

NATS

NATS Holdings Limited

Annual Report and Accounts 2011



Contents

Click on the boxes below to access each section.

You may return to the contents page at any time by clicking on the arrow located on the top-right corner of each page.

■	Our business	04
■	Highlights	05
■	Chairman's statement	06
■	Business and financial review:	
■	Chief Executive's review	10
■	Financial review	30
■	Principal risks and uncertainties	36
■	Corporate governance	40
■	Remuneration Committee report	50
■	Key Performance Indicators	61
■	Directors of NATS Holdings Limited	62
■	Report of the directors	66
■	Report of the independent auditors	70
■	Consolidated accounts for the year ended 31 March 2011:	
■	Consolidated income statement	72
■	Consolidated statement of comprehensive income	73
■	Consolidated balance sheet	74
■	Consolidated statement of changes in equity	75
■	Consolidated cash flow statement	76
■	Notes forming part of the consolidated accounts	77
■	Company accounts for the year ended 31 March 2011:	
■	Company balance sheet	135
■	Company statement of changes in equity	136
■	Notes forming part of the company accounts	137



Our business

“Our vision is to be acknowledged as a global leader in innovative air traffic solutions and airport performance.”

NATS Holdings Limited (NHL) owns two principal operating subsidiaries and a number of other companies which, together with NHL, form the NATS Group. NATS provides air traffic control services for aircraft flying ‘en route’ in UK airspace and the eastern part of the North Atlantic through its subsidiary NATS (En Route) plc and at 15 airports in the UK and at Gibraltar through NATS (Services) Limited.

Our vision is to be acknowledged as a global leader in innovative air traffic solutions and airport performance.

NATS (En Route) plc

NERL is the sole provider of en route services in the UK. It is economically regulated and operates under licence from the Civil Aviation Authority (CAA). It operates from two air traffic control centres, at Swanwick in Hampshire and Prestwick in Ayrshire.

NATS (Services) Limited

NATS Services provides air traffic services at most of the UK’s major airports, including all six owned by BAA Airports Limited. These range from the world’s busiest for international flights, Heathrow, and Gatwick, the world’s busiest single-runway airport, to the city airports of Glasgow and Edinburgh. NATS also manages air traffic at airports in Manchester, Birmingham, London City, Luton and Farnborough.

NATS Services also provides engineering, consultancy, training and aviation information management services to customers in the UK and overseas.

Highlights

- We handled 2.1 million flights in the year (2010: 2.2 million) and maintained our safety record, with no risk-bearing airprox attributable to NATS.
- Average delay per flight was 4.3 seconds, exactly in line with the previous year.
- By providing our customers with more efficient flight profiles we saved them 12,000 tonnes of fuel, equivalent to 38,000 tonnes of CO₂ emissions, worth approximately £7.5m based on average fuel prices and exchange rates for 2011.
- The price control review for the economically regulated en route business for the four calendar years 2011 to 2014 (Control Period 3 or CP3) was concluded. It has set challenging service performance and operating cost efficiency targets, with a focus on ensuring that good past performance is sustained.
- Revenues increased by £22m to £777m (2010: £755m) mainly reflecting increased regulatory allowances following the outcome of the price control review and from better airport air traffic services revenues.
- Profit before tax improved by £28m to £106m (2010: £78m).
- In line with our capital investment plan for the year, we invested £123m (2010: £142m) in air traffic control infrastructure and systems. Over the last five years the en route business invested £675m.
- Net debt at £528m (2010: £520m) was £8m more than previously. The level of gearing (net debt relative to regulatory assets) of the economically regulated business was 57% (2010: 55%).
- Shareholders received dividends of £40m (2010: nil).

Chairman's statement

“The progress we have made since the PPP has resulted in a marked improvement in safety, service and financial viability.”



This year marks the tenth anniversary of the Public Private Partnership (PPP) – ten years in which NATS has established itself as a world leader in air traffic control.

The progress we have made since the PPP has resulted in a marked improvement in safety, service and financial viability – none of which we would have achieved without the professionalism, commitment and hard work of the management team and employees and on behalf of the Board, I would like to record our thanks.

Over the past decade we have invested £1.1bn in new infrastructure and systems which has led to improved productivity and contributed to a 30% real reduction in the underlying controllable costs of the en route operation.

The business is reporting a £106m profit this year. It is financially stable and paid dividends to shareholders of £40m. This is an excellent foundation upon which we can grow.

Much work has also been completed on our growth strategy over the past year. This has included work to identify our core competencies and how we can exploit them in targeted and profitable growth opportunities. The Board is very enthusiastic about the potential this offers, and the clear commercial focus it adds to the business.

Chairman's statement

This strategy includes partnerships which will help strengthen our position in key markets – such as our joint venture with Ferrosar to bid to provide control tower services at airports in Spain; and opportunities to develop new and innovative products and solutions that provide real value to our customers – such as Airport Collaborative Decision Making (A-CDM), which improves airport efficiency through better coordination of all the interdependent functions on the ground.

This work to reposition the business has been led by Richard Deakin, whose arrival as Chief Executive Officer a year ago was marked by the eruption of Iceland's Eyjafjallajökull volcano, paralysing flights across Europe for six days. Richard's strong leadership was evident from the start as our people worked round the clock with customers and regulators in the UK and Europe to get the airlines flying again, and joined regulators and engine and aircraft manufacturers to find a long-term solution.

Another significant milestone in the past year was the confirmation by the Civil Aviation Authority (CAA) of the price control for NATS' en route services for the four calendar years 2011-2014 in response to our business and investment plans. For NATS it secures a £2.2bn contract (expressed by the regulator in 2008/9 prices) for the next four years and the investment required to provide capacity to meet forecast traffic growth. Customers will continue to benefit from the



Chairman's statement

tough service performance and operating cost efficiency targets set by the CAA to ensure that we continue to maintain and improve our service.

As part of the agreed review process we consulted customers last summer on our draft plans, which enabled us to shape our proposals around our customers' priorities. The CAA has acknowledged the thoroughness of our approach to the review, the outcome to which will form a key part of the UK National Performance Plan under the new European performance scheme starting next year.

The economic environment was not ideal for such a crucial regulatory review, given the current uncertainty in the face of the continuing global recession and the economic difficulties facing the UK in particular. The return to growth in air traffic volumes is aligned with recovery in the economy and the outlook remains uncertain. Last October we saw very modest growth in traffic volumes for the first time since June 2008 but this was not sustained due to the unusually harsh weather over the winter across Europe. Since January 2011 we have seen low rates of growth and we await new Government forecasts on passenger demand later this summer.

The UK Government has signalled a change of direction in aviation policy which will be developed over the next two years. NATS, as custodian of UK controlled airspace – part of the national transport infrastructure – will

contribute fully to that process. Over the past year NATS has participated in the Aviation Minister's South East Airports Task Force and has demonstrated how efficiently our air traffic control system operates within current infrastructure constraints.

Ian Hall, Operations Strategy & Standards Director, is retiring from the Board and taking on a new part-time role as International Operations Director as he looks towards his retirement. Ian has played a pivotal role in developing NATS' excellent service delivery record and his significant contribution to the industry was recognised with the award of Member of the Order of the British Empire (MBE). I would like to thank him for his service to the Board and congratulate him on his award.

This was also the year the UK Government confirmed its intention to realise value from its shareholding in NATS, subject to considering the views of key interested parties. Ten years after the PPP, NATS is delivering a safe and high quality service to its customers with a commercial focus that has made it profitable and financially robust. A change in ownership will not alter these priorities.



John Devaney
Chairman

Chairman's statement

“Over the past decade we have invested £1.1bn in new infrastructure and systems which has led to improved productivity.”



Chief Executive's review

“In April 2010, we saw first hand the amazing commitment, professionalism and flexibility of our workforce.”



The year began with a volcanic eruption which grounded most of the aircraft in western Europe, took in some of the worst winter weather disruption ever experienced in the UK and still finished with a strong set of financial results and improved performance for shareholders and customers alike.

We have developed a robust strategy to grow our business, seen a balanced conclusion to the latest regulatory review of our en route charges, delivered transformational technology into our operations and embarked on a series of partnership ventures to help achieve our industry's vision for a Single European Sky (SES).

We delivered a safe service, maintained our excellent service performance with delay per flight of 4.3 seconds and reported a pre-tax profit of £106.1m (2010: £78.3m).

We have achieved our financial and non-financial Key Performance Indicators, established to track our progress against our business plan objectives (page 61).

This year also marks ten years as a Public Private Partnership (PPP) and while we are satisfied with the progress we have made, and the focus we have brought to our business, this is just the start of a much bigger journey reflecting a greater ambition for NATS.

Chief Executive's review



To this end we have developed a strategy to defend and maintain our existing business, to identify the opportunities and markets to grow our business, and to ensure that we have the capabilities and skills to enable that growth.

Volcanic Ash

In April 2010, we saw first hand the amazing commitment, professionalism and flexibility of our workforce when, only two weeks into the financial year, the Eyjafjallajökull volcano erupted in Iceland bringing flights to a standstill across Europe. The ash cloud presented an unprecedented situation for aviation, given the unequivocal guidance from the International Civil Aviation Organisation (ICAO) to 'Avoid Avoid Avoid'. These factors led to the Civil Aviation Authority (CAA) restricting airspace use in the UK for six days, with many other European countries following suit. The disruption was extremely costly for the industry and resulted in a 21% reduction in flights in April 2010. The loss of revenue to NATS was £5m.

As the depth of the crisis unfolded, our communications cell served as a nerve centre for the UK industry and liaison with the wider industry across Europe, and with the Government's crisis system. Our website took 5m hits in that unprecedented week last April and our press team dealt with 3,000 media calls.

Chief Executive's review

We were at the heart of efforts with engine manufacturers and regulators to find a solution which has led to revised global volcanic guidelines from ICAO, giving airlines the decision-making responsibility; and better coordination throughout Europe should we ever have another similar event. These new procedures were tested in May 2011 when an ash cloud from the Grímsvötn volcano in Iceland affected airspace in the north of the UK.

A report published in April 2011 by the National Academy of Sciences unequivocally endorsed the measures taken to ensure the safety of the travelling public during the volcanic disruption last year.

Single European Sky

European coordination is more important than ever in terms of achieving the SES which is driving the evolution of Europe's air traffic management (ATM) industry. With new network performance measurements being introduced across Europe in 2012, UK performance may increasingly be influenced by actions taken across the rest of the European network. Over the past year, approximately 80% of the delay to flights operating to/from the UK was generated from outside the UK. I have been appointed to EC Vice President Siim Kallas' Aviation Plan, a useful forum for engaging with top EU aviation players and policy-makers.

