66.7
Profit after tax		
- Profit after tax before exceptional items	103.3	77.1
- Exceptional items (net)	(8.1)	(27.9)
	95.2	49.2

Response to the economic downturn

The operating environment is significantly more challenging than it was this time last year arising from lower traffic volumes, the deflationary effect of the recession and increasing pension costs.

Forecasts suggest that traffic volumes may be up to 15% lower over the next two years than expected a year ago with the effect of the downturn now expected to be longer lasting and deeper than the industry experienced after 9/11. In addition, deflation poses a particular challenge for the group as its revenues are generally uplifted by RPI but the cost base is less flexible and mainly staff related. Also, in spite of the steps that the group has taken to reform its pension arrangements, the cost of the legacy defined benefit pension scheme continues to increase. The pressures on the industry also mean that NERL can expect a rigorous review of its charges for the next 5 year control period (2011 to 2015).

Against this background the group has taken a number of actions to protect its financial position and protect against further demand risk. These actions include targeting a reduction in the operating cost base, as explained by the Chief Executive, and continuing to focus on managing liquidity and debt levels.

Revenues

Traffic volumes fell significantly during the second half of the year as airlines adjusted their flight schedules in response to the global economic slowdown.

	First half 2009 ('000s)	Second half 2009 ('000s)	Full year 2009 ('000s)	Change over 2008	
				First half %	Second half %
Chargeable Service Units	5,955	4,646	10,601	2.9%	-8.2%
Chargeable Kilometres flown	434,229	337,041	771,270	1.6%	-9.3%
Total UK traffic (flights):					
Domestic	254	216	470	-0.6%	-9.7%
North Atlantic	187	149	336	2.6%	-7.3%
Other	885	681	1,566	-0.5%	-9.4%
Total	1,326	1,046	2,372	-0.1%	-9.2%
Oceanic flights	232	184	416	2.8%	-6.7%

Financial review

In spite of this downturn, group turnover increased by £24.8m (3.3%) to £767.3m (2008: £742.5m) and mainly reflected improved UK en route, airport contract and engineering revenues. Revenues are explained in detail in the Chief Executive's overview of financial performance above.

Turnover	2009 £m	2008 £m
UK air traffic services:		
UK en route services	527.0	522.2
Support services to MoD	44.9	43.2
London approach services	8.4	8.7
North Sea helicopters	7.3	6.3
	587.6	580.4
North Atlantic air traffic services	23.5	23.8
Airport air traffic services	138.7	125.4
Miscellaneous services	17.5	12.9
Total	767.3	742.5

Operating costs

Before exceptional items and asset-related charges, operating costs decreased by £1.3m to £502.2m (2008: £503.5m).

	2009 £m	2008 £m
Before exceptional items:		
Employee costs	(349.3)	(356.6)
Service and materials	(72.4)	(75.9)
Repairs and maintenance	(30.8)	(28.0)
External research and development	(0.3)	(0.6)
Other operating charges (net)	(49.4)	(42.4)
	(502.2)	(503.5)
Depreciation and amortisation	(79.3)	(83.5)
Asset impairment charges	(2.7)	(1.3)
Deferred grants	2.1	3.2
Operating costs	(582.1)	(585.1)

Employee-related costs of £349.3m (2008: £356.6m), which account for 60% (2008: 61%) of the group's total operating costs, were 2.0% lower than the previous year. This reflected lower manpower levels, lower charges for staff benefits such as holidays and employee shares and the benefit of buying back London weighting allowances in the prior year. These reductions offset the effect of pay awards, bonuses and higher pension costs, which alone were £57.3m (2008: £54.8m).

The group employed an average of 5,084 (2008: 5,158) staff through the year. Employees in post at 31 March 2009 fell by 63 (1.2%) to 5,061 (2008: 5,124).

Non-staff costs at £152.9m (2008: £146.9m) increased by £6.0m or 4.1%. Nearly half of this increase was for charges levied by the CAA for safety at airports which NSL passed on to its airport customers. The group also incurred charges for bad debts, limited under NERL's charge control conditions to £1.5m, incurred following a number of airline failures in the year. Otherwise the group was able to benefit from lower facilities costs following the closure of West Drayton in 2008 and to contain other cost pressures.

Depreciation and amortisation charges of £79.3m (2008: £83.5m) were £4.2m lower than the previous year as some Swanwick assets are now fully depreciated and following a review of asset lives and replacement plans (see note 14 to the financial statements).

Net finance costs

Net finance costs, before exceptional items, at £41.3m (2008: £51.9m) were £10.6m lower than last year. This mainly reflected lower charges of £11.5m (2008: £19.0m) from marking to market the index-linked swap. The value of the latter is dependent on market expectations of inflation and yields on long-dated gilts.

Net interest payable at £29.8m (2008: £32.9m) was £3.1m lower than last year. Last year the group repaid expensive fixed interest shareholder loans and funded this with cash and by drawing on bank facilities, enabling the group to finance its operations at lower interest cost.

Financial review

Taxation

The tax charge, before exceptional items, of £40.6m (2008: £28.4m) represents an effective rate of 28.2% (2008: 26.9%).

Exceptional tax charges included a one-off charge of £14.2m to reflect the withdrawal of industrial buildings allowances in the 2008 Finance Act. The capital gain on sale of the former Heathrow control tower is not expected to result in a tax charge.

After exceptional items, the tax charge represents an effective rate of 29.7% (2008: 26.3%). Other factors affecting the tax charge for the year are set out in note 10 to the accounts.

Dividends

Since PPP in 2001, shareholders have received only very modest returns through dividends. In part this reflected a restriction contained within NERL's financing arrangements preventing payment of dividends before 1 October 2008 and also the priority to reduce debt and to service shareholder loans, which were repaid last year.

The financial position of the group and the one-off gain on sale of the former Heathrow control tower building enabled the group to distribute the profit on this sale to shareholders. The Board declared an interim dividend in March 2009 of 30.41 pence per share (totalling £43.5 million) which was paid to shareholders in April 2009. The financial statements report this as a reduction in shareholders' equity.

Balance sheet

The group balance sheet can be summarised as follows:

	2009 £m	2008 £m
Goodwill	351.0	351.0
Tangible and intangible fixed assets	787.2	716.5
Other non-current assets	6.3	6.2
Cash and short-term deposits	189.1	130.6
Other net current liabilities	(54.1)	(4.8)
Derivatives	(82.2)	(74.1)
Pension scheme (deficit)/surplus	(69.4)	413.5
Borrowings	(669.4)	(668.7)
Provisions and other non-current liabilities	(95.2)	(204.2)
Net assets	363.3	666.0

Shareholders' funds decreased by £302.7m from £666.0m last year. The reduction is mainly a function of the movement on the pension scheme, net of deferred tax, which was in surplus last year and is now in deficit. In addition, the dividend payable represents a reduction in equity. These movements were partly offset by the retained profit for the year.

Cash balances of £189.1m (2008: £130.6m) included the proceeds of the property sale. Other net current liabilities included provisions for staff redundancy and relocation. The fair value liability of derivative financial instruments increased in the year due mainly to the RPI swap.

Provisions and other non-current liabilities of £95.2m (2008: £204.2m) include deferred tax provisions which, at £78.4m, were £115.6m lower than prior year mainly due to the movement on the pension scheme and withdrawal of industrial buildings allowances.

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

Financial review

Capital expenditure

The group invested £152.9m in the year, £15.6m more than the previous year, in the following areas:

	2009 £m	2008 £m
Airspace development	3.4	3.9
Business systems	4.6	6.7
Future centres programme	47.2	22.3
Communications, navigation and surveillance	8.4	19.1
Radar site services	13.8	16.5
Current software systems	35.3	26.8
Prestwick/Manchester programme	31.7	23.6
Swanwick/West Drayton programme	0.4	9.8
Airports	7.3	4.8
Other	0.8	3.8
Total	152.9	137.3

The group continued to increase investment in its future centres systems which include: advanced controller tools such as Arrival Manager which provides reduced airborne holding and the more efficient management of arrivals into airports; Electronic Flight Data which replaces paper flight data strips by electronic “smart strips”; and the interim Future Area Traffic Control Tools Support project which is based on trajectory prediction and conflict detection. The group also incurred further significant expenditure in completing the final stages of the new Prestwick centre systems and on the development of a new flight data processing system – interoperability Through European Collaboration (iTEC) – which will be compatible with European systems. The group spent less on Communications, Navigation and Surveillance following the completion of its Data and Voice Integrated NATS Communications Infrastructure (DaVINCI) project last year and on the successful transition of the West Drayton air traffic control operations to Swanwick.

Pensions

At 31 March 2009, measured under international accounting standards, the pension scheme was in deficit with liabilities exceeding assets by £69.4m. This compared with a surplus of £413.5m at 31 March 2008. The reduction in the scheme’s valuation was mainly due to the performance of the scheme’s investments which were £657m lower, mainly in response to the downturn in global stock markets. This effect was partly mitigated by a reduction in pension obligations by £174m due to an increase in the prescribed discount rate from 6.2% to 6.4% and a change to more moderate salary growth expectations.

During the year the group paid cash contributions to the scheme of £67.6m (2008: £37.7m) at a rate of just under 22.0% (2008: 12.2%) of pensionable pay. The group is increasing its cash contributions from May 2009 to an effective rate of 25.0% of pensionable pay for the 2009 calendar year and projects a rate of 30% for 2010. This is in anticipation of the 31 December 2009 triennial valuation and any agreement on a deficit recovery plan that may arise in the event that the scheme is in deficit at that date.

Treasury management

The gross borrowings of the group at £669.4m were broadly in line with the previous year (2008: £668.7m). Cash and investments increased by £58.5m to £189.1m (2008: £130.6m), mainly attributable to the proceeds from the property disposal. Overall, net debt reduced to £480.3m (2008: £538.1m). As noted above, a dividend of £43.5m was paid to shareholders in April 2009.

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2008	130.6	(668.7)	(538.1)
Cash flow	50.1	0.3	50.4
Short-term deposits	8.4	-	8.4
Non-cash movements	-	(1.0)	(1.0)
Balance at 31 March 2009	189.1	(669.4)	(480.3)

Financial review

Cash flow

Overall, the group’s cash balances rose by £50.1m in the year to £163.5m (2008: £113.4m).