At the heart of SES lies a technology solution, the SES Air Traffic Management Research project (SESAR); and a geographic solution to manage airspace on the basis of practicality rather than nationality through the creation of Functional Airspace Blocks (FABs).

NATS is playing a leading role in developing the SES structure and delivering its benefits. We have been active in developing closer alliances with other ANSPs to pave the way for further performance improvements and reduced costs.

The UK/Ireland FAB is the most mature in existence. We have a high level of customer, military and Trades Unions involvement and we are delivering tangible operational and financial benefits. Work this year included the creation of a route-free block of upper air space allowing airlines to fly optimal flight paths, night-time fuel-saving routes and the introduction of North Atlantic continuous descent approaches for Manchester arrivals. We estimate that over the next five years some 15,700 tonnes of fuel, equivalent to 50,000 tonnes of CO₂ emissions, will have been saved annually through these projects, saving some £48 million at average fuel prices and exchange rates for 2011 – four times the target.

Chief Executive's review

We are also now working to align our plans with adjacent FABs. We have signed two Memoranda of Understanding, one with the Danish and Swedish ANSPs, and one with a wider grouping of Northern ANSPs, to explore opportunities for further co-operation.

Strong engagement in SESAR is essential as is effective partnership. NATS is playing a leading role in bringing together a group of the largest ANSPs (the 'A6') to align our R&D investment and deliver real and substantial benefits to customers.

The challenge for next year will be to work out how the outcomes of the R&D projects are to be deployed and financed. We are now at an important milestone as we look towards system-wide definition and implementation phases in the years ahead and we will seek to focus on those projects that deliver the most benefit – at national, FAB and European level.

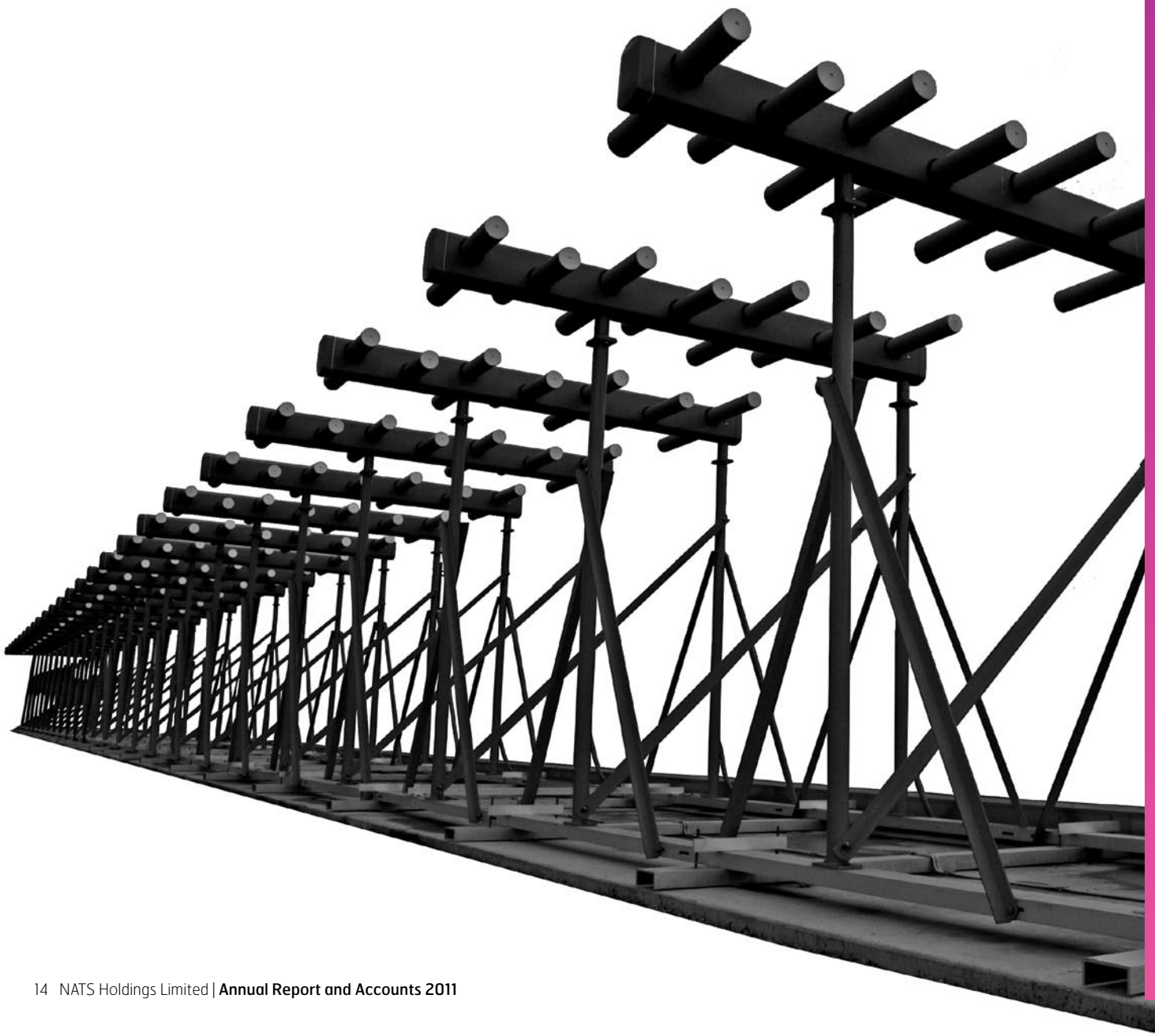
A new European Performance Scheme was agreed this year by Member States to improve the performance of ANSPs, setting targets from January 2012 for safety, cost efficiency, airspace capacity and delay and environmental impact. The outcome of the CAA's CP3 price control review constitutes the majority of the economic component of the UK's national performance plan.

Regulatory Price Review

The CAA concluded its review of en route charges for the period 2011-14 (Control Period 3). Our customer-centric approach to this review was, in our view, highly successful as it provided deep insights into our customers' requirements and priorities for safety, service quality, fuel efficiency, cost efficiency, airspace capacity, capital investment and European initiatives. It also allowed customers to understand the operational and financial constraints that face the company fulfilling these requirements. Overall, we believe the review represents a balanced outcome for both us and our customers. It provides us with a £2.2bn (expressed by the regulator in 2008/09 prices) contract which allows the resources to meet our operating and long-term investment plans and sets tough service performance and cost efficiency targets. It also includes provision for an environmental metric, currently being developed.

An outcome of the CP3 review was a set of rigorous and demanding service performance metrics for NERL which provide an opportunity to earn a financial bonus or suffer a penalty. The specific focus of these is on: achieving negligible delay so that flights can operate reliably to schedule, reducing delay for first rotation flights where the potential for knock-on effects is greatest, reducing the overall severity of delays for delayed flights and ensuring greater consistency in day-to-day service.

Chief Executive's review



Chief Executive's review

“We are already seeing the results of current investment with the next generation of air traffic control tools coming into operation.”

Investment

We are already seeing the results of current investment with the next generation of air traffic control (ATC) tools coming into operation at our centres. As SESAR unfolds, we have been careful to ensure that our own technology roadmap is tightly aligned with it.

Projects such as Electronic Flight Data (EFD) and interim Future Area Control Tools (iFACTS) will help reduce controller workload enabling them to handle more traffic and increase system capacity. The first stage of a two-stage transition to EFD at Prestwick was completed in January. This is a highly complex project replacing handwritten paper flight progress strips and providing the right environment for future tools developments. We continue to make improvements to the system during this financial year to ensure that the performance of the system will meet summer traffic peaks. During this coming summer, controllers will still be able to operate in parallel on paper flight strips so as to ensure our service is as efficient as possible. iFACTS is expected to be fully operational at Swanwick area control in the 2011/12 financial year. It will provide controllers with an advanced set of support tools in order to reduce workload and so increase the amount of traffic that can be handled safely. These tools, based

on trajectory prediction and medium-term conflict detection, provide decision making support and facilitate the early detection of potential conflicts.

An often overlooked area of our operation is our support to the North Sea oil and gas industry. Helicopters in transit to and from oil and gas platforms are now visible from take-off to landing, thanks to a new multi-lateration system introduced in December. This tracks the aircraft using signal transmitters and receivers fitted to offshore rigs giving much greater range than radar, which can only track them 80 miles from land. This contribution to the safety of the North Sea energy industry has been recognised by the industry, winning the Innovation in Safety Award at the 2011 Oil & Gas Industry Safety Awards.

Three years ahead of schedule, NATS and the Ministry of Defence (MoD) – one of our biggest customers – successfully completed in August 2010 Project Eastern Sunrise, part of the joint strategy for military controllers to operate on the same technical platform and in the same operations room as their NATS colleagues. Project Eastern Sunrise completed the transfer of London Military operations from West Drayton to Swanwick, and the move of the Scottish Area Control Centre to Prestwick. It will generate significant cost and operational benefits for both the MoD and NATS.

Chief Executive's review

Environment

In 2008, NATS became the first air traffic management company in the world to calculate the baseline CO₂ performance of its airspace and to set a clear target to reduce air traffic related CO₂ by an average of 10% per flight, compared to 2006 levels, by 2020 even with the predicted increase in traffic. Customers have confirmed their very high priority for flight profiles that reduce fuel burn and emissions and we are developing with them and the CAA a flight efficiency metric to incentivise our environmental performance from 2012.

In the past year we enabled fuel savings of 12,000 tonnes from delivering more efficient route profiles, and other joint initiatives with airlines, equivalent to 38,000 tonnes of CO₂. At average fuel prices and exchange rates for 2011, this equates to around £7.5m in savings for customers. For the 2012 financial year, we have targeted savings of 23,000 tonnes of fuel (73,000 tonnes of CO₂), worth around £14.0m.

A highlight of last year through our work with the cross-industry initiative Sustainable Aviation, was testing a 'Perfect Flight' between Heathrow and Edinburgh. BAA, British Airways and NATS coordinated to ensure every stage of the journey was calibrated to achieve optimal performance. The flight used

around 350kg less fuel generating around one tonne less CO₂ (about 11%) on the norm for the route. While the complexity of UK airspace prevents us from doing this every day, it has demonstrated the potential for improvement.

Environmental considerations are now a requirement of all our investment projects which are required to understand their impact and, where possible, to target improvements.

The achievements above demonstrate the extent to which our values now permeate our activities. These underpin all our activities and our employees understand the expectations that they present across the business. This awareness is underpinned by mechanisms and measures to support this 'business as usual' approach to adding value to our business. This year, reflecting the immense amount of work we have done to position our commercial offering for the market, we have added a seventh brand value to articulate our growth ambitions: innovating for growth.

Chief Executive's review

Innovating for Growth

The global drive to improve aviation's efficiency is now providing a broader range of business opportunities for NATS to leverage its core competencies, including: initial moves in the liberalisation of Europe's airport ATC market; the demand by airlines and airports for real-time traffic information to improve operational and fuel efficiency; major programmes to implement a new generation of air traffic management (ATM) technology in Europe (SESAR) and the USA (NextGen); and military ATC outsourcing to reduce defence budgets.

Our vision is for a company which has a strong core UK business that achieves some organic growth, but with major growth being delivered in new business areas through innovation, partnerships, joint ventures and acquisitions. Twelve of the company's 16 airport contracts are due for renewal by March 2013, making retention of the existing portfolio fundamental to the business. We will achieve this by focusing on service levels, improving price propositions and increasing the value we offer.

We are developing new business opportunities primarily in international ATC towers, technology/infrastructure integration and real-time operational

information; facilitated by expanding consulting services and the company's international presence to build relationships and extend reach into target markets.

We have made a good start in developing a broader understanding of customer requirements and seeking partnerships to develop local understanding in new markets. Our joint venture with Ferroser is one example. We have partnered with them as FerroNATS to bid for airport tower operations in Spain. Also, we will be establishing an office in the USA to enable us to partner with organisations bidding for work packages in the NextGen project, the US equivalent of SESAR, and we will continue to build on our success in India and the Middle East, as opportunities present themselves.

During the year we won a contract from Gatwick Airport to install our Airport Collaborative Decision Making (A-CDM) software tool which will allow the best use of its runway, stands and slots by significantly increasing the efficiency of the airport's handling of aircraft. The system links Gatwick to the European air traffic network; as such it is a key product for further development in Europe where it can be used as an entry point to SESAR.

Chief Executive's review

“We are targeting to reduce our safety risk index by 40% over the next four years, which will be very challenging.”

We have also secured contracts for airspace development in Oman and Japan, capacity improvements at Mumbai, and training in Spain, together with ongoing work in Qatar and Hong Kong.

We are enhancing the company's commercial capabilities in order to manage an expanding international business, underpinned by its ongoing commitment to safety, people, environment, operational and technical excellence and cost efficiency.

Our strategy is to focus primarily on growth in the aviation market in the medium-term. This recognises the significant opportunities potentially available in an industry where NATS' reputation and capability set are very strong.

Proactive in Safety

Safety will always be our first priority and our strategy is to deliver the next generation of capability in terms of people, leadership and new technology in order to continue to reduce the risk in our operation.

Our high level safety objectives for the last two years have been to achieve zero NATS attributable risk bearing airprox and a 36% (roughly 20% each year) reduction in our safety risk index. Against these challenging objectives we have achieved zero NATS

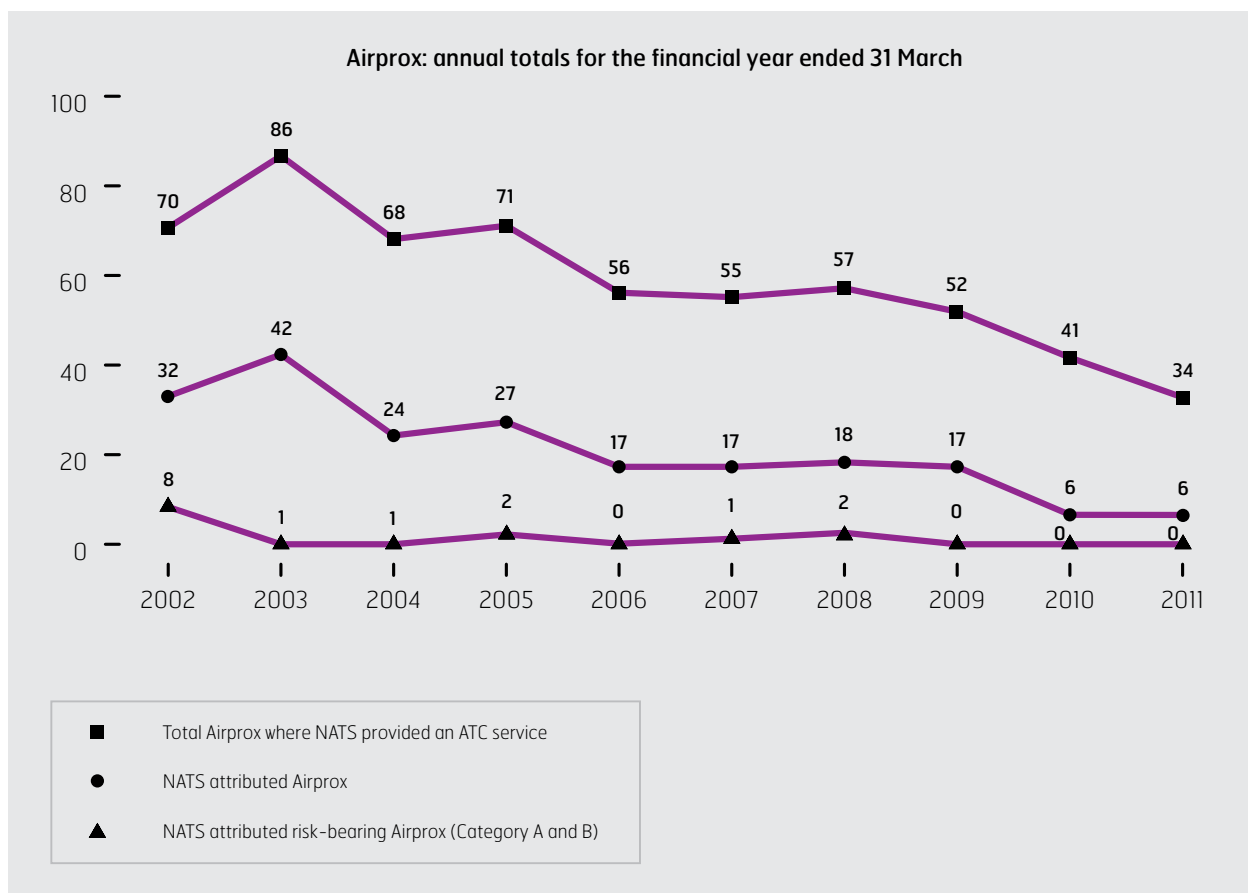
attributable risk bearing airprox and a 31% (28% in 2010 and 5% in 2011) reduction in our safety risk index.

Our performance is evidence of our systematic and ongoing programme of safety improvement covering human performance, technical systems, airspace procedure and design, and a focus on key operational risks.

Among our many innovations, we have introduced the Controlled Airspace Infringement Tool (CAIT) into our Prestwick Centre, developed and implemented at Swanwick a Barometric pressure setting Advisory Tool (BAT) to detect, and thus reduce, level busts (an aircraft deviation of 300 feet or more from its assigned level), and won an industry award for AWARE, a 'sat-nav of the skies' developed in partnership with Airbox. AWARE displays the boundaries of controlled airspace to help general aviation pilots avoid inadvertently entering it. Since we launched AWARE in February 2010 these infringements have fallen by 18%.

We are targeting to reduce our safety risk index by 40% over the next four years, which will be very challenging. As more than 70% of the risk in NERL is in London terminal airspace, the focus of our improvement actions will be on this part of our operation although we will of course continue to drive improvement at all our units.

Chief Executive's review



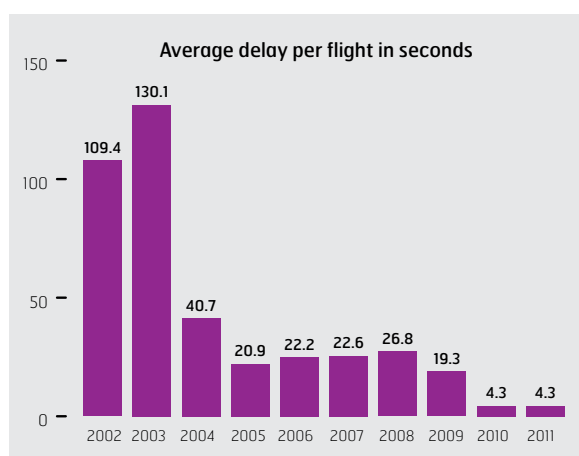
Note: Safety statistics for 2011 include NATS' assessment of the outcome of the UK Airprox Board reviews

Chief Executive's review

Tuned into Customers

We continue to engage our customers and embed customer focus throughout our business. Our objective is to provide consistent service performance to customers and minimise the impact of implementing our capital programme.

Overall for 2011 we maintained our excellent delay performance, which averaged 4.3 seconds per flight (2010: 4.3 seconds). Of this, 0.5 seconds was attributable to the introduction of new technology.



We aim to maintain staffing at levels to operate the service safely and with good resilience, and with a careful balance between keeping delays due to staffing at an absolute minimum and consistent with efficiency objectives.

We have also continued to develop our contingency capability to ensure that service recovers quickly to be capable of handling 85% of peak pre-incident demand within ten days of a catastrophic incident at either our Swanwick or Prestwick centres.

Customer engagement is centred around the Operational and Safety Partnership Agreements (OPA and SPA) where we work together towards delivering operational improvements and collaboratively agreeing priorities.

These are regarded as best practice in terms of engagement with customer airlines and this year we established a parallel means of engaging with our airport customers through the Airports Working Group (AWG).

The results of our latest Customer Survey, to establish how well we meet customer priorities and expectations, indicate that our performance is getting better with a satisfaction index of 81% compared with 77% previously.

Chief Executive's review

“Overall for 2011 we maintained our excellent delay performance, which averaged 4.3 seconds per flight.”



Chief Executive's review

Driving Efficiency

Our efforts to drive efficiency in NERL have gone a long way to avoiding larger en route price increases. Since the PPP we have reduced the underlying controllable costs of our en route services by some 30% in real terms. This includes completion of a major cost saving programme this year which delivered a £45m (circa 15%) reduction on our previously planned underlying cost base, equivalent to £180m over CP3. The savings were mainly achieved by reducing the number of non-controller staff by 17% (around 450 staff) compared with the position at the end of 2009.

NATS Services continues to make progress towards the target it set itself to reduce its cost base by £10m relative to previously planned levels. It exceeded its £5.2m target for 2011 and is working on its plans to further reduce costs through the implementation of new technology changes to working practices.

This year we were awarded the prestigious Gold certification from the Chartered Institute of Purchasing and Supply (CIPS), following a rigorous 12-month review process. NATS now joins an elite group of only eleven UK organisations to have reached this level.