Net cash from operating activities at £191.2m was £47.9m lower than 2008 (2008: £239.1m), reflecting higher cash contributions to the pension scheme and the effect of the lower traffic levels on cash receipts. Although the amount spent on capital expenditure and transfers to short-term deposits increased, these factors were more than offset by the proceeds of the property sale. As a result, outflows from investing activities at £105.9m (2008: £129.4m) were £23.5m lower.

Cash flows	2009 £m	2008 £m
Cash generated from operations	209.9	254.8
Taxation	(18.7)	(15.7)
Net cash from operating activities	191.2	239.1
Interest received	6.6	10.5
Capital expenditure	(147.6)	(141.2)
Proceeds from the sale of property, plant and equipment	43.6	0.1
Change in long-term investments	(0.1)	-
Change in short-term investments	(8.4)	1.2
Net cash outflow from investing activities	(105.9)	(129.4)
Interest paid	(34.9)	(50.3)
Shareholder loans repaid	-	(167.3)
Shareholder loan redemption payment	-	(15.8)
Bank drawings and other loans	(0.3)	78.9
Dividends paid	-	(2.4)
Net cash outflow from financing costs	(35.2)	(156.9)
Increase/(decrease) in cash and cash equivalents	50.1	(47.2)

Last year the group financed the repayment of its shareholder loan notes with surplus cash and by drawing on its bank facilities. As a result of this, and market reductions in interest rates, the cost of debt service in 2009 was significantly less than last year. Overall, cash outflows from financing activities were £35.2m (2008: £156.9m).

Risks and uncertainties

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

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

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

- currency risk: the group’s objective is to reduce the effect of exchange rate volatility on short-term profits. Transactional currency exposures that could significantly impact the Income Statement are hedged, typically using forward sales of foreign currencies. The group’s most significant currency exposure arises because UK en route charges, which contribute 69% (2008: 70%) 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 £61.0m (net) were outstanding (2008: £72.3m) as detailed in note 18.

Financial review

- interest rate and inflation risk: the group's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. At the time of the PPP in 2001, in view of NERL's high gearing and the fact that cash holdings were forecast to be minimal, the company adopted a policy of hedging projected gross borrowings. As a result of NERL's improved financial performance, cash holdings had increased significantly and in September 2006, NERL moved to a strategy of hedging net debt in order to reduce its exposure to interest rate risk on its cash holdings.

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

As at 31 March 2009 (after derivatives), approximately 96.7% (2008: 98.8%) of NERL's net debt was either at fixed rates or at rates indexed to inflation.

- counterparty risk: as at 31 March 2009 the group had cash and deposits (shown as short-term investments) totalling £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 £138.7m, as at 31 March 2009 the group had cash and short-term deposits totalling £189.1m. Included in cash of £163.5m is a liquidity reserve account balance of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short-term deposit of £25.6m includes a debt service reserve account of £15.6m to fund interest and fees scheduled for payment in the 6 months ending 30 September 2009. The group's policy is to hold free cash within NERL equivalent to between one and two months' of UK en route services revenue (of between £43m and £85m) and to use surplus cash to reduce borrowings.
- funding risk: the policy of the group is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long-term funding to finance its long-term assets. Hence, the group's borrowings include a £600m amortising bond issued by NERL with a final maturity

Financial review

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 substantial levels of cash holdings. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its existing facilities. 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 2009.



Nigel Fotherby
Finance Director

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. For the financial year under review the 2006 Combined Code was applicable.

NATS has applied the principles of the 2006 Combined Code throughout the period under review, to the extent considered appropriate by the Board in light of the strategic 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: The Chairman is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Combined Code. He is, however, regarded as the most independent member of the Board in terms of the Combined Code criteria.

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

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

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

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

Combined Code B.1.3 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.

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

The Board

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

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

Executive Directors

- Chief Executive Officer, NATS and NERL;
- Chief Executive Officer, NSL;
- Chief Operating Officer, NERL;
- Finance Director, NATS and NERL; and
- Director, Development and Investment, NERL.

Corporate governance

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. 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. Such meetings are held whenever considered necessary by the non-executive directors, the most recent being on 26 March 2009.

Shareholders' meetings are held twice a year, linked to the planning and reporting cycles, and provide the principal shareholders with an opportunity to participate

in the development of the company's long-term strategy. Shareholders may also meet informally with the Chairman, Chief Executives, Finance Director or other members of the executive management teams upon request.

The Board met 8 times during the year with each member attending as follows:

Name	Number of meetings attended
John Devaney	8/8
Paul Barron	7/8
Nigel Fotherby	8/8
Ian Hall	8/8
Lawrence Hoskins	7/8
Ian Mills	7/8
Derek Stevens	5/5
Barry Humphreys	8/8
Peter Read	8/8
Baroness Dean	7/8
Andrew White	8/8
Nigel Turner	6/8
Sigurd Reinton	8/8
Giovanni Bisignani	5/8
Roger Cato	8/8
Neil Mills	1/2
Andy Lord	0/0

Derek Stevens resigned from the Board on 30 September 2008. Neil Mills was appointed to the Board on 27 November 2008 and resigned on 19 March 2009. Andy Lord was appointed to the Board on 26 March 2009.

Corporate governance

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 NERL and NSL executive teams and issues with political, regulatory or public relations implications.

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

Partnership and Airline Group directors

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

BAA directors:

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

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

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

	Audit	Remuneration	Safety Review	Technical Review
No. of meetings	3	8	4	4
John Devaney	3/3			
Derek Stevens	0/1	3/3		
Barry Humphreys		7/8		
Peter Read			3/4	4/4
Baroness Dean		8/8		
Andrew White			4/4	3/4
Sigurd Reinton	3/3			
Roger Cato			4/4	4/4
Neil Mills	0/1	2/3		

Corporate governance

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

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

A performance evaluation of the Board, its committees and the Chairman was conducted during the year. This Board Effectiveness Review was managed by the Company Secretary and based around responses to a structured set of questions to reflect the views of all Board members and key executives who are not on the Board. The results of the 2008/09 Review were assessed at the March Board meeting.

NERL Executive

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

NSL Executive

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

accountabilities he is supported by the members of the NSL Executive.

Audit Committee

The Audit Committee meets three times a year. It is chaired by the non-executive Chairman John Devaney, as he is considered the most independent member of the Board under the Combined Code criteria. As at the year end, following the resignation of Neil Mills on 19 March 2009, there was a vacancy, which has since been filled by the appointment of Nigel Turner. Sigurd Reinton is the remaining member of the Committee. The members all have wide-ranging financial, commercial and management experience. Both Mr Mills and Mr Turner have recent, relevant financial experience.

The group 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.

The duties of the Committee include monitoring the integrity and compliance of the company's financial statements, reviewing the effectiveness of the internal audit department and external auditors, reviewing the scope and results of internal and external audit work and reviewing internal controls and risk management. All published internal audit reports are provided in full to each Committee member. The Committee also advises on matters relating to the appointment, independence and remuneration of the external auditors, and reviews arrangements under which staff may confidentially raise concerns about possible improprieties in financial reporting or other matters.

Corporate governance

Nomination Committee

The Nomination Committee was established in May 2004. It is chaired by the non-executive Chairman John Devaney and comprises three further non-executive directors, Peter Read, Sigurd Reinton and Roger Cato. The Chief Executive Officers of NERL and NSL, Human Resources Director and advisors may be invited to attend meetings of the Committee, as appropriate. The Committee meets when considered necessary by its members. While the Committee did not meet in 2008/09, it is currently engaged in the process of succession planning in anticipation of Paul Barron's departure in March 2010.

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.

Remuneration Committee

The Remuneration Committee of the Board is chaired by Dr Barry Humphreys and normally comprises two further non-executive directors. However, as at the year end the Committee consisted of Dr Humphreys and Baroness Brenda Dean, with a vacancy following the resignation of Neil Mills. This vacancy has since been filled by the appointment of Andy Lord. The Committee meets when necessary and is responsible for determining the company's policy on directors' remuneration and expenses, and approving remuneration and incentive payments for senior managers, including the criteria for establishing performance targets. No director is involved in deciding his or her own remuneration.

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

Safety Review Committee

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

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

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

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

- NATS and NERL Chief Executive Officer;
- NSL Chief Executive Officer;
- NERL Chief Operating Officer;
- NATS and NERL Director of Safety;
- NSL Chief Operating Officer; and
- NSL Director of Safety.

Corporate governance

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 Chief Operating Officer are invited to each meeting by standing invitation.

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

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

Financial reporting and internal control

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

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

Risk Management

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

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

Corporate governance

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

The Audit Committee and Board have assessed the group's 'Top Risks' and performance against these during the year ended 31 March 2009 and agreed actions for the 'Top Risks' for the year ending 31 March 2010. Regular monthly reporting to the NERL and NSL Executives on business controls and progress in mitigating actions associated with NATS' risks is supplemented by reports to the Audit Committee on the process of risk management and internal control.

The company's Internal Audit Department reviews the controls in place to manage NATS business risks, which includes reviews of internal financial control. Reports, including the relevant action plans agreed with local management, are circulated to Audit Committee members and relevant executive directors and senior managers.

The company's performance is reviewed monthly by the relevant Executive and the Board. This includes reviewing performance against operational targets, including those relating to safety, delays, project performance and risk management, and against financial targets, including revenue and capital budgets.

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

Safety

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

Non-audit work performed by the external auditors

From time to time the external auditors perform non-audit services for the group. 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 2009 included taxation advice in connection with NATS' employees based abroad. Details of the cost of these services are set out in note 6 of the "Notes forming part of the consolidated accounts".

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. Derek Stevens was a member of the Committee until his resignation from the Board in September, and then Neil Mills until his resignation from the Board in March.

Where appropriate, the Committee takes advice on specific issues from the Chief Executives of NERL and NSL, the Human Resources 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 eight times in 2008/09 and is responsible for:

- Approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract staff (comprising members of the executive team and other senior staff whose terms of employment are not subject

to negotiation with the recognised trades unions through the NATS joint bargaining machinery);

- Approving company targets and individual performance targets for executive directors and other members of the executive team;
- Considering and approving a statement of remuneration policy and details of the remuneration of each director for inclusion in the annual report and accounts.

Performance Management

The Committee continued to support the drive towards a more differentiated approach to management pay, taking account of relative individual performance. Coaching for Performance continues to be the 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, 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 have employment contracts that expire on 31 March 2010. Nigel Fotherby, Ian Hall and Ian Mills have employment contracts which provide for 6 months' notice in the event of termination by the company.

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. Other non-executive directors do not have contracts with the company.