Last year's completion of the Prestwick Centre on time and within budget was also recognised, by the Association for Project Management, winning their Best Project of the Year Award and the overall Best Achievement award from all the awarded categories. Consolidation of our Manchester and Prestwick operations is saving us almost £4.5m annually in costs, around 5% of the cost of the combined operations previously.

Liberating and Inspiring

Our people are professional, committed and proud of what they do. This report already refers to the exceptional response by our staff to the volcanic crisis last spring, replicated in the heavy December snow when employees made tremendous efforts to get to work to ensure no service disruption.

Our relationship with the Trades Unions, founded on principles of working together, has been tested this year as we entered a pay round in the harshest economic climate. It has been a difficult negotiation for both sides, and a credit to the strength of the relationship, as the company seeks to secure an affordable settlement which ensures our market competitiveness whilst recognising the significant role our staff play in delivering exceptional service to our customers.

Chief Executive's review

“We have made great strides in changing our corporate mindset, ensuring that environmental impact is considered in how we control aircraft on a day-to-day basis.”

We have put considerable effort into training our line managers to help enhance understanding of the relationship with our Trades Unions. Training is always central to ongoing development across the business and this year more than 400 people have received training focused on improving leadership and performance management skills. We have also developed consultancy and commercial skills training and continued to improve communications skills training for frontline managers. We continue to listen to and act upon the feedback of our employees through our annual employee survey.

Acting Responsibly

As part of the CP3 price control review we have committed to formulating an environmental metric and will be the first ANSP in the world to do so. We have reported for a second year on progress on our targets and we are leading industry work through CANSO.

We have made great strides in changing our corporate mindset, ensuring that environmental impact is considered in how we control aircraft on a day-to-day basis, in how we develop our airspace and procedures, the investment decisions we make and how we run our business.

NATS is a founder member of Sustainable Aviation (SA), a unique coalition of the UK aviation industry set up to address its long-term sustainability. This year we chaired both its Operational Improvements Work Stream and the Communications Group as SA delivered its third Progress Report.

We have also continued to support worthy causes in the local community through our Footprint Fund, which reviews applications from staff for support.

Great Partners to Work With

Effective partnership is crucial for NATS, whether it is with our customers and suppliers, with Government or with neighbouring ANSPs.

We are now seen as a partner of choice, whether by other ANSPs in areas such as alliance and technology work, or by commercial partners seeing opportunities with a forward-thinking, creative company. We were delighted to have been recognised for our value as a partner when NATS Services won the award for 'best business partner' from the Airport Operators Association (AOA) for the work we did with Gatwick on introducing A-CDM, explained above.

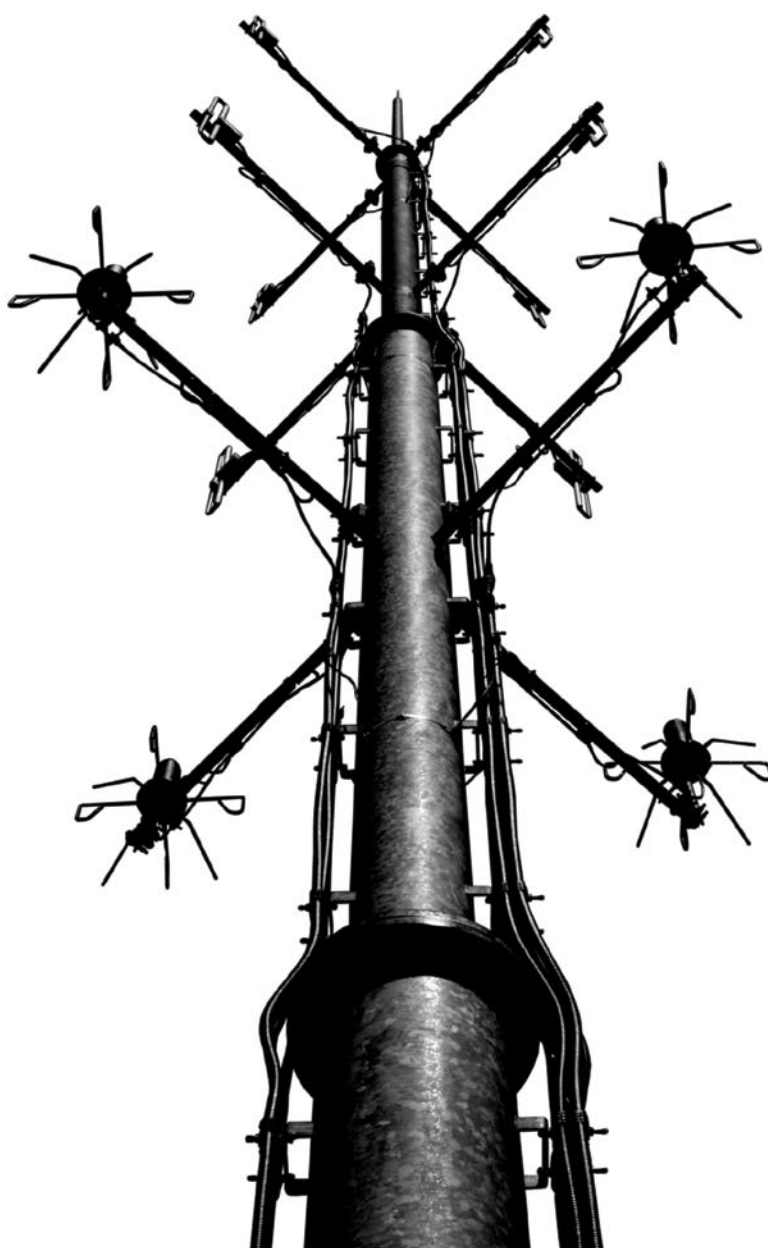
Chief Executive's review

Overview of Financial Performance

NATS operates UK and North Atlantic en route air traffic control services through its economically regulated subsidiary, NERL, and provides airport air traffic control and commercial services through its subsidiary NATS Services. The activities of other subsidiaries are set out in note 29 to the accounts.

The group's revenue improved by £22.4m to £777.3m (2010: £754.9m) and it recorded a profit before tax for the year of £106.1m (2010: £78.3m). This result, and that of the last financial year, included some exceptional items. The underlying result, excluding exceptionals, was a profit of £117.5m (2010: £100.7m). The group's result is explained in more detail in the Financial review on page 30.

NERL reported a profit before tax of £70.8m (2010: £54.9m), including exceptional charges of £8.0m (2010: £20.2m). Before these exceptional items, the underlying result was a profit of £78.8m (2010: £75.1m), £3.7m higher than previously. This mainly reflected the impact of higher revenues, the benefit of actions taken to save costs, and lower pension charges. These offset significant finance costs associated with the index-linked swap contract.



Chief Executive's review

NATS Services reported a profit before tax of £35.6m (2010: £23.3m), including exceptional charges of £3.4m (2010: £2.1m). Before these exceptional items, the underlying profit improved to £39.0m (2010: £25.4m) as a result of improved revenues and lower operating costs.

UK air traffic services

	2011 £m	2010 £m
Turnover	578.2	561.4
Operating costs	(355.3)	(369.1)
Depreciation, amortisation, impairment and deferred grants	(93.3)	(80.6)
Exceptional items	(7.8)	(19.6)
Operating profit	<u>121.8</u>	<u>92.1</u>
Chargeable Distance (millions km)	676.1	693.7
Chargeable Service Units (000)	9,377	9,564

UK air traffic services 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	2011 £m	2010 £m
UK en route services	504.0	494.1
London Approach services	8.4	8.3
Support services to MoD	44.6	44.0
North Sea helicopters	8.3	7.1
Other external	12.9	7.9
Total	<u>578.2</u>	<u>561.4</u>

Income from UK en route services, which are provided to traffic operating in those parts of UK airspace which constitute controlled airspace, are subject to incentive-based economic regulation. Revenue allowances were set by the CAA taking into account the projected levels of efficient operating costs, pension contributions, capital investment and an appropriate return, which also covers tax and interest payments. The price control also includes a traffic volume risk sharing mechanism which provides protection against traffic downturns.

UK en route revenues increased by £9.9m in the year to £504.0m (2010: £494.1m). Prices were increased in January 2011 following the price control review to take account of significantly reduced traffic volumes than previously forecast and higher pension contributions.

Chief Executive's review

NATS also earned a bonus for service performance of £10.4m (2010: £6.4m), the increase on 2010 reflecting the discount provided to customers previously (of circa £4m). These two factors offset the impact of a reduction in the volume of air traffic handled (down 2.5% to 676.1m kilometres flown) and the effect of deflation on prices levied through to December 2010.

London Approach services, provided to aircraft arriving at or departing from Heathrow, Gatwick and Stansted airports, generated £8.4m (2010: £8.3m). The charge for this service is levied based on aircraft tonnage and although this decreased by 1.5% to 50.4m tonnes (2010: 51.1m tonnes) this was offset by an increase (by 1 pence) on the rate charged above 100 tonnes. Revenues from these services are combined with those from UK en route services and capped by the economic regulator.

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 £44.6m (2010: £44.0m) with the inflation uplift to charges offsetting rebates under operating cost sharing arrangements.

Charges for services to North Sea helicopter operators are levied on the basis of a charge per round trip flight. Revenues increased by £1.2m to £8.3m (2010: £7.1m), reflecting an increase in the rate charged to fund the multi-lateration system. The increased rate was partly offset by a fall in the volume handled to 36,028 (2010: 37,335).

Other external income increased by £5.0m to £12.9m (2010: £7.9m) as NERL generated income supporting windfarm operators in mitigating their effects on radar feeds and from the SESAR research collaboration, which is part-financed by Europe.

The costs of UK air traffic services, including asset-related charges and exceptional items, fell by £12.9m to £456.4m (2010: £469.3m) mainly due to headcount savings, lower pension charges and lower redundancy costs. Depreciation charges were higher due to an impairment charge associated with the ongoing development of the next generation of flight data processing systems, following a review of the delivery strategy.

Overall, UK air traffic services generated an operating profit of £121.8m (2010: £92.1m), £29.7m higher than the prior year.

Chief Executive's review

North Atlantic air traffic services

	2011 £m	2010 £m
Turnover	21.1	22.2
Operating costs	(15.9)	(17.5)
Depreciation, amortisation, impairment and deferred grants	(3.4)	(3.8)
Exceptional items	(0.2)	(0.7)
Operating profit	<u>1.6</u>	<u>0.2</u>
Total flights (000)	390	386
Chargeable flights (000)	388	386

North Atlantic air traffic services are en route services provided by NERL in the Shanwick Oceanic Control Area (part of the North Atlantic where the UK provides navigation services by international agreement and where communications are provided by the Republic of Ireland). The charges for these services are levied on a per flight basis and are subject to a separate economic regulatory formula which allows for the annual adjustment of prices by the movement in the RPI less a 4% efficiency factor. Revenues at £21.1m (2010: £22.2m) were £1.1m lower than the prior year. The decrease in revenue was mainly a result of a reduction in the price controlled rate per flight from £56.18 to £53.20, reflecting the effect of deflation when applied to the economic regulatory formula. This was partially offset by an increase in chargeable flight volumes of 0.5% to 388,013 (2010: 386,118).

Costs, including asset-related charges and exceptional items, fell by £2.5m to £19.5m (2010: £22.0m) due mainly to lower staff related operating costs.

Overall, North Atlantic air traffic services generated an operating profit of £1.6m, £1.4m higher than the previous year (2010: £0.2m).

Airport air traffic services

	2011 £m	2010 £m
Turnover	159.0	152.1
Operating costs	(122.0)	(127.6)
Depreciation, amortisation, impairment and deferred grants	(3.1)	(2.7)
Exceptional items	(3.0)	(1.9)
Operating profit	<u>30.9</u>	<u>19.9</u>

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

Chief Executive's review

“We have an excellent track record to take into a new financial year in which the Government will be reviewing its stake in NATS.”

Revenues from these services improved by £6.9m to £159.0m (2010: £152.1m). This mainly reflected improved revenues from airport contracts arising from an increase in the earned value of contracts accounted for on a stage of completion basis and to indexation uplifts on other contracts.

Costs, including asset-related charges and exceptional items, decreased by £4.1m to £128.1m (2010: £132.2m). Lower staff costs (the impact of reduced pension charges and lower staff numbers) were partly offset by a charge of £2.6m associated with revenues recognised previously but no longer recoverable following the re-negotiation of the terms of some airport contracts.

Overall, operating profit for airport air traffic services at £30.9m (2010: £19.9m) was £11.0m better than the prior year.

Other revenues

NATS Services and the group's other businesses also generated revenues of £19.0m (2010: £19.2m) from other engineering, consultancy, training and airport data management services provided to customers in the UK and overseas. These services generated an operating profit of £3.5m (2010: £2.6m), £0.9m higher than the prior year, mainly reflecting lower staff costs.

Outlook

The global scale of the economic recession and different rates at which world economies are recovering makes it difficult to forecast air traffic growth with the same level of assurance as previously. In 2011 we handled 2.1 million flights, in line with 2010 but down from 2.5 million flights in 2007.

	2010/2011 ('000s)	2009/2010 ('000s)	% change in year
Chargeable Service Units	9,377	9,564	(2.0%)
Chargeable Distance (km)	676,108	693,702	(2.5%)
Total UK traffic (flights):			
Domestic	404	429	(5.8%)
Transatlantic	311	307	1.3%
Other	1,401	1,436	(2.4%)
Total	2,116	2,172	(2.6%)
Oceanic traffic (flights):			
Chargeable flights	388	386	0.5%

Our forecast is for a recovery to these levels by March 2015, representing annual growth of 3.6%. The UK recovery is expected to be slightly lower than the European average reflecting the UK's slower economic recovery, Government austerity measures and recent changes in air travel taxation – all affecting demand for air travel.

Chief Executive's review

In many ways, this has been a landmark year – the conclusion of our regulatory review and preparations for alignment with the European performance scheme; unprecedented events in an unprecedented economic downturn; major advances in technology and a new focus on the European project; and a clear business focus as we set a new course for growth.

We have an excellent track record to take into a new financial year in which the Government will be reviewing its stake in NATS, having said in the Budget that it intends to realise value from its shareholding. Our relationship with Government will be important no matter what its level of shareholding and we will continue to work closely with them in the future. Our priorities will remain the same: ensuring and improving safety, driving down delay and reducing our impact on the environment, together with continuing to innovate in all areas of our business and to press forward with our growth plans and our commercial strategy.

Whatever shape our ownership structure may take, we are in great shape for the future. Make no mistake, NATS is a world class company with a world class future ahead.



Richard Deakin
Chief Executive Officer

Financial review

“The price control review secures £2.2bn of revenue for the group for the next four years and so maintains NERL’s long-term financial stability.”



The group’s results are summarised in the table below:

	2011 £m	2010 £m
Turnover	777.3	754.9
Operating profit		
- Operating profit before exceptional items	169.2	137.2
- Exceptional operating costs (net)	(11.4)	(22.4)
	157.8	114.8
Profit before taxation		
- Profit before tax and exceptional items	117.5	100.7
- Exceptional items (net)	(11.4)	(22.4)
	106.1	78.3
Profit after tax		
- Profit after tax before exceptional items	95.1	74.2
- Exceptional items (net)	(8.2)	(16.1)
	86.9	58.1

Significant factors impacting this year’s results included:

- the new price control for UK en route services from January 2011;
- the impact on airport revenues and costs of changes in contract terms;
- the benefit of achieving operating cost savings targets, and a lower pension accrual rate;

Financial review

- lower staff redundancy and site relocation costs, which are material in terms of their size and incidence and reported as exceptional items; and
- the impact on the market value of the index-linked swap contract from an increase in interest payable.

The headline profit figure of £106.1m (2010: £78.3m) includes exceptional items in this year and the last. The underlying result, before these items, was a profit before tax of £117.5m (2010: £100.7m), £16.8m higher than last year.

Features of the price control review

As noted in the business review above, the outcome of the price control review secures £2.2bn (expressed by the regulator in 2008/09 prices) of revenue for the group for the next four years and so maintains NERL's long-term financial stability and allows it to focus on service delivery, including the introduction of new technology. The revenue allowances assume a pre-tax weighted average cost of capital of 7.0%, compared with 6.75% for CP2. The review provides three key risk mitigations: traffic volume risk sharing, a pension pass through mechanism and a gearing target and cap. It also provides NERL with opportunities to grow its business by relaxing the limit on non-regulated income from 3% to 4.5% of revenues.

In its review the CAA adopted the traffic volume risk sharing arrangements that will apply to all air traffic service providers in Europe from January 2012. This exposes NERL to the risk of volume variations within 2% of the CAA's forecast, limits this risk to 30% of the risk of volume variations from 2% to 10% and mitigates this risk fully for the excess if volumes deviate by more than 10% from forecast.

The CAA has provided NERL with full mitigation for the risk that pension contributions to its defined benefit scheme differ from the forecast for the control period. Any difference is recoverable through charges in subsequent control periods.

The CAA has introduced a target and cap on gearing for CP3. The gearing target is for net debt relative to NERL's regulatory asset base to be maintained at 60% across the control period with a cap at 65%. If NERL exceeds the cap it is obliged to halt its distributions and remedy the position.

Overall, given these risk mitigations, the price control review is a tough but fair outcome for both NERL and its customers. It sets challenging operating cost efficiency targets requiring real reductions of 2% per annum, which are now reflected in our business plans. Actions taken to reduce costs in response to lower traffic volumes and higher pension contributions during CP2 limited the price increases for UK en route services (of 8% in real terms from January 2011) that customers might otherwise have faced.

Financial review

The review also set much tougher service performance targets for NERL to achieve to avoid significant penalties and earn bonuses. For example, the headline regulatory par value target for 2011 is 11.5 seconds of delay per flight compared with 45 seconds per flight for 2010. These targets will become more challenging as traffic volumes return over the control period and as new technology is introduced.

Revenues

Group turnover increased by £22.4m (3.0%) to £777.3m (2010: £754.9m) and included the effect of the new price control for UK en route services from January 2011 and the impact on airport revenues of changes in contract terms. The latter resulted in a re-assessment of the revenue realisable under these contracts, which are accounted for on a stage of completion basis. Revenues are explained in detail in the Chief Executive's business review above.

Turnover	2011 £m	2010 £m
UK air traffic services:		
UK en route services	504.0	494.1
Support services to MoD	44.6	44.0
London Approach services	8.4	8.3
North Sea helicopters	8.3	7.1
Other external	12.9	7.9
	578.2	561.4
North Atlantic air traffic services	21.1	22.2
Airport air traffic services	159.0	152.1
Miscellaneous services	19.0	19.2
Total	777.3	754.9

Operating costs

Before exceptional items and asset-related charges, operating costs decreased by £22.1m to £507.8m (2010: £529.9m).

	2011 £m	2010 £m
Before exceptional items:		
Employee costs	(357.2)	(382.0)
Services and materials	(76.4)	(60.3)
Repairs and maintenance	(33.0)	(36.6)
External research and development	(0.2)	(0.3)
Other operating charges (net)	(41.0)	(50.7)
	(507.8)	(529.9)
Depreciation and amortisation	(88.7)	(86.5)
Asset impairment charges	(13.1)	(3.0)
Deferred grants	1.7	2.0
Loss on disposal of non-current assets	(0.2)	(0.3)
Operating costs	(608.1)	(617.7)

Employee costs of £357.2m (2010: £382.0m) decreased by 6.5% on the previous year and accounted for 58.7% (2010: 61.8%) of the group's operating costs.

Pension charges were £29.1m lower at £75.9m (2010: £105.0m) mainly due to a reduction in the accrual rate to 21.8%, before salary sacrifice (2010: 31.6%). This reflected the scheme's financial position at the start of the year and actuarial assumptions.

The average number of staff employed during the year was 4,652 (2010: 4,920) and those in post at 31 March 2011 fell by 175 (3.7%) to 4,603 (2010: 4,778). This continues the trend in reducing non-controller staff, saving salary costs of £14.4m. However, pay increases, including an allowance for the January 2011 pay round that is currently being negotiated, added £7.5m to the payroll and a higher valuation for employee shares, overtime payments associated with developing EFD and iFACTS, and lower levels of labour capitalisation also increased staff costs by £10m.

Financial review

Non-staff costs at £150.6m (2010: £147.9m) increased by £2.7m or 1.8%. However, this included the write-off of £2.6m previously recognised as revenue on airport contracts following a review of contract terms explained above, and bad debts of £1.1m that the company had expected to be able to recover through the price control review under the conditions set five years ago by the CAA.

Depreciation, amortisation and impairment charges of £101.8m (2010: £89.5m) were £12.3m higher than the previous year. This included the impairment of £12.9m of work undertaken to develop the next generation of the company's flight data processing systems following a review of the delivery strategy for this technology.

Exceptional items

The results included exceptional staff redundancy costs of £9.5m (2010: £21.2m) and £1.9m (2010: £6.3m) for the costs of relocating staff, including moving Hurn training college to the company's Corporate and Technical Centre in August 2011. Prior year items included the benefit of a one-off refund of business rates.