Remuneration packages

The remuneration package for executive directors is reviewed each year and consists of annual salary; pension and life assurance; annual and long-term bonus schemes; All Employee Share Ownership Plan; company car; and medical insurance. Their annual bonus is consistent with the overall bonus scheme for all Personal Contract Group staff (see below). For Paul Barron, Nigel Fotherby, Ian Hall and Ian Mills the long-term bonus is based on the performance of NERL over Control Period 2 (2006 - 2010) (see below). In addition, Paul Barron's bonus arrangements include a rolling bonus scheme with incentives in relation to maintaining an acceptable underlying credit rating for NERL, the development of NATS' unregulated business and key investment programme milestones. For Lawrence Hoskins the long-term bonus is based on the performance of the NSL business with targets for profitability and the NSL order book. Full details of directors' remuneration for 2008/09 are set out on page 54.

Remuneration Committee report

In addition to his remuneration from NATS, Paul Barron receives 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 each receive annual remuneration of £33,600. AG directors receive no remuneration for their

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

Pensions and life assurance

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

Following the PPP, the CAA Pension Scheme remains one scheme, although from 31 March 2001, it has been split into two sections. The NATS section of CAAPS was closed to new entrants with effect from 1 April 2009. Non-executive directors do not participate in CAAPS.

Remuneration Committee report

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 60% of salary. 40% of the bonus is determined by company performance on key targets and the remaining 60% is dependent on individual performance against targets and leadership behaviours. The scheme incorporates an "ability to pay" clause to override all other triggers, 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 2008/09 NERL and NSL 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:

Remuneration Committee report

Remuneration Committee report

NERL targets

Financial Performance (NERL Management EBITDA)

Base	£205 million
Stretch	£225 million
Outturn	£232 million

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

Service Performance (Average delay per flight)

Base	45 seconds
Stretch	30 seconds
Outturn	19 seconds

Key Projects

Base	7 milestones achieved
Stretch	10 milestones achieved
Outturn	10 milestones achieved

Customer Satisfaction (20 airlines/ associations consulted)

Base	65% approval rating
Stretch	75% approval rating
Outturn	72% approval rating

Overall payout against NERL company targets was 98%.

NSL targets

Financial Performance (NSL Management EBITDA)

Base	£20.6 million
Stretch	£22.7 million
Outturn	£25.6 million

Service (New contracts secured)

Base	over £1 million
Stretch	over £1.5 million
Outturn	£11.5 million

(BAA Service Quality Incentive Penalty)

Base	1.5% to 2% penalty
Stretch	0% to 1% penalty
Outturn	0% penalty

Key Projects

Base	3 milestones achieved
Stretch	5 milestones achieved
Outturn	5 milestones achieved

Overall payout against NSL company targets was 100%.

Equivalent arrangements are in place for 2009/10.

Long-Term Bonus Scheme

The Committee has established a long-term incentive scheme for executive directors and members of the NERL executive team linked to the achievement of targets for Control Period 2. This incentive scheme was developed with support from Kepler Associates and was agreed at the Committee's meeting in February 2006.

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.

Executive directors currently hold the following interests in ordinary shares of the company: Paul Barron - 634; Nigel Fotherby - 1,777; and Ian Hall - 1,777.

The current HM Revenue and Customs approved valuation, for the period 1 January 2009 to 30 June 2009, values the shares at 250p each.

Barry Humphreys

Remuneration Committee report

Audited information Directors' remuneration

Emoluments (excluding pension arrangements and long-term bonuses in the tables below) of the Chairman and directors were as follows:

		Salary or fees (*) £000	Benefits (*) £000	Performance related payments (*) £000	Total 2009 (*) £000	Total 2008 (*) £000
Chairman						
John Devaney		158	-	-	158	152
Executive directors						
Paul Barron	1	450	21	199	670	646
Nigel Fotherby		199	12	89	300	290
Ian Hall		201	9	84	294	287
Lawrence Hoskins	2	325	34	146	505	442
Ian Mills		192	14	86	292	26
Non-executive directors						
Baroness Dean of Thornton-le-Fylde		34	-	-	34	34
Stephen Pettit		-	-	-	-	11
Andrew White		34	-	-	34	34
Sigurd Reinton		34	-	-	34	23
Barry Humphreys	3	-	-	-	-	-
Peter Read	3	-	-	-	-	-
Nigel Turner	3	-	-	-	-	-
Giovanni Bisignani	3	-	-	-	-	-
Andy Lord	3,4	-	-	-	-	-
Neil Mills	3,5	-	-	-	-	-
Derek Stevens	3,6	-	-	-	-	-
Roger Cato	7	-	-	-	-	-
		<u>1,627</u>	<u>90</u>	<u>604</u>	<u>2,321</u>	<u>1,945</u>

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

All the directors served throughout the year ended 31 March 2009 unless otherwise stated in the notes below:

- Included in Paul Barron's benefits is an aggregate amount of £13,000 in respect of relocation costs.
- Included in Lawrence Hoskins' benefits is an amount of £20,000 in respect of relocation costs.
- These directors are appointed by The Airline Group (AG) who charged NATS a total of £42,000 per quarter (2008: £42,000 per quarter) for the services of the directors.
- Andy Lord was appointed to the Board on 26 March 2009.
- Neil Mills was appointed to the Board on 27 November 2008 and resigned 19 March 2009.
- Derek Stevens resigned from the Board on 30 September 2008.
- Roger Cato represents BAA Limited and is not remunerated by the company for his services as director.

Remuneration Committee report

In addition, under the company's long-term incentive plans, executive directors are entitled to bonuses contingent on the achievement of business performance targets. These bonuses vest on certain dates in future. The Chief Executive has two bonus schemes which are reflected in the table below; a rolling bonus and a long-term incentive plan. An estimate of executive directors' entitlements has been accrued based on progress made to date as follows:

	Paul Barron (Note 1) £000	Nigel Fotherby (Note 2) £000	Ian Hall (Note 3) £000	Lawrence Hoskins (Note 4) £000	Ian Mills (Note 5) £000
Year bonus accrued:					
2006/07	178	35	28	71	-
2007/08	222	38	29	137	2
2008/09	285	40	30	183	29
Total	<u>685</u>	<u>113</u>	<u>87</u>	<u>391</u>	<u>31</u>

- Paul Barron's accrued bonuses include a rolling bonus plan and a long-term incentive plan. An amount of £235,000 vested in the year in respect of his rolling bonus and was paid in May 2009. Paul Barron received £77,000 in May 2008 in respect of his rolling bonus which vested in the previous financial year. £150,000 (2008: £150,000) has been accrued in the year in respect of the long-term incentive plan. These amounts have been excluded from the emoluments table above.
- During the year, Nigel Fotherby received an amount of £21,710 in respect of an accrued bonus for 2005/06. These amounts have been excluded from the emoluments table above.
- During the year, Ian Hall received £21,710 in respect of an accrued bonus for 2005/06, the majority of which was earned prior to his appointment to the Board. This has been excluded from the emoluments table above.
- During the year, Lawrence Hoskins received £25,578 in respect of an accrued bonus for 2005/06, the majority of which was earned prior to his appointment to the Board. This has been excluded from the emoluments table above.
- During the year, Ian Mills received £17,767 in respect of an accrued bonus for 2005/06, the majority of which was earned prior to his appointment to the Board. This has been excluded from the emoluments table above.

Pensions of the directors were as follows:

	Accrued entitlement at 31 March 2008 £000	Real change in accrued pension £000	Inflation £000	Accrued entitlement at 31 March 2009 £000	Transfer value at 31 March 2009 £000	Transfer value at 31 March 2008 £000	Director's contributions in year £000	Cost of benefits accrued during year £000
Executive directors								
Paul Barron	80	14	3	97	2,449	1,721	18	326
Nigel Fotherby	1	27	3	31	720	536	8	64
Ian Hall	2	70	4	74	1,814	1,483	-	97
Lawrence Hoskins	1	15	6	22	558	313	13	157
Ian Mills	1	9	3	13	289	165	8	63
Totals	<u>201</u>	<u>30</u>	<u>6</u>	<u>237</u>	<u>5,830</u>	<u>4,218</u>	<u>47</u>	<u>707</u>

- Nigel Fotherby, Lawrence Hoskins and Ian Mills secured additional pensionable service following a bonus sacrifice in the year. The benefits in respect of this additional service are not included in the above figures.
- Ian Hall's contributions ceased with effect from 29 July 2007, the date on which he accrued the maximum pensionable service.

Directors of NATS Holdings Limited

The directors of the company at 25 June 2009 were:

John Devaney

John joined the Board in July 2005 and was appointed Chairman with effect from 1 September. He is Chairman of National Express plc and Tersus Energy plc. John is also a non-executive director of Northern Rock 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 1999-2002 and, until December 2007, was Chairman of telent plc, formerly Marconi, the global telecommunications equipment company. His previous non-executive directorships have included HSBC Bank plc from 1994-2000 and British Steel plc from 1998-1999. John chairs the Audit and Nomination Committees.

Paul Barron

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

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

Lawrence Hoskins

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

Nigel Fotherby

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

Ian Hall

Ian was appointed Director, Development and Investment, NERL in February 2009 having previously held the post of Operations Director for 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, responsible for all four control centres, and then Director Operations for NATS and subsequently for NERL.

Ian Mills

Ian was appointed Chief Operating Officer, NERL in February 2009, having previously held the post of Director, Engineering and Commercial Services. 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

Giovanni Bisignani

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

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

Peter Read

Peter held a number of senior positions with British Airways, most recently as Director of Heathrow from 1997 until 2003, and as Director of Operations until 2005. He joined BA in 1972 as a pilot and flew as a Captain until 1996. He subsequently held senior positions in engineering and flight operations, and in leading major business change programmes in cargo and BA corporate. During 2006 and 2007 Peter was employed as Director of Operations for Malaysia Airlines, responsible for all operational areas during a major reconstruction of the company. Peter acts as a Technical Advisor to the Board of Iberia on safety matters. He is 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. Barry has recently retired as Director of External Affairs and Route Development for Virgin Atlantic Airways where he was responsible for economic regulatory issues, political lobbying, competition policy, licensing, airport and ATC charges, and in co-operation with others, route development, security, environment and consumer issues and long-term strategy. Barry is a Fellow of the Royal Aeronautical Society, the Chartered Institute of Logistics and Transport and the Tourism Society. Barry has recently been appointed Chairman of the British Air Transport Association. He is also Deputy Chairman of Airport Co-Ordination Ltd, a director of AG, Deputy Chairman of the Board of Airline Representatives UK, a Board Member of the Indo-British Business Partnership and Chairman of the Caribbean Britain Business Council. Barry chairs the Remuneration Committee.