Exceptional items	2011 £m	2010 £m
Redundancy and related costs	(9.5)	(21.2)
Relocation costs	(1.9)	(6.3)
Swanwick rates rebate relating to prior years	-	5.1
	(11.4)	(22.4)
Tax effect of the items above	3.2	6.3
	(8.2)	(16.1)

Net finance costs

Net finance costs at £51.9m (2010: £36.6m) were £15.3m higher than last year. This is mainly accounted for by the movement in the market value liability of the index-linked swap contract. This movement increased by £15.9m to £22.2m (2010: £6.3m) primarily due to an increase in interest payable over the remaining life of the swap contract due to the credit rating downgrade of the swap guarantor.

Taxation

The tax charge, before exceptional items, of £22.4m (2010: £26.5m) was at an effective rate of 19.1% (2010: 26.3%). This is lower than the headline rate of corporation tax of 28% due to the deferred tax impact of a reduction in the corporation tax rate to 26% from April 2011. After exceptional items, the tax charge represents an effective rate of 18.1% (2010: 25.8%).

Dividends

During the year the company paid two interim dividends for 2011 of £20m each and in May 2011 the Board declared and paid an interim dividend for the year ending 31 March 2012 of £42.5m.

Financial review

Balance sheet

The group balance sheet can be summarised as follows:

	2011 £m	2010 £m
Goodwill	351.0	351.0
Tangible and intangible fixed assets	859.8	839.3
Other non-current assets	48.2	4.6
Cash and short-term deposits	183.9	161.1
Other net current assets	16.8	53.0
Derivatives	(113.0)	(87.2)
Pension scheme surplus	48.0	79.9
Borrowings	(711.9)	(680.8)
Provisions	(18.2)	(31.7)
Other non-current liabilities	(137.4)	(152.2)
Net assets	527.2	537.0

Shareholders' funds reduced by £9.8m to £527.2m during the year following distributions of £40m to shareholders from the retained profit of £86.9m and the effect of the reduction in the pension scheme asset.

Movements in fixed assets, pensions and cash and borrowings are explained below.

Other significant changes in the financial position include: the movement on derivative financial instruments, explained above, changes in deferred tax relating to the pension asset, and an increase in assets recoverable after more than one year, reflecting the timing of recovery of traffic volume risk sharing and the performance bonus for the period to 31 December 2010. The CAA phased the recovery of these amounts over the three years 2012 to 2014 to provide a smoother price profile for customers through CP3. The amounts recoverable include an allowance for returns and have been discounted. Release of the discount is reflected in investment revenue.

Capital expenditure

The group invested £122.5m in the year, £19.3m less than the previous year, in the following activities:

	2011 £m	2010 £m
Airspace development	3.0	5.4
Business systems	7.6	4.5
Future centres programme	44.9	55.0
Communications, navigation and surveillance	9.7	6.5
Radar site services	12.8	12.2
Current software systems	38.6	29.1
Prestwick/Manchester programme	4.2	24.4
Airports	1.0	4.3
Other	0.7	0.4
Total	122.5	141.8

The group continued to invest in its future centres systems which include: the development of the next generation flight data processing system which will be compatible with European systems; interim future area control tools which introduces automatic trajectory prediction and enhances safety and reduces controller workload; and EFD which replaces paper flight data strips with electronic strips. The investment in future centres systems declined in the year, whilst a review of the full architectural solution for the next generation flight data processing system was performed. Expenditure in current software systems increased with the project to deliver the new centre for training air traffic controllers nearing completion. The new Prestwick Centre became operational in the last financial year following the closure of the Manchester Control Centre.

Pensions

At 31 March 2011, measured under international accounting standards requiring best estimate assumptions, the pension scheme was in surplus with assets exceeding liabilities by £48.0m (2010: £79.9m). The lower valuation follows the adoption of more prudent mortality assumptions consistent with those used by the Trustees for their most recent triennial valuation, which offset asset growth.

Financial review

The scheme actuary's triennial valuation performed as of 31 December 2009 was approved by Trustees on 27 April 2010. This valuation, which is for funding purposes, uses assumptions which include a margin for prudence and leads to a lower valuation than under international accounting standards. The valuation reported a deficit of £351.1m in scheme assets to liabilities (equivalent to a funding ratio of 89%) and a future service cost of 36.7%. NATS agreed a schedule of contribution with Trustees that resulted in an increase in cash contributions from May 2010 to 36.7%, from 30% previously. In addition, an 11-year deficit recovery plan has been agreed with payments of £2m per month from January 2011. These will increase by 3.5% from January 2012.

During the year the group paid contributions of £123.1m (2010: £103.0m). This included £15.1m (2010: £15.8m) of pay sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 38.4% (2010: 27.5%) of pensionable pay.

Treasury management

The gross borrowings of the group at £711.9m were £31.1m higher than the previous year (2010: £680.8m). Cash and investments increased by £22.8m to £183.9m (2010: £161.1m). Overall, net debt increased by £8.3m to £528.0m (2010: £519.7m).

Movements in net debt			
	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2010	161.1	(680.8)	(519.7)
Cash flow	21.9	(30.2)	(8.3)
Short-term deposits	0.9	-	0.9
Non-cash movements	-	(0.9)	(0.9)
Balance at 31 March 2011	183.9	(711.9)	(528.0)

Cash flow

Overall, the group's balance of cash and cash equivalents increased by £21.9m in the year to £167.5m (2010: £145.6m).

Net cash from operating activities at £182.6m was £5.1m higher than 2010 (2010: £177.5m). This enabled the group to finance its capital investment, service its debt obligations and pay dividends to shareholders. Drawings on bank loans of £30.2m ensured that the group maintained its cash holding levels, in accordance with its liquidity risk management policy.

Cash flow	2011 £m	2010 £m
Cash generated from operations	193.8	185.4
Taxation	(11.2)	(7.9)
Net cash from operating activities	182.6	177.5
Interest received	1.4	1.5
Capital expenditure	(120.4)	(143.1)
Costs from the sale of property, plant and equipment	-	(0.1)
Investment in associate	(0.1)	-
Changes in short-term investments	(0.9)	10.1
Net cash outflow from investing activities	(120.0)	(131.6)
Interest paid	(33.7)	(34.3)
Interest received on derivative financial instruments	2.8	3.4
Bank drawings and other loans	30.2	10.6
Dividends paid	(40.0)	(43.5)
Net cash outflow from financing activities	(40.7)	(63.8)
Increase/(decrease) in cash and cash equivalents	21.9	(17.9)

Principal risks and uncertainties

“The UK en route business also benefits from some protections against traffic volume risk afforded by its price control conditions.”

The operational complexities inherent in our business leave us exposed to a number of significant risks. We have maintained a focus on mitigating those risks although many remain outside of our control – for example changes in governmental regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

The Board believe that the risks and uncertainties described below are the ones that may have the most significant impact on the long-term value of NATS. The list is not intended to be exhaustive.

The group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. A more detailed summary of our internal control and risk management processes is set out in the Corporate Governance statement on page 40.

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

The risk of aircraft collision

A loss of separation attributable to NATS that results in a collision in the air or on the ground would significantly impact on NATS’ reputation as a provider of safe air traffic services. This could result in a loss of

revenue in the short-term as investigations take place and the loss of future contracts. If notice was given by the Secretary of State requiring NERL to take action as a result of the collision and NERL was unable or failed to comply with the notice then ultimately this could result in revocation of NERL’s air traffic services licence. To mitigate this risk NATS has developed a strategic plan for safety and maintains a safety risk management system.

Loss of service from an air traffic control centre

A loss of service from a centre would result in a loss of revenues as flow management procedures would be introduced to maintain safety standards. The extent of loss would depend on the time necessary to resume a safe service. To this end NATS has invested in developing contingency arrangements, as explained on page 20.

Environmental impacts on the provision of air traffic services

External environmental events such as a volcanic ash cloud create areas of airspace in which aircraft may not wish or may not be permitted to fly. Such events could increase the air traffic management complexity in managing uncertain traffic flows and impact on NATS’ revenues resulting from changes in flight planning behaviour. NATS is working closely with the

Principal risks and uncertainties

regulator, airlines and other key stakeholders in the mitigation of this risk.

Pension scheme funding

Adverse movements in pension asset and liability values arising from factors such as lower investment returns, lower real interest rates and increasing longevity may increase the size of the pension deficit. Management regularly reviews the financial position of the defined benefit pension fund and is consulted by Trustees on the design of the risk reduction strategies that are in place. The scheme was closed to new entrants in 2009 and pensionable pay rises have been capped for existing members.

Industry outlook

Poor market and economic conditions can reduce NERL's revenues to levels below those assumed by the regulator in making the CP3 price determination. This in turn could impair shareholder returns. NATS monitors the key industry indicators on a monthly basis against CP3 forecasts and has taken action in the past to realign its cost base with lower revenues. As explained in the opening part of this financial review, NERL has traffic volume risk sharing arrangements that mitigate revenue reductions.

Key programme and project risks

The complex and unique nature of some of NERL's technology projects create an inherent risk of project overruns, delayed benefits and damage to reputation with customers and other stakeholders. NATS has mature project management processes and industry experts to mitigate this risk.

External and electronic threats

NATS has security processes, procedures and risk mitigation plans to address potential external and electronic threats.

Employee relations

The risk of industrial action resulting in reduced air traffic service provision. Every effort is made to maintain good employee relations at all times, to ensure the delivery of an efficient operational service and associated support.

Olympics 2012

The capability to manage abnormal air traffic and security requirements created by the 2012 Olympics. NATS has project and communication plans in place to ensure it has the capability to manage abnormal air traffic and security requirements for the 2012 Olympics.

Principal risks and uncertainties

Financial risks

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

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

- **currency risk:** the group's objective is to reduce the effect of exchange rate volatility on short-term profits. Transactional currency exposures that could significantly impact the income statement are hedged, typically using forward sales of foreign currencies. The group's most significant currency exposure arises because UK en route charges, which contribute 65% (2010: 66%) of total turnover, are set in sterling but are billed and collected in euros 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 £103.5m (net) were outstanding (2010: £82.3m (net)) as detailed in note 18.
- **interest rate and inflation risk:** the group's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. NERL's strategy is to hedge net debt in order to reduce its exposure to interest rate risk on its cash holdings. Throughout the last two five-year price control periods (2001–2010 calendar years), NERL's revenues were linked to the movement in the retail price index (RPI) on an RPI-X basis. To achieve an economic hedge of the impact of inflation on NERL's regulated revenue, 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. From 2011, under the CP3 price control (2011 to 2014 calendar years), these revenues are linked to movements in the consumer price index (CPI). For CP3, the CAA provided NERL with a hedging allowance to compensate for the change in inflation base from RPI to CPI. The swap does not qualify for hedge accounting under international accounting standards and is classified as held for trading. As such, movements in the fair value are taken to the income statement. As at 31 March 2011 (after derivatives), approximately 90.9% (2010: 94.7%) of NERL's net debt was either at fixed rates or at rates indexed to inflation.
- **counterparty risk:** as at 31 March 2011 the group had cash and deposits (shown as short-term investments) totalling £183.9m (2010: £161.1m). 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.