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 1997. 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 performance, safety, compliance and IT systems of the worldwide operation, corporate business resilience and UK and Irish airport customer service and operations. He is a director of AG and an Associate Member of the Institute of Mechanical Engineers. Andy is a member of the Remuneration Committee.

Directors of NATS Holdings Limited

Nigel Turner

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

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

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

Sigurd Reinton

Sigurd has been Chairman of the London Ambulance Service NHS Trust since 1999 and before that of Mayday University Hospitals NHS Trust. He is a 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 report and audited accounts for the year ended 31 March 2009.

Principal activities and business review

The company was established as a holding company to effect the transfer of ownership of NATS from the CAA to the Strategic Partners under the PPP. Initially the company was wholly owned by the Crown. At completion of the PPP the Crown sold 46% of the company to a strategic partner, The Airline Group (AG), and transferred 5% to employees under a share scheme. On 19 March 2003 the group underwent a financial restructuring which resulted in BAA 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 4-9 and the Business and Financial Review on pages 10-39.

Results and dividends

The group's results for the year are shown in the income statement on page 66. An interim dividend of £43.5m was approved during the year and paid in April 2009 (2008: Interim dividend £2.4m).

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.

Charitable donations

The group made aggregate donations of £18,322 (2008: £6,600).

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 NERL and NSL CEOs maintain high visibility with staff through an annual 'roadshow' to each NATS location where they brief them on current business issues and take 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, 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

Policy and practice on payment of creditors

It is the group's policy to pay suppliers within the payment terms of the contract, which is normally 30 to 60 days, based upon the timely receipt of an accurate invoice.

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 1985 is 36 days (2008: 30 days).

Directors and their interests

The directors of the company as at 25 June 2009 are set out on page 3.

Derek Stevens resigned from the Board on 30 September 2008. Neil Mills was appointed as his replacement on 27 November and served until 19 March 2009. Neil in turn was succeeded by Andy Lord, who was appointed on 26 March 2009. 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 53.

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

Report of the directors

with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

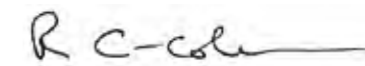
Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware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

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

Auditors

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

By order of the Board



Richard Churchill-Coleman
Secretary
25 June 2009

Independent auditors' report to the members of NATS Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of NATS Holdings Limited for the year ended 31 March 2009 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 30 of the group and 1 to 8 of the parent company. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the directors' report and other information contained in the annual report as described in the contents section.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

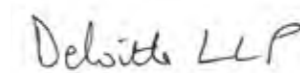
- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2009 and of the group's profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 31 March 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

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

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 March 2009 and of its profit for the year then ended.



Deloitte LLP

*Chartered Accountants and Registered Auditors
Southampton, United Kingdom
25 June 2009*

Consolidated financial statements

Consolidated income statement for the year ended 31 March 2009

	Notes	Year ended 31 March 2009			Year ended 31 March 2008		
		Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m	Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m
Revenue	4	767.3	-	767.3	742.5	-	742.5
Staff costs	7	(349.3)	(25.9)	(375.2)	(356.6)	(17.5)	(374.1)
Services and materials		(72.4)	-	(72.4)	(75.9)	-	(75.9)
Repairs and maintenance		(30.8)	-	(30.8)	(28.0)	-	(28.0)
External research and development		(0.3)	-	(0.3)	(0.6)	-	(0.6)
Depreciation, amortisation and impairment	6	(82.0)	-	(82.0)	(84.8)	-	(84.8)
(Loss)/Profit on disposal of non-current assets		(0.3)	43.5	43.2	(0.4)	-	(0.4)
Other operating charges		(49.8)	(26.0)	(75.8)	(44.9)	(5.5)	(50.4)
Other operating income		0.7	-	0.7	2.9	-	2.9
Deferred grants released	6	2.1	-	2.1	3.2	-	3.2
Net operating costs		(582.1)	(8.4)	(590.5)	(585.1)	(23.0)	(608.1)
Operating profit	6	185.2	(8.4)	176.8	157.4	(23.0)	134.4
Investment revenue	8	6.7	-	6.7	11.0	-	11.0
Finance costs	9	(48.0)	-	(48.0)	(62.9)	(15.8)	(78.7)
Profit before tax		143.9	(8.4)	135.5	105.5	(38.8)	66.7
Tax	10	(40.6)	0.3	(40.3)	(28.4)	10.9	(17.5)
Profit for the year attributable to equity shareholders		103.3	(8.1)	95.2	77.1	(27.9)	49.2

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

Consolidated statement of recognised income and expense for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Actuarial (loss)/gain on defined benefit pension scheme net of deferred tax	20,23,27	(355.1)	144.4
Change in fair value of hedging derivatives net of deferred tax	23	2.4	(2.7)
Net (expense)/income recognised directly in equity		(352.7)	141.7
Transfer (from)/to income statement on cash flow hedges net of deferred tax	23	(1.7)	2.5
Profit for the year	23	95.2	49.2
Total recognised income and expense for the year attributable to equity shareholders		(259.2)	193.4

Consolidated financial statements

Consolidated balance sheet at 31 March 2009

	Notes	2009 £m	2008 £m
Assets			
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	150.2	114.3
Property, plant and equipment	14	637.0	602.2
Interest in associate	29	0.1	-
Retirement benefit asset	27	-	413.5
Trade and other receivables	15	6.2	6.2
		<u>1,144.5</u>	<u>1,487.2</u>
Current assets			
Trade and other receivables	15	151.8	141.3
Short-term investments	18	25.6	17.2
Cash and cash equivalents		163.5	113.4
Derivative financial instruments	17	0.3	-
Non-current asset held for sale		-	0.1
		<u>341.2</u>	<u>272.0</u>
Total assets		<u>1,485.7</u>	<u>1,759.2</u>
Current liabilities			
Trade and other payables	19	(198.7)	(138.3)
Borrowings	16	(1.2)	-
Current tax liabilities		(7.2)	(7.9)
Derivative financial instruments	17	(82.5)	(74.1)
		<u>(289.6)</u>	<u>(220.3)</u>
Net current assets		<u>51.6</u>	<u>51.7</u>
Non-current liabilities			
Borrowings	16	(668.2)	(668.7)
Trade and other payables	19	(16.8)	(10.2)
Retirement benefit obligations	27	(69.4)	-
Deferred tax liability	20	(78.4)	(194.0)
		<u>(832.8)</u>	<u>(872.9)</u>
Total liabilities		<u>(1,122.4)</u>	<u>(1,093.2)</u>
Net assets		<u>363.3</u>	<u>666.0</u>
Equity			
Called up share capital	21	140.6	140.6
Share premium account	22	0.4	0.4
AESOP reserve	23	(0.3)	(0.3)
Hedging reserve	23	0.3	(0.4)
Other reserves	23	(34.7)	(34.7)
Retained earnings	23	257.0	560.4
Total equity		<u>363.3</u>	<u>666.0</u>

The financial statements were approved by the Board of directors and authorised for issue on 25 June 2009 and signed on its behalf by

John Devaney
Chairman

Nigel Fotherby
Finance Director

Consolidated financial statements

Consolidated cash flow statement for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Net cash from operating activities			
	24	<u>191.2</u>	<u>239.1</u>
Cash flows from investing activities			
Interest received		6.6	10.5
Purchase of property, plant and equipment and other intangible assets		(147.6)	(141.2)
Proceeds on disposal of property, plant and equipment		43.6	0.1
Investment in associate		(0.1)	-
Changes in short-term investments		(8.4)	1.2
Net cash outflow from investing activities		<u>(105.9)</u>	<u>(129.4)</u>
Cash flows from financing activities			
Interest paid		(34.9)	(50.3)
Redemption payment		-	(15.8)
Unsecured loan notes repaid		-	(53.6)
Secured loan notes repaid		-	(113.7)
Bank and other loans		(0.3)	78.9
Dividends paid		-	(2.4)
Net cash outflow from financing activities		<u>(35.2)</u>	<u>(156.9)</u>
Increase/(decrease) in cash and cash equivalents during the year		<u>50.1</u>	<u>(47.2)</u>
Cash and cash equivalents at 1 April		113.4	160.6
Cash and cash equivalents at 31 March		<u>163.5</u>	<u>113.4</u>
Net Debt (representing borrowings net of cash and short-term investments)		<u>(480.3)</u>	<u>(538.1)</u>

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated under the Companies Act 1985 and domiciled in the United Kingdom. The address of the registered office is on page 3. The nature of the group's operations and its principal activities are set out in the 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 details, please refer to page 39. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

Two interpretations issued by the International Financial Reporting Interpretations Committee become effective for this period. These are: IFRIC 12: *Service Concession Arrangements* and IFRIC 14: *The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction*. The adoption of these Interpretations has not led to any changes in the group's accounting policies.

In addition, the group adopted IFRS 8: *Operating Segments* for the first time in 2008. The impact of adoption of IFRS 8 has been additional disclosure in note 5; there have been no further changes to the basis of reporting as the group's business segments as reported to management are the same as the primary segments required to be reported under IAS 14 the previous standard. The following interpretations, revisions and amendments to International Financial Reporting Standards have also been adopted in advance of their effective date and have had no effect on the accounting policies of the group: IFRIC 13: *Customer Loyalty Programmes*; 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*; 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 15: *Agreements for the Construction of Real Estate*; 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 and IFRS 7: *Reclassification of Financial Assets (updated)*.

The following issued but not yet effective interpretations, have not been applied in these financial statements: IAS 23 (revised): *Borrowing Costs*, the impact is to remove the option, which the group adopts, that enable borrowing costs on qualifying capital assets to be expensed as incurred. The effect of this is estimated to result in a reduction in borrowing costs and an increase in assets of c. £3m in future periods. The revised standard is not effective until the year ending 31 March 2010; Revisions to IAS 1: *Presentation of Financial Statements*. The effect of these revisions are presentational only; and IFRIC 18: *Accounting for Transfers of Assets from Customers*, application of this IFRIC is not permitted until the year ended 31 March 2010.

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

Basis of consolidation

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

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

Operating profit

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

Revenue recognition

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

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NATS (En Route) plc's air traffic services licence and airports and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence.
- Sales of goods are recognised when they are delivered and title has passed.
- Revenue from construction contracts is recognised in accordance with the group's accounting policy on construction contracts.
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.