Principal risks and uncertainties

- liquidity risk: in addition to undrawn committed bank facilities totalling £85.7m, as at 31 March 2011 the group had cash and short-term deposits totalling £183.9m. Included in cash of £167.5m is a liquidity reserve account balance held by NERL of £21.3m to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short-term deposit of £16.4m represents a debt service reserve account held by NERL to fund interest and fees scheduled for payment in the six months ending 30 September 2011. The group's policy is to hold free cash within NERL equivalent to between one and two months' of projected UK en route services revenue (being between £47m and £94m for 2011/12) and to use surplus cash to reduce borrowings. The policy for NATS Services is to hold sufficient cash to fund new business development opportunities in line with targets approved by the Board and to meet future pension obligations as they fall due.
- funding risk: the policy of the group is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long-term funding to finance its long-term assets. Hence, the group's borrowings include a £600m amortising bond issued by NERL with a final maturity date of 2026 and bank facilities totalling £205.2m of which £34.25m matures in 2011 and circa £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 November 2012, and adequate levels of cash holdings. The group's forecasts and projections, which reflect the outcome of the CP3 review, 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 for the foreseeable future. The UK en route business also benefits from some protections against traffic volume risk afforded by its price control conditions. Other sources of income are generated mainly from long-term contracts. The group also continues to actively reduce its operating cost base 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.

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 2011.



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 Limited (AG) and BAA Airports Limited requires the company and the directors, so far as reasonably practicable in light of the strategic partnership arrangements, to adhere to current best practice guidance in corporate governance. For the year ended 31 March 2011, the relevant standard was the 2008 Combined Code on Corporate Governance.

NATS has applied the principles of the 2008 Combined Code throughout the year under review, to the extent considered appropriate by the Board in light of the strategic partnership arrangements. In particular, a number of principles and provisions in the Combined Code are not relevant to the partnership nature of the NATS Group ownership. The principal areas where NATS does not comply are summarised below.

Combined Code A.2.2, C.3.1: The Chairman is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Combined

Code. He is, however, regarded in practice as the independent member of the Board in terms of the Combined Code criteria.

Combined Code A.3, C.3.1: The non-executive directors on the Board are either AG nominee directors, BAA nominee directors, or Crown appointments (Partnership Directors) with particular responsibilities set out in their Mission Statement in the SPA, and therefore do not meet the independence criteria as set out in the Combined Code. This area of non-compliance affects the degree of compliance achieved with a number of the Combined Code provisions, where directors' independence is required.

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

Combined Code A.4.4: The AG nominee directors and Partnership Directors do not have service contracts with NATS and, as a result, the terms and conditions of appointment cannot be made available for inspection. The Partnership Directors are engaged on three-year fixed-term contracts and have letters of appointment from the Department for Transport. The Chairman has a service contract with NATS, details of which are explained in the Remuneration Committee report.

Corporate governance

The BAA nominee director has a service contract with NATS which can be terminated by BAA or through resignation. Further information on the terms of appointment for the Chairman and BAA nominee director may be obtained from the Company Secretary.

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

Combined Code B.1.3 and B.2.3: The level of remuneration for non-executive directors was initially determined on completion of the PPP transaction. Subsequent changes are disclosed within the Remuneration Committee report.

Combined Code Parts D and E: Within the PPP structure, there are no institutional or public shareholders. However, the nature of the Strategic Partnership is such that the shareholders have representatives amongst the directors, with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions.

In addition, the Chairman is in regular contact with the shareholders. The Board is therefore able to take decisions in the best interests of the company, having taken account of the views of the shareholders.

The roles of the Chairman and Chief Executive Officer

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

During the year under review the Chief Executive Officer, Richard Deakin, had direct charge of the executive management of the NATS Group.

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.

Corporate governance

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

Executive Directors

- Chief Executive Officer;
- Finance Director; and
- Managing Director, NERL.

Non-Executive Directors

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

Brief biographies of the directors are provided on pages 63 to 65. All directors have access to the advice and services of the General Counsel and Company Secretary, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the group's expense.

All non-executive directors are considered by the Board to be independent of the company management. However, they are not considered independent under the terms of the Combined Code on Corporate Governance due to their appointment

by specific shareholders. Consequently, it is not possible to identify a senior independent non-executive director to whom concerns can be conveyed by the shareholders but the Chairman, John Devaney, is regarded in practice as the independent member of the Board. The non-executive directors occasionally meet without the executive directors present although no such meeting was held on a formal basis during the year. However, representatives of the non-executive directors met as the Nomination Committee to consider the performance of the Chairman and the extension of his contract for a further year.

Shareholders' meetings are held twice a year, linked to the planning and reporting cycles, and provide the principal shareholders with an opportunity to participate in the development of the company's long-term strategy. The two meetings during the year under review were the Annual General Meeting held on 29 July 2010 and a further meeting on 27 January 2011. Shareholders may also meet informally with the Chairman, Chief Executive Officer, Finance Director or other members of the executive management teams upon request. A number of these meetings were held during the year in relation to the coalition government's expressed interest in disposing of all or part of its shareholding in the group.

Corporate governance

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

Name	Number of meetings attended
John Devaney	7/7
Richard Deakin ¹	7/7
Nigel Fotherby	7/7
Ian Hall ²	5/7
Lawrence Hoskins ³	0/0
Ian Mills	7/7
Giovanni Bisignani	5/7
Roger Cato	7/7
Baroness Dean	5/7
Barry Humphreys	7/7
Andy Lord	6/7
Peter Read	7/7
Sigurd Reinton	7/7
Nigel Turner	7/7
Andrew White	7/7

¹ Richard Deakin was appointed with effect from 1 April 2010.
² Ian Hall resigned from the Board with effect from 24 March 2011.
³ Lawrence Hoskins resigned from the Board with effect from 30 April 2010.

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS

executive team, 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 NATS Services' shares by NATS.

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

Corporate governance

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

	Audit	Nomina- tion	Remun- eration	Safety Review	Technical Review
No. of meetings	3	1	5	4	4
John Devaney	2/3	1/1			
Roger Cato		1/1		4/4	4/4
Baroness Dean			5/5		
Barry Humphreys			5/5		
Andy Lord			5/5		
Peter Read		1/1		4/4	4/4
Sigurd Reinton	3/3	1/1			
Nigel Turner	3/3				
Andrew White				4/4	3/4

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

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

A performance evaluation of the Board, its committees and the Chairman was conducted during the year. This Board Effectiveness Review was managed by the Company Secretary and based around responses to a structured set of questions to reflect the views of all Board members. The results of the most recent review were assessed at the March 2011 Board meeting.

Executive management

During the year under review, the day-to-day management of the NATS Group was the responsibility of the Chief Executive Officer, Richard Deakin, supported by the NATS executive team.

The NATS executive team is responsible for setting NATS' overall strategy and for deciding how best to position the group to take advantage of future opportunities, and comprises the following:

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

Corporate governance

The Managing Directors of NERL and NATS Services are each supported by separate executive management teams.

Audit Committee

The Audit Committee meets three times per year. It is chaired by the non-executive Chairman, John Devaney, as he is regarded in practice as the independent member of the Board under the Combined Code criteria. Sigurd Reinton and Nigel Turner are the remaining two members of the Committee. The members all have wide-ranging financial, commercial and management experience. Nigel Turner has recent, relevant financial experience.

The Chief Executive Officer, Finance Director, Financial Controller, Head of Internal Audit, Business Performance Manager, and the external auditors are invited to attend each meeting by standing invitation.

Part of each meeting is set aside, if required, 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.

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.

Nomination Committee

The Nomination Committee is chaired by the non-executive Chairman, John Devaney, and comprises three further non-executive directors, Peter Read, Sigurd Reinton and Roger Cato. The Committee may invite executives and advisors to attend meetings as appropriate.

The Committee meets when considered necessary by its members. During the year under review it met once, in December 2010, primarily to discuss succession planning for members of the NATS executive team and the Chairman.

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

Corporate governance

Remuneration Committee

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

The Chief Executive Officer and HR Director are invited to attend meetings of the Committee together with other executives and advisers as appropriate.

Safety Review Committee

The role of the Safety Review Committee is to support the Board in the discharge of its accountabilities for the safe provision of operational air traffic services and for security arrangements in group companies. 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. The following are invited to attend each meeting by standing invitation:

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

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

- Professor James Reason, formerly Professor of Psychology at Manchester University and an expert on human factors; and
- Don Lloyd, Vice-President and head of the health, safety, security and environment function for BG Group, and an associate professor in risk management at Brunel University.

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 Chief Executive Officer, NERL's Managing Director, and senior technologists 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 Limited;
- Roger Graham, former Chairman and Chief Executive Officer of the BIS Group and an adviser to companies in the internet area; and
- David Mann, former Chief Executive Officer and Deputy Chairman of Logica Group.

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.

Corporate governance

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 and is aligned with the ISO 31000 risk management standard.

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 which is recorded and measured in a controlled and 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 2011 and agreed actions for the 'Top Risks' for the year ending 31 March 2012. Reports to the Audit Committee on the process of risk management and internal control are supplemented by regular monthly reporting to the NERL, NATS Services and NATS executive teams on business controls and the progress of mitigating actions associated with NATS' risks.

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 relevant Board directors, executive members, and senior managers.

The company's performance is reviewed monthly by the relevant executive team 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.

Corporate governance

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 the auditors' objectivity or independence. Non-audit services performed by Deloitte LLP in the year ended 31 March 2011 were taxation advice in connection with NATS' employees based abroad, company secretarial work in connection with NATS' office in Gibraltar, and certification of certain expenditure incurred in relation to work undertaken by NATS for the European Commission. Details of the cost of these services are set out in note 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.

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

The Committee met five times in 2010/11 and is responsible for:

- Approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group staff (comprising

members of the executive team and other senior staff whose terms of employment are not subject to negotiation with the recognised Trades Unions through collective bargaining);

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

Performance management

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

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

Remuneration Committee report

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 group'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 group fully embraces the principles of and complies with the provisions of the Combined Code on directors' remuneration as outlined below.