Notes forming part of the consolidated accounts

Goodwill

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other items are classified as operating leases.

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.

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.

Notes forming part of the consolidated accounts

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.

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.

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.

Notes forming part of the consolidated accounts

Emissions allowances

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

Amounts recoverable on contracts

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

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.

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

Notes forming part of the consolidated accounts

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.

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

The group 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 27. 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 recognised income and expense.

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

The retirement benefit obligation recognised in the balance sheet represents the fair value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Notes forming part of the consolidated accounts

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.

Impairment of financial assets

Financial assets are rigorously assessed for indicators of impairment at half year and year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment losses on trade receivables are recognised using allowance accounts. When a trade receivable is considered irrecoverable, it is written off against the allowance account, any subsequent recoveries are credited to the allowance account. Changes in the allowance account are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities are either financial liabilities at "fair value through the profit and loss" or "other financial liabilities".

Fair value through the profit and loss

Financial liabilities at fair value through the profit and loss are measured initially at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

Other financial liabilities: including bank, other borrowings, loan notes and debt securities

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded as the proceeds received,

Notes forming part of the consolidated accounts

net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Effective interest method

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

Equity

Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging activities

The group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in note 17 to the accounts.

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

The use of financial derivatives is governed by the group's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The group documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives

and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

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

Notes forming part of the consolidated accounts

3. Critical judgements and key sources of estimation uncertainty

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset base, market premiums for regulated businesses and the outcome of the regulatory price control determination for Control Period 3 (2011–2015). 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 5% 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 recognised income and expense. 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 27 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 and to rationalise the number of air traffic control centres. This programme requires the group to enter into substantial contracts for the development of infrastructure assets and information systems. Whilst covered by contractual arrangements, it is in the nature of such complex projects that, from time to time, variations to the original specifications may necessitate the renegotiation of original contract scope or price and affect amounts reported in these accounts.

Notes forming part of the consolidated accounts

4. Revenue

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

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
UK air traffic services	587.6	580.4
North Atlantic air traffic services	23.5	23.8
Airport air traffic services	138.7	125.4
Miscellaneous services	17.5	12.9
	767.3	742.5

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 £2.4m (2008: £3.3m).

Notes forming part of the consolidated accounts

5. Business and geographical segments

Business segments

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

Principal activities are as follows:

UK air traffic services provide en route air traffic services within UK airspace, air traffic services for helicopters operating in the North Sea, approach services for London airports and services to the Ministry of Defence. North Atlantic air traffic services provide en route air traffic services for the North Atlantic, including an altitude calibration service. These two segments represent the regulated business. Segment information is presented below.

Since 1 April 2008, the airport air traffic services and miscellaneous operating segments have been redefined to better reflect how the company manages its businesses and product lines internally and to reflect internal reporting used to assess their performance. 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. Comparatives have been restated to reflect this change.

Year ended 31 March 2009	UK air traffic services £m	North Atlantic air traffic services £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue					
Revenue from external customers	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 period					95.2
Other information					
Exceptional costs/(income)	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)

Notes forming part of the consolidated accounts

5. Business and geographical segments (continued)

Year ended 31 March 2008	UK air traffic services £m	North Atlantic air traffic services £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue					
Revenue from external customers	580.4	23.8	125.4	12.9	742.5
Segment result	121.5	3.8	10.6	(1.5)	134.4
Operating profit					134.4
Investment revenue					11.0
Finance costs					(78.7)
Profit before tax					66.7
Tax					(17.5)
Profit for the period					49.2
Other Information					
Exceptional costs	20.0	-	3.0	-	23.0
Capital expenditure	131.0	1.5	4.7	0.1	137.3
Depreciation and amortisation	79.0	2.5	2.0	-	83.5
Impairment losses recognised in income	1.3	-	-	-	1.3
Deferred grants released	(3.2)	-	-	-	(3.2)
Balance Sheet					
Assets					
Segment assets	1,456.8	36.7	116.9	18.0	1,628.4
Unallocated assets					130.8
Consolidated total assets					1,759.2
Liabilities					
Segment liabilities	(120.2)	(4.1)	(20.6)	(3.5)	(148.4)
Unallocated liabilities					(944.8)
Consolidated total liabilities					(1,093.2)

All assets are allocated to reportable segments with the exception of taxation, 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.

Notes forming part of the consolidated accounts

5. Business and geographical segments (continued)

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 2009 £m	Year ended 31 March 2008 £m
UK	404.5	364.2
Rest of Europe	217.5	221.7
North America	106.7	110.2
Other	38.6	46.4
Total	<u>767.3</u>	<u>742.5</u>

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 £99.8m (2008: £88.7m) 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 centre at West Drayton in 2008 and the consequent relocation of staff to the Swanwick area. Restructuring costs for staff relocation and redundancy were also incurred following the decision to close the air traffic control centre at Manchester and to consolidate operations at Prestwick, following the development of this air traffic control centre, during the year ending 31 March 2010. To the extent that staff could not be redeployed, termination terms were agreed. In response to the economic downturn, voluntary redundancy was also offered to non-operational 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 resulting in a one off profit on disposal.

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Redundancy costs	25.9	13.4
Payment for changes in redundancy terms	-	4.1
Cost of relocation of staff to the Swanwick area	11.4	5.5
Cost of relocation of staff to the Prestwick area	14.6	-
Profit on disposal of non-current assets	(43.5)	-
	<u>8.4</u>	<u>23.0</u>

The tax effect of the items above and the effect of the abolition of industrial building allowances (see note 10) are shown as exceptional on the face of the income statement.

Notes forming part of the consolidated accounts

6. Operating profit for the year (continued)

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
b. Other items		
CAA regulatory charges in respect of NERL's air traffic services licence	4.4	3.8
CAA regulatory charges for safety regulation at airports	2.7	-
Depreciation of property, plant and equipment	71.0	75.0
Impairment of property, plant and equipment	2.6	0.4
Amortisation of internally generated intangible assets	8.3	8.5
Impairment of internally generated intangible assets	0.1	0.9
Deferred grants released	(2.1)	(3.2)
Research and development costs	3.7	7.5
Auditors' remuneration for audit services (see below)	<u>0.2</u>	<u>0.2</u>

The analysis of auditors' remuneration is as follows:

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £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	<u>0.2</u>	<u>0.2</u>

Total non-audit fees of £0.1m (2008: £0.3m) included tax services of £17,000 (2008: £96,000) and other services of £40,000 (2008: £218,000). The prior year other services included fees for a pension consultation project. Total fees payable to the company's auditors for the audit of the subsidiary accounts was £40,800 (2008: £40,300).

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 2009 £m	Year ended 31 March 2008 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	325.2	324.2
Social security costs	29.9	29.9
Pension costs (note 7b)	57.3	54.8
	<u>412.4</u>	<u>408.9</u>
Less: amounts capitalised	<u>(37.2)</u>	<u>(34.8)</u>
	<u>375.2</u>	<u>374.1</u>

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

b. Pension costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Pension scheme costs for year (note 27)	<u>57.3</u>	<u>54.8</u>

c. Staff numbers

The monthly average number of employees (including executive directors) was:

	Year ended 31 March 2009 No.	Year ended 31 March 2008 No.
Air traffic controllers	1,998	2,024
Air traffic service assistants	1,021	1,056
Engineers	1,128	1,159
Others	937	919
	<u>5,084</u>	<u>5,158</u>

Notes forming part of the consolidated accounts

8. Investment revenue

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest on bank deposits	6.4	10.7
Other loans and receivables	0.3	0.3
	<u>6.7</u>	<u>11.0</u>

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 2009 £m	Year ended 31 March 2008 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	5.3	0.6
Interest on shareholder loan notes	-	13.1
Bond and related costs including financing	30.3	30.1
Other	0.9	0.1
	<u>36.5</u>	<u>43.9</u>
Loss on derivatives not qualifying for hedge accounting	<u>11.5</u>	<u>19.0</u>
	48.0	62.9
Payment on redemption of 11.3575% fixed rate secured shareholder loan notes	<u>-</u>	<u>15.8</u>
	<u>48.0</u>	<u>78.7</u>

Notes forming part of the consolidated accounts

10. Tax

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Current tax (including a charge of £1.5m in respect of prior years, 2008: £0.7m credit)	(18.0)	(14.4)
Deferred tax (See note 20. Including a credit of £1.7m in respect of prior years, 2008: £0.3m charge)	(22.3)	(3.1)
	<u>(40.3)</u>	<u>(17.5)</u>

Included in the deferred tax charge above is a charge of £14.2m for the tax effect of the abolition of industrial building allowances. This is presented in the income statement as an exceptional item.

Corporation tax is calculated at 28% (2008: 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:	Year ended 31 March 2009 £m	%	Year ended 31 March 2008 £m	%
Profit on ordinary activities before tax	<u>135.5</u>		<u>66.7</u>	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2008: 30%)	(37.9)	(28.0%)	(20.0)	(30.0%)
Tax effect of abolition of Industrial Building Allowances	(14.2)	(10.5%)	-	0.0%
Tax effect of rate change from 30% to 28% for deferred tax	-	0.0%	4.1	6.1%
Tax effect of prior year adjustments	0.2	0.1%	0.4	0.6%
Other permanent differences (includes sale of Heathrow control tower)	11.6	8.7%	(2.0)	(3.0%)
Tax charge for year at the effective tax rate of 29.7% (2008: 26.3%)	<u>(40.3)</u>	(29.7%)	<u>(17.5)</u>	(26.3%)
Deferred tax (credit)/charge taken directly to equity (see note 20)	<u>(137.9)</u>		<u>47.4</u>	

Notes forming part of the consolidated accounts

11. Dividends

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Amounts recognised as dividends to equity shareholders in the year		
Interim dividend for the year ended 31 March 2009 of 30.41 pence per ordinary share (2008: 1.67 pence)	<u>43.5</u>	<u>2.4</u>

12. Goodwill

Carrying amount

At 31 March 2009 and 31 March 2008	<u>351.0</u>
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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%, 2008: 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 7.07% (2008: 9.51%). See note 3.

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 2007	35.1	12.3	10.8	66.3	124.5
Additions internally generated	-	1.9	-	16.8	18.7
Additions externally acquired	-	-	-	12.2	12.2
Disposals during the year	-	-	-	(0.8)	(0.8)
Other transfers during the year	(0.1)	13.2	1.6	(14.6)	0.1
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 31 March 2009	38.1	28.9	17.5	113.0	197.5
Accumulated amortisation					
At 1 April 2007	6.7	5.5	3.6	16.0	31.8
Charge for the year	4.2	2.8	1.5	-	8.5
Provisions for impairment	-	-	-	0.9	0.9
Disposals during the year	-	-	-	(0.8)	(0.8)
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 31 March 2009	15.0	9.6	6.5	16.2	47.3
Carrying amount					
At 31 March 2009	23.1	19.3	11.0	96.8	150.2
At 31 March 2008	24.1	19.1	7.3	63.8	114.3

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 and installation £m	Total £m
Cost						
At 1 April 2007	218.5	55.8	977.6	14.1	140.0	1,406.0
Additions during the year	0.1	0.2	33.7	-	72.4	106.4
Disposals during the year	-	-	(24.7)	(0.1)	(2.8)	(27.6)
Other transfers during the year	1.0	0.1	73.0	-	(74.2)	(0.1)
Assets reclassified as held for sale	(4.9)	-	(1.5)	-	-	(6.4)
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 31 March 2009	221.6	47.6	1,045.5	17.7	159.3	1,491.7
Accumulated depreciation and impairment						
At 1 April 2007	69.7	38.6	716.1	5.8	4.0	834.2
Provided during the year	6.6	1.8	65.4	1.2	-	75.0
Provisions for impairment	-	-	-	-	0.4	0.4
Utilisation of impairment provision	-	0.2	0.1	-	(0.3)	-
Disposals during the year	-	-	(24.2)	(0.2)	(2.8)	(27.2)
Assets reclassified as held for sale	(4.9)	-	(1.4)	-	-	(6.3)
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 31 March 2009	77.9	30.6	734.2	8.1	3.9	854.7
Carrying amount						
At 31 March 2009	143.7	17.0	311.3	9.6	155.4	637.0
At 31 March 2008	143.3	15.5	302.1	7.2	134.1	602.2

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £2.7m (2008: £1.3m) were made in respect of assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

During the year NERL performed a detailed review of the useful economic lives of its assets to align with the group's latest asset replacement plans. As a result of this review, the useful economic lives of a number of assets have been extended. The effect of re-living assets was to reduce the depreciation charge by £1.4m in the current year and is expected to reduce annual depreciation charges in subsequent years by approximately £3.6m.

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

	2009 £m	2008 £m
Non-current		
Other debtors	6.2	6.2
Current		
Receivable from customers gross	46.4	55.4
Allowance for doubtful debts	(5.8)	(2.7)
	40.6	52.7
Amounts recoverable under contracts	10.6	6.1
Other debtors	7.6	5.4
Prepayments	17.8	18.6
Accrued income	75.2	58.2
Accrued interest	-	0.3
	<u>151.8</u>	<u>141.3</u>

The average credit period taken on sales of services is 28 days (2008:25 days). Interest is charged by Eurocontrol to UK en route customers at 9.86% (2008: 9.24%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £5.8m (2008: £2.7m). Full provision is made for receivables from UK en route customers that are overdue. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation which is evidence of a reduction in the recoverability of the cash flows.

Ageing of past due but not impaired trade receivables

	2009 £m	2008 £m
30-90 days	1.3	1.9
91-150 days	0.1	-
	<u>1.4</u>	<u>1.9</u>

Movement in the allowance for doubtful debts

	2009 £m	2008 £m
Balance at the beginning of the period	2.7	4.0
Increase in allowance recognised in the income statement	3.5	0.4
Amounts written off as irrecoverable	(0.4)	(1.7)
	<u>5.8</u>	<u>2.7</u>

Notes forming part of the consolidated accounts

15. Financial and other assets (continued)

Of the £3.5m increase in the allowance recognised in the income statement, £1.4m has been deferred to the balance sheet 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. Bad debts also arose from other services.

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 £4.8m (2008: £1.8m) 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

	2009 £m	2008 £m
Current	-	-
30-90 days	0.5	0.5
90-365 days	4.2	0.9
more than 365 days overdue	1.1	1.3
	<u>5.8</u>	<u>2.7</u>

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 £347.1m (2008: £278.1m).

Notes forming part of the consolidated accounts

16. Borrowings

	2009 £m	2008 £m
Unsecured loans at amortised cost		
Other loans (not interest bearing)	1.2	1.4
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	597.4	597.1
Bank loans (variable rate revolving credit facility expiring 2010–2012)	77.5	77.5
Total secured loans	674.9	674.6
Gross borrowings	676.1	676.0
Unamortised bond issue costs	(6.7)	(7.3)
	669.4	668.7
Amounts due for settlement within 12 months	1.2	-
Amounts due for settlement after 12 months	668.2	668.7

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NERL plc grants its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Drawings of £77.5m made by NERL in March 2008 under its £216.2m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holding Limited and by NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is circa £1,135m.

The average effective interest rate on the bank loan in the year was 6.50% (2008 5.94%) and was determined based on 6 month 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	2009 £m	2008 £m
Undrawn committed facilities expire as follows:		
Between one and two years	11.0	-
After more than two years	127.7	138.7
	138.7	138.7

NERL made drawings of £77.5m on its committed facilities of £216.2m in 2008. 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.

NSL has an uncommitted overdraft facility of £2m that was undrawn as at 31 March 2009 and 31 March 2008 and is not included in the table above.

Notes forming part of the consolidated accounts

17. Derivative financial instruments

Fair value liability of derivative financial instruments	2009 £m	2008 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.3	-
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.8	4.9
Derivative financial instruments classified as held for trading		
Index-linked swaps	80.7	69.2
	82.5	74.1

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 (see note 18) and previously qualified as a hedge under UK generally accepted accounting principles prior to the group's adoption of international accounting standards.

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 NSL to meet obligations to its customers and to fund business development, and to provide returns to shareholders.

The capital structure of the group consists of debt as disclosed in note 16, cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in notes 21–23.

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 2009, NERL had a corporate rating of A+ (stable outlook) from Standard and Poor's and A2 (stable outlook) from Moody's (2008: A stable outlook / A3 positive outlook).

Gearing ratio

The group does not seek to maintain a target gearing level at group level but rather sets a gearing target for NERL, the economically regulated subsidiary, based on a ratio of net debt to its regulatory asset base (RAB). NSL has no debt and, at 31 March 2009, the group's intermediate holding company, NATS Ltd was also free of debt.

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.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Categories of financial instrument

The carrying values of financial instruments by category at 31 March was as follows:

	2009 £m	2008 £m
Financial assets		
Loans and receivables (including cash and cash equivalents and short-term investments)	254.1	201.0
Derivative instruments in designated hedge accounting relationships	0.3	-
	254.4	201.0
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(1.8)	(4.9)
Derivative financial instruments classified as held for trading	(80.7)	(69.2)
Amortised cost	(760.1)	(719.0)
	(842.6)	(793.1)

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 £11.5m has been recorded in the profit and loss account in the year (2008: £19.0m).

Financial risk management objectives

The group's Treasury function is mandated by the Board to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets quarterly to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the group's activities include market risk (including currency risk, cash flow interest rate risk and inflation risk), credit risk and liquidity risk. NATS Ltd and NSL had no borrowings at 31 March 2009. The principal financial risk in these entities is credit risk. Specific policies on interest rate and liquidity risk management apply principally to NERL.

Market risk

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

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

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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 69% of the group's turnover (2008: 70%). 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Euro	94.1	108.1	(1.6)	(12.7)
US Dollar	0.2	2.9	(0.8)	(0.3)
Canadian Dollars	0.2	0.9	(0.1)	(0.2)
Hong Kong Dollars	0.1	0.3	-	-
Norwegian Krone	0.6	-	-	-
Danish Krone	0.5	-	(0.1)	-
	95.7	112.2	(2.6)	(13.2)

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	2009 Impact £m	2008 Impact £m
Euro	(2.6)	(2.3)
US Dollar	(0.3)	(0.3)
Canadian Dollars	(0.1)	(0.1)
Hong Kong Dollars	-	-
Norwegian Krone	(0.1)	-
Danish Krone	(0.2)	-
	<u>(3.3)</u>	<u>(2.7)</u>

The group's sensitivity to foreign currency has increased during the current reporting period mainly due to an increase in net unhedged foreign currency assets. NATS believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the level of currency investments was broadly constant throughout the reporting period.

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 in 2009, 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.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

The following contracts were outstanding at year end:

	2009				2008		
	£m	£m	Average exchange rate		£m	£m	Average exchange rate
Euro sold 0-3 months	69.3	77.0	0.9002	Euro sold 0-3 months	72.3	96.0	0.7526
Euro bought 0-3 months	1.7	1.5	0.8556				
Over 3 months	1.3	1.1	0.8366				
	<u>3.0</u>	<u>2.6</u>	<u>0.8473</u>				
US Dollar bought 0-3 months	1.2	0.8	1.4733				
Over 3 months	3.6	2.4	1.4720				
	<u>4.8</u>	<u>3.2</u>	<u>1.4723</u>				
Canadian Dollar bought Over 3 months	1.5	0.9	1.8				
Norwegian Krone bought Over 3 months	4.1	0.4	10.5				
Danish Krone bought 0-3 months	1.4	0.2	8.1395				
Over 3 months	10.3	1.2	8.4241				
	<u>11.7</u>	<u>1.4</u>	<u>8.3892</u>				
Danish Krone sold Over 3 months	0.2	1.6	8.1933				

In addition to the above, NERL has entered into agreements with a contract date after 31 March 2009 to sell Euro anticipated to be received in the period June through to August 2009 totalling €130.4m, in respect of UK en route revenues.

At 31 March 2009, 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 £0.3m (2008: unrealised losses of £0.4m). These contracts will mature within the first two months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL, NSL and NATS, the intermediate holding company, had no debt at 31 March 2009 (2008: none).

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

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

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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

Economic interest rate exposure

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

2009							
Currency	Cash			Short-term deposits			Total £m
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	
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
	<u>163.5</u>			<u>25.6</u>			<u>189.1</u>

2008							
Currency	Cash			Short-term deposits			Total £m
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	
Sterling	89.6	5.5	9	17.2	5.7	184	106.8
Euro	20.0	4.1	3	-	-	-	20.0
US Dollar	2.9	2.8	8	-	-	-	2.9
Canadian Dollar	0.9	3.4	4	-	-	-	0.9
	<u>113.4</u>			<u>17.2</u>			<u>130.6</u>

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 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	0.00%	0.0
Total	<u>676.1</u>	<u>77.5</u>	<u>-</u>	<u>598.6</u>		
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	597.1	-	-	597.1	5.28%	12.0
Bank loans	77.5	77.5	-	-	6.32%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	<u>676.0</u>	<u>77.5</u>	<u>-</u>	<u>598.5</u>		

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 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	0.00%	0.0
Total	<u>676.1</u>	<u>77.5</u>	<u>200.0</u>	<u>398.6</u>		
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	397.1	-	-	397.1	5.29%	12.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.50%	0.5
Bank loans	77.5	77.5	-	-	6.32%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	<u>676.0</u>	<u>77.5</u>	<u>200.0</u>	<u>398.5</u>		

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

Notes forming part of the consolidated accounts

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.

	2009		2008	
	£m	%	£m	%
Net Debt	480.3		538.1	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.9	81.6	391.2	72.7
Index Linked	200.0	41.6	200.0	37.2
Floating (net of cash and short-term investments)	(111.6)	(23.2)	(53.1)	(9.9)
	480.3	100.0	538.1	100.0

At 31 March 2009, NERL had net debt, including an inter-company loan of £25.9m, of £611.9m (2008: net debt £598.0m), NATS Limited held cash balances of £51.0m (2008: cash £19.5m), NSL had cash of £54.1m (2008: cash £17.7m) and NATSNav had cash of £0.6m (2008: cash £0.2m).

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.

	2009		2008	
	£m	%	£m	%
Net Debt	611.9		598.0	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.9	64.0	391.2	65.4
Index Linked	200.0	32.7	200.0	33.4
Floating (net of cash and short-term investments)	20.0	3.3	6.8	1.2
	611.9	100.0	598.0	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.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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.

	2009 Impact £m	2008 Impact £m
Cash on deposit (2009: £189.1m, 2008: £130.6m)	1.9	1.3
Borrowings (2009: £77.5m, 2008: £77.5m)	(0.8)	(0.8)
	1.1	0.5

The group's sensitivity to interest rates has increased during the year following the receipt of proceeds for the one-off disposal of the old Heathrow control tower building.

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 2.981% adjusted for the movement in RPI. The index-linked swap cannot be designated as a cash flow hedge under IFRS, although it provides an economic hedge of NERL's RPI-linked revenues.

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

Inflation rate sensitivity analysis

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

	2009 Impact £m	2008 Impact £m
Change in swap interest and mark to market value	(34.5)	(29.7)

The mark to market value of the index-linked swap is also sensitive to the discount rate that is used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. NERL's index-linked swap is most sensitive to yields on swaps that mature within 10 to 15 years. The effect of a 1% increase in the discount rate on 15-year swaps would be to increase profit and equity by £12.3m (2008: £19.4m). 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 and Poor's and Moody's Investors Service.

The group's policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard and Poor's and Moody's rating agencies. Where there is a difference in the rating then the lower of the two ratings is applied.

Currently, the group's investments take the form of bank time deposits. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard and 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 and Poor's/Moody's)	Limit per Institution £m
AAA/Aaa	50.0
AA+/Aa1	40.0
AA/Aa2	30.0
AA-/Aa3	20.0
A+/A1	15.0
A/A2	10.0
A-/A3	7.5

The following table shows the distribution of the group's deposits at 31 March by credit rating (Standard and Poor's):

Rating (Standard and Poor's)	Number of institutions	2009 £m	By credit rating %	Limit utilised %	Number of institutions	2008 £m	By credit rating %	Limit utilised %
AA	1	30.0	15.9	100.0%	5	88.1	67.5	58.7%
AA-	2	37.4	19.8	93.5%	-	-	-	0.0%
A+	6	76.8	40.6	85.3%	2	23.0	17.6	76.7%
A	5	44.9	23.7	89.8%	2	19.5	14.9	97.5%
		<u>189.1</u>	<u>100.0</u>			<u>130.6</u>	<u>100.0</u>	

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity management risk, 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, NSL and NATS Ltd had no debt at year end.

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

- 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 £15.6m 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;
- 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 and c.£170.95m until November 2012, thereby ensuring that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan;
- 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;
- ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and
- 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 service income during the year:

	2009 £m	2008 £m
Average monthly UK en route services income	42.6	43.5
Free cash	45.2	53.9
Ratio of free cash to UK en route services income	<u>1.1</u>	<u>1.2</u>

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

	2009 £m	2008 £m
Bank borrowings	77.5	77.5
Gross borrowings	676.1	676.0
Bank borrowings as a percentage of gross borrowings	<u>11.5%</u>	<u>11.5%</u>

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

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.

	2009				2008			
	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	1.2	34.4	84.0	119.6	0.3	36.8	43.0	80.1
Between one and two years	-	34.7	-	34.7	1.2	36.5	-	37.7
Due between two and five years	-	242.2	-	242.2	-	185.1	-	185.1
Due in more than five years	-	727.4	-	727.4	-	828.5	-	828.5
	1.2	1,038.7	84.0	1,123.9	1.5	1,086.9	43.0	1,131.4
Effect of interest, discount and unamortised bond issue costs	-	(370.5)	-	(370.5)	(0.1)	(419.6)	-	(419.7)
	1.2	668.2	84.0	753.4	1.4	667.3	43.0	711.7

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.

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

	Due within one year or less £m	Due between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
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)
2008					
Net settled:					
Index-linked swap receivable/(payable)	3.5	3.3	8.8	(122.7)	(107.1)
Gross settled:					
Foreign exchange forward contract receivables	72.3	-	-	-	72.3
Foreign exchange forward contract payables	(77.2)	-	-	-	(77.2)
	(1.4)	3.3	8.8	(122.7)	(112.0)

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	
	2009 £m	2008 £m	2009 £m	2008 £m
Financial assets				
Accounts receivable, cash and bank balances	254.1	201.0	254.1	201.0
Derivative financial instruments				
Forward foreign exchange contracts	0.3	-	-	-
	<u>254.4</u>	<u>201.0</u>	<u>254.1</u>	<u>201.0</u>
Financial liabilities				
Trade and other payables (including dividend payable and current tax liabilities)	(84.0)	(43.0)	(84.0)	(43.0)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.4)	(597.1)	(543.9)	(552.1)
Bank loans	(77.5)	(77.5)	(77.5)	(77.5)
Other loans	(1.2)	(1.4)	(1.2)	(1.4)
Derivative financial instruments				
Forward foreign exchange contracts	(1.8)	(4.9)	(1.8)	(4.9)
Index-linked swap	(80.7)	(69.2)	(80.7)	(69.2)
	<u>(842.6)</u>	<u>(793.1)</u>	<u>(789.1)</u>	<u>(748.1)</u>

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:

	2009 £m	2008 £m
Current		
Trade payables	13.1	11.0
Other payables	11.1	14.7
Dividends payable	43.5	-
Tax and social security	9.1	9.4
Accruals and deferred income		
- deferred grants	2.1	2.4
- other	119.8	100.8
	<u>198.7</u>	<u>138.3</u>
Non-current		
Accruals and deferred income		
- deferred grants	10.2	10.2
- other	6.6	-
	<u>215.5</u>	<u>148.5</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2008: 30 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 2007	81.7	71.6	(8.5)	(1.3)	143.5
Charge/(credit) to income	10.5	(3.4)	(3.1)	(0.9)	3.1
Charge/(credit) to equity	-	47.6	(0.2)	-	47.4
At 31 March 2008	<u>92.2</u>	<u>115.8</u>	<u>(11.8)</u>	<u>(2.2)</u>	<u>194.0</u>
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	<u>113.1</u>	<u>(19.4)</u>	<u>(12.0)</u>	<u>(3.3)</u>	<u>78.4</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Deferred tax liabilities	(113.1)	(208.0)
Deferred tax assets	<u>34.7</u>	<u>14.0</u>
	<u>(78.4)</u>	<u>(194.0)</u>

21. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2009 and 31 March 2008	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2009 and 31 March 2008	54,272,594	<u>43.4</u>	12,048,193	<u>9.6</u>
		<u>187.5</u>		<u>140.6</u>

Share capital also included one £1 special rights redeemable preference share at 31 March 2009 and 31 March 2008.

Special share

The authorised and issued share capital of NATS Holdings Limited as at 31 March 2009 included one special rights redeemable preference share with a nominal value of £1. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:

- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

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

Notes forming part of the consolidated accounts

22. Share premium account

	£m
Balance as at 31 March 2008 and 31 March 2009	0.4

23. Reserves

	AESOP reserve £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2007	(0.3)	(0.2)	(34.7)	369.2	334.0
Movement in statement of recognised income and expense	-	(0.2)	-	144.4	144.2
Net profit for the year	-	-	-	49.2	49.2
Dividends paid	-	-	-	(2.4)	(2.4)
Balance at 31 March 2008	(0.3)	(0.4)	(34.7)	560.4	525.0
Balance at 1 April 2008	(0.3)	(0.4)	(34.7)	560.4	525.0
Movement in statement of recognised income and expense	-	0.7	-	(355.1)	(354.4)
Net profit for the year	-	-	-	95.2	95.2
Dividends payable	-	-	-	(43.5)	(43.5)
Balance at 31 March 2009	(0.3)	0.3	(34.7)	257.0	222.3

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

Notes forming part of the consolidated accounts

24. Notes to the cash flow statement

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating profit from continuing operations	176.8	134.4
Adjustments for:		
Depreciation of property, plant and equipment	71.0	75.0
Amortisation of intangible assets	8.3	8.5
Impairment losses	2.7	1.3
Deferred grants released	(2.1)	(3.2)
(Gain)/loss on disposal of property, plant and equipment	(43.2)	0.4
Non-cash element of charge for pension costs	(10.3)	17.1
Operating cash flows before movements in working capital	203.2	233.5
Increase in trade and other receivables	(27.4)	(13.6)
Increase in trade and other payables	34.1	34.9
Cash generated from operations	209.9	254.8
Tax paid	(18.7)	(15.7)
Net cash from operating activities	191.2	239.1

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.

25. Financial commitments

	2009 £m	2008 £m
Amounts contracted but not provided for in the accounts.	92.9	124.1
Minimum lease payments under operating leases recognised in the income statement.	19.9	19.6
At the balance sheet date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	1.5	0.9
In the second to fifth years inclusive	13.4	8.2
After five years	76.0	76.5
	90.9	85.6

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.

Notes forming part of the consolidated accounts

26. Share based payments

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

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2009	No. employee shares outstanding at 31 March 2008
21 September 2001	3,353,742	743,598	1,830,334
20 October 2003	2,459,000	691,402	1,974,000
10 September 2004	1,966,000	1,531,600	1,646,800
11 January 2008	1,071,840	988,900	1,064,800
		3,955,500	6,515,934
Dividend shares issued on 28 June 2005		88,431	214,990
Total employee shares in issue at 31 March		4,043,931	6,730,924

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

	Movement in the no. of shares during the year ended 31 March 2009	Movement in the no. of shares during the year ended 31 March 2008
Balance at 1 April	6,730,924	6,275,868
Granted during the year	-	1,071,840
Forfeited during the year	(21,200)	(13,553)
Exercised during the year	(2,665,793)	(603,231)
Balance at 31 March	4,043,931	6,730,924

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2009 the price of an employee share was valued at £2.50 (2008: £2.45). A valuation at 30 June 2008 valued the shares at £2.70. The liability on the balance sheet for the employee shares at 31 March 2009 was £8.6m (2008: £14.2m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £7.1m (2008: £1.3m).

Notes forming part of the consolidated accounts

27. Retirement benefit scheme

The company 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 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 the year 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 the scheme on a ratio of 2:1 up to a total employer cost of 18%.

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 2006, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

Notes forming part of the consolidated accounts

27. Retirement benefit scheme (continued)

Trustees' funding assessment

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2006 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purpose of the Trustees' funding assessment, it was assumed that the annual investment returns before retirement will be 1.9% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and the annual investment returns for pensions in payment will be 1.5% higher than the annual increases in pensions.

The market value of the NATS' section's assets as at 31 December 2006 was £2,785.3m. For the purpose of the Trustees' funding assessment assets were taken at market value. The assets were sufficient to cover 112% of the benefits that had accrued to existing members.

Company's accounting valuation under international accounting standards

The pension cost under International Accounting Standard 19: Employee benefits, relating to the scheme is assessed in accordance with the advice of independent qualified actuaries.

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

The Trustees' funding assessment carried out at 31 December 2006 was updated to 31 March 2009 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:

	2009	2008
Inflation	3.40%	3.60%
Increase in:		
- salaries	3.90%	4.80%
- deferred pensions	3.40%	3.60%
- pensions in payment	3.40%	3.60%
Expected return on:		
- equities	7.05%	7.60%
- property	7.05%	7.60%
- bonds	4.40%	4.95%
Discount rate for scheme liabilities	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 PMA92 and PFA92 medium cohort. These tables assume that the life expectancy, from age 60, for a male pensioner is 26.3 years and a female pensioner is 29.2 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 27.0 years and for females to 29.9 years.

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 10.6%/increase by 12.2%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.2%/decrease by 10.6%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.6%/decrease by 4.4%
Rate of mortality	Increase by 1 year	Increase by 1.8%

Notes forming part of the consolidated accounts

27. Retirement benefit scheme (continued)

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

	2009 £m	2008 £m
Current service cost	(98.2)	(110.3)
Past service cost	(5.8)	(3.9)
Expected return on scheme assets	198.8	196.0
Interest cost on scheme liabilities	(152.1)	(136.6)
Total defined benefit charge recognised in arriving at operating profit	(57.3)	(54.8)

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

	2009 £m	2008 £m
Actual return less expected return on scheme assets	(868.0)	(175.6)
Experience gains and losses arising on scheme liabilities	43.4	100.6
Changes in assumptions underlying the present value of the scheme liabilities	331.4	267.0
	(493.2)	192.0

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

	2009 £m	2008 £m
Fair value of scheme assets	2,188.9	2,846.2
Present value of defined benefit obligations	(2,258.3)	(2,432.7)
(Deficit)/surplus in scheme	(69.4)	413.5

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

	2009 £m	2008 £m
At 1 April	2,846.2	2,833.1
Expected return on scheme assets	198.8	196.0
Actuarial gains and losses	(868.0)	(175.6)
Contributions from scheme members	16.0	15.8
Contributions from sponsoring companies	67.6	37.7
Benefits paid	(71.7)	(60.8)
At 31 March	2,188.9	2,846.2

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

	2009 £m	2008 £m
At 1 April	(2,432.7)	(2,594.5)
Current service cost	(98.2)	(110.3)
Past service cost	(5.8)	(3.9)
Interest cost	(152.1)	(136.6)
Actuarial gains and losses	374.8	367.6
Contributions from scheme members	(16.0)	(15.8)
Benefits paid	71.7	60.8
At 31 March	(2,258.3)	(2,432.7)

Notes forming part of the consolidated accounts

27. 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Equity Instruments	1,151.9	1,716.8	7.05%	7.60%
Property	357.3	447.1	7.05%	7.60%
Bonds	645.5	653.4	4.40%	4.95%
Cash	34.2	28.9	4.40%	4.95%
	<u>2,188.9</u>	<u>2,846.2</u>	<u>6.23%</u>	<u>6.97%</u>

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(2,258.3)	(2,432.7)	(2,594.5)	(2,461.6)	(2,008.8)
Fair value of scheme assets	<u>2,188.9</u>	<u>2,846.2</u>	<u>2,833.1</u>	<u>2,668.6</u>	<u>2,077.8</u>
(Deficit)/surplus in the scheme	<u>(69.4)</u>	<u>413.5</u>	<u>238.6</u>	<u>207.0</u>	<u>69.0</u>
Experience adjustments in scheme liabilities					
Amount (£m)	<u>43.4</u>	<u>100.6</u>	<u>30.7</u>	<u>27.8</u>	<u>70.1</u>
Percentage of scheme liabilities	<u>(1.9%)</u>	<u>(4.1%)</u>	<u>(1.2%)</u>	<u>(1.1%)</u>	<u>(3.5%)</u>
Experience adjustments in scheme assets					
Amount (£m)	<u>(868.0)</u>	<u>(175.6)</u>	<u>(5.2)</u>	<u>428.1</u>	<u>95.7</u>
Percentage of scheme assets	<u>(39.7%)</u>	<u>(6.2%)</u>	<u>(0.2%)</u>	<u>16.0%</u>	<u>4.6%</u>

Notes forming part of the consolidated accounts

28. Related party transactions

Since 26 July 2001, the NATS group has had two major shareholders - the Crown and The Airline Group (AG). During the year transactions with the Crown have taken place with the Meteorological office, the Department for Transport (DfT) and the Ministry of Defence (MoD).

AG is a consortium of seven airlines: British Airways, bmi, easyJet, Monarch, Thomas Cook, Thomsonfly and Virgin Atlantic. AG has a 42% stake in NATS Holdings Limited which it purchased through the PPP transaction in July 2001. The directors of NATS Holdings Limited are satisfied that the seven members of the AG have not exercised undue influence on the group either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

From 1 April 2008, all charges in relation to air navigation services provided at airports were billed under the new contract with BAA Limited. Contractual arrangements exist between BAA Limited and NATS (Services) Limited (NSL) in relation to air navigation services provided at Southampton airport and BAA's London airports and where NSL invoices BAA Limited. NSL also provides air navigation services to BAA's Scottish airports where the charges are currently invoiced to airlines.

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 company's 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 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
BAA Limited	151.7	88.7	7.0	-	12.9	10.0	1.4	-
Ministry of Defence (MoD)	51.6	45.0	3.6	3.6	0.4	4.0	4.5	2.2
The Airline Group (AG)	-	-	0.2	-	-	-	-	-
Department for Transport (DfT)	1.4	0.5	-	-	0.1	-	-	-
Meteorological Office	0.1	0.2	0.7	0.5	-	-	0.1	0.2

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

Notes forming part of the consolidated accounts

28. Related party transactions (continued)

Remuneration of key management personnel

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

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Short-term employee benefits	5.1	4.4
Post-employment benefits	0.6	0.5
Termination benefits	-	0.1
	5.7	5.0

In addition to the above directly employed personnel, the group's key management also includes personnel employed as consultants who receive fees for their services. The aggregate amount of these fees was £nil (2008: £nil).

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 2008/09 at a cost of £129,673 (2008: £76,422). This work was at the request of Ian Mills, Chief Operating Officer and Philip James, HR Director who have utilised her skills and understanding in specific leadership tools and techniques being introduced across the company. There were no amounts outstanding at 31 March 2009 (2008: nil).

Notes forming part of the consolidated accounts

29. Subsidiaries and associates

The group's principal subsidiaries at 31 March 2009, 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
NATNav 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 2009, 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	01/09/2008	16.67%	France

Summarised financial information relating to the associate	At 31 December 2008 £m
Total Assets	0.9
Total Liabilities	(0.9)
Revenues	-
Profit/(loss)	-

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). Included in the group accounts are its share of losses of £nil. Although the group holds less than 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 is 31 December 2008 the results have not been restated as the reporting date is within three months of the reporting date of the group.

30. Contingent liabilities

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

Company Accounts

Company balance sheet at 31 March 2009

	Notes	2009 £m	2008 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Current assets			
Trade and other receivables		43.5	-
Total assets		184.5	141.0
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	6	-	-
Total equity		141.0	141.0

The financial statements were approved by the Board of directors on 25 June 2009 and signed on its behalf by

John Devaney
Chairman



Nigel Fotherby
Finance Director



Notes to the financial statements

1. Cash flow statement

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

2. Significant accounting policies

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

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

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

3. Profit for the year and dividends

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

Profit for the year has been arrived at after charging:

	2009 £m	2008 £m
Staff costs	-	-
Auditors' remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2008: nil).

Dividends

Amounts recognised as distributions to equity holders in the period:

Interim dividend for the year of 30.41 pence per ordinary share (2008: 1.67 pence)

	2009 £m	2008 £m
Interim dividend	43.5	2.4

4. Investments

Investments at 31 March 2009 and 31 March 2008

The company's investments in subsidiary undertakings are part of the group's principal subsidiaries as set out in note 29 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 notes 21 and 22 to the consolidated financial statements.

6. Retained earnings

	£m	£m
Balance at 1 April 2008	-	-
Net profit for the year	43.5	2.4
Dividends payable/paid	(43.5)	(2.4)
Balance at 31 March 2009	-	-

7. Statement of changes in equity

	£m	£m
Balance at 1 April 2008	141.0	141.0
Net profit for the year	43.5	2.4
Dividends payable/paid	(43.5)	(2.4)
Balance at 31 March 2009	141.0	141.0

8. Financial instruments

Other than dividends receivable and payable, the company held no financial instruments at 31 March 2009 (2008: none).