The level of executive directors' remuneration is aligned with median practice in comparable companies (including utilities, those in the transport

sector and PPPs of similar size), based on a basket of companies selected with advice from Kepler Associates. Executive 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.

Remuneration Committee report

Employment contracts

Richard Deakin's employment contract commenced on 1 March 2010 and he was appointed as Chief Executive Officer with effect from 1 April 2010. That contract provides for 12 months' notice in the event of termination by the company. Nigel Fotherby, Ian Hall and Ian Mills have employment contracts which provide for 6 months' notice. Ian Hall resigned from the Board with effect from 24 March 2011. He will continue in a part time employed capacity in the group on a revised contract.

John Devaney has a fixed term contract with the company which was due to expire on 30 June 2011 and which provides for 6 months' notice in the event of termination. Following discussion at the Nomination Committee and subsequent consultation with the Remuneration Committee in December 2010, John agreed to extend his contract for a further 12 months to 30 June 2012 on the same terms and conditions.

Except for Roger Cato, the BAA nominee director, other non-executive directors do not have contracts with the company. Roger Cato has a contract specifying the remuneration he receives from the company, which is terminable at BAA's discretion or through resignation.

Remuneration packages

The remuneration package for executive directors is reviewed each year and consists of annual salary; pension and life assurance; annual and long-term bonus schemes; All-Employee Share Ownership Plan; company car; and medical insurance. Their annual bonus is consistent with the overall bonus scheme for all Personal Contract Group staff (see below). For Nigel Fotherby, Ian Hall and Ian Mills the long-term bonus was based on the performance of NERL over Control Period 2 (2006 – 2010) (see below). Richard Deakin's bonus arrangements include provision for annual and long-term bonuses with incentives in relation to the achievement of NERL and NATS Services annual bonus targets. Ian Mills' arrangements also include a three-year rolling bonus linked to the achievement of targets by NERL.

Full details of directors' remuneration for 2010/11 are set out on page 56.

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.

Remuneration Committee report

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

The Partnership Directors and the BAA director each received an increase of their annual remuneration to £36,000 from 1 April 2010. This was the first increase in fees paid to non-executive directors since July 2004. AG directors received no remuneration for their services to the NATS Board. However, a payment of £180,000 per annum (equivalent to £36,000 each for the services of five directors) is made direct to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Pensions and life assurance

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

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

Non-executive directors do not participate in CAAPS.

Company bonus schemes

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.

The annual bonus opportunity is set at a range of levels for Personal Contract Group staff depending on seniority; generally in the range from 15% to 45% of salary. For the group in general, 40% of the bonus is determined by company performance on key targets and the remaining 60% is dependent on individual performance against targets and leadership behaviours. For Directors of the company, more

Remuneration Committee report

weighting is given to company performance: 100% in the case of the Chief Executive; 66.67% in the case of the Managing Directors of NERL and NATS Services; and 50% for other Directors. The scheme incorporates an 'ability to pay' clause to override all other triggers, based on:

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

Based on the 2010/11 NERL and NATS Services business plans, the company bonus scheme awards different levels of payout against base and stretch target performance. The overall payout against the NERL company targets was 94.4% and against the NATS Services company targets was 100%.

The Committee established a long-term incentive scheme for executive directors and members of the NATS executive team linked to the achievement of targets for Control Period 2. This incentive scheme was developed with support from Kepler Associates.

The scheme provided 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.

Performance against this scheme was assessed by the Committee as of 31 March 2011 and a payout of 100% was made to reflect performance against the targets set.

A similar long-term incentive scheme is under development in relation to Control Period 3.

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 opportunity to acquire a 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 AG and the Trades Unions (collectively known as the Trustee). Baroness Dean chairs the Trustee meetings.

Remuneration Committee report

Richard Deakin currently holds 400 shares, Nigel Fotherby holds 2,377 shares, Ian Hall holds 2,377 shares and Ian Mills holds 600 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2011 to 30 June 2011, values the shares at 350p each.

Barry Humphreys

Remuneration Committee report

Audited information Directors' remuneration

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

	Notes	Salary or fees (*) £000	Benefits (*) £000	Performance related payments (*) £000	Total 2011(*) £000	Total 2010(*) £000
Chairman						
John Devaney		160	-	-	160	160
Executive directors						
Richard Deakin	1	400	14	284	698	-
Nigel Fotherby		216	16	99	331	329
Ian Mills		221	12	100	333	306
Non-executive directors						
Baroness Dean of Thornton-le-Fylde		36	-	-	36	34
Andrew White		36	-	-	36	34
Sigurd Reinton		36	-	-	36	34
Barry Humphreys	2	-	-	-	-	-
Peter Read	2	-	-	-	-	-
Nigel Turner	2	-	-	-	-	-
Giovanni Bisignani	2	-	-	-	-	-
Andy Lord	2	-	-	-	-	-
Roger Cato		36	-	-	36	31
Former directors						
Ian Hall	3	203	14	91	308	300
Lawrence Hoskins	4	28	3	588	619	702
Paul Barron	5	-	-	-	-	1,653
		<u>1,372</u>	<u>59</u>	<u>1,162</u>	<u>2,593</u>	<u>3,583</u>

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

- Richard Deakin commenced employment with NATS on 1 March 2010 and was appointed to the Board on 1 April 2010. Accordingly his emoluments for the period to 31 March 2010 are not included in the table above.
- These directors are appointed by The AG who charged NATS a total of £45,000 per quarter (2010: £42,000 per quarter) for the services of the directors.
- Ian Hall resigned from the Board on 24 March 2011 and remains an employee. For the period between 25 March and 31 March 2011 in which Ian Hall did not serve as a director but remained an employee he was paid a salary of £3,897 and received benefits of £179.
- Lawrence Hoskins ceased to be a director on 30 April 2010 but remained an employee until 30 June 2010 to assist with the orderly transition to the new Chief Executive. As disclosed in last year's Annual Report and Accounts, in May 2010 he received £588,000 under his long-term incentive plan earned during his period of service as a director. For the period between 1 May and 30 June 2010 in which Lawrence Hoskins did not serve as a director but remained an employee he was paid a salary of £60,092 and received benefits of £3,867.
- Paul Barron resigned from the Board on 31 March 2010 and left the company on that day. As disclosed in last year's Annual Report and Accounts, in May 2010, under pre-existing arrangements, he received £274,000 in respect of his rolling bonus and long-term incentive plans earned during his period of service as a director.

Remuneration Committee report

Under the company's long-term incentive plans, executive directors are entitled to performance related pay contingent on the achievement of business performance targets. These payments are included in the table above when paid. The table below sets out executive directors' entitlements which vested in the year:

Year accrued:	Richard Deakin (Note 1) £000	Nigel Fotherby (Note 1) £000	Ian Hall (Note 1) £000	Ian Mills (Note 1) £000
2006/07	-	35	28	-
2007/08	-	38	29	2
2008/09	-	40	30	29
2009/10	-	45	31	35
2010/11	143	45	31	46
	<u>143</u>	<u>203</u>	<u>149</u>	<u>112</u>

1 The long-term incentive plan of Richard Deakin vested on 31 March 2011 and is payable in April 2013. The long-term incentive plans of the other directors vested on 31 January 2011 and were paid in June 2011.

Ian Mills has a three year rolling bonus scheme which started 1 April 2010 which is linked to the achievement of annual performance targets by NATS (En Route) plc. An amount of £14,471 was accrued in this respect and is not included in the table above.

Remuneration Committee report

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

		Accrued entitlement at 31 March 2010	Real change in accrued pension	Inflation	Accrued entitlement at 31 March 2011	Transfer value at 31 March 2011	Transfer value at 31 March 2010	Director's contributions in year	Cost of benefits accrued during year
Notes		£000	£000	£000	£000	£000	£000	£000	£000
Executive directors									
Nigel Fotherby	1	38	4	1	43	925	1,002	-	84
Ian Hall	2	60	-	3	63	1,698	1,685	-	10
Lawrence Hoskins	1,3	29	(5)	1	25	707	807	-	(127)
Ian Mills	1	18	5	-	23	461	460	-	97
		<u>145</u>	<u>4</u>	<u>5</u>	<u>154</u>	<u>3,791</u>	<u>3,954</u>	<u>-</u>	<u>64</u>

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

- 1 The NATS Section of the Civil Aviation Authority Pension Scheme operates a salary sacrifice arrangement which commenced on 1 April 2009. All three directors are members of this arrangement and so have not directly paid contributions to the scheme.
- 2 Ian Hall became a pensioner member of the pension scheme on 24 November 2008, having previously accrued maximum pensionable service.
- 3 Lawrence Hoskins retired on 11 November 2010 commuting a lump sum of £100,000.

Richard Deakin is a member of the company's defined contribution pension scheme, whose terms are explained in note 27 to the financial statements. The company contributed £57,375 to the defined contribution scheme on his behalf. This amount includes salary sacrificed in favour of pension contributions, under the company's salary sacrifice arrangements.

Remuneration Committee report

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

Name of Director	Shares sold	Share price at date of sale £	Gain on sale £
Lawrence Hoskins	200	2.30	460

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

Name of Director	Date from which exercisable:					Total holding (number of shares)	Value at	Value at
	Exercisable (brought forward)	10/01/2013 (brought forward)	17/09/2014 (brought forward)	Exercisable (granted in year) (Note 1)	28/02/2016 (granted in year) (Note 1)		31 March 2011 (at £3.50 each) £	31 March 2010 (at £2.30 each) £
Richard Deakin	-	-	-	200	200	400	1,400	-
Nigel Fotherby	1,557	220	200	200	200	2,377	8,320	4,547
Ian Hall	1,557	220	200	200	200	2,377	8,320	4,547
Lawrence Hoskins	-	-	-	-	-	-	-	460
Ian Mills	-	-	200	200	200	600	2,100	460
	<u>3,114</u>	<u>440</u>	<u>600</u>	<u>800</u>	<u>800</u>	<u>5,754</u>	<u>20,139</u>	<u>10,014</u>

1 In March 2010 employees including executive Directors were offered the option to participate in an award of up to 200 partnership shares each at fair value (the lower of the share price at the start of and the end of the accumulation period, being £2.30 per share) by deductions from gross salary over a 12 month accumulation period which ended February 2011. Participants also received one free matching share for every partnership share purchased.

Directors received dividends based on their shareholdings as of June and November 2010.



Our key performance indicators

We adopt a number of financial and non-financial key performance indicators (KPIs) that enable us to track progress against our business plan objectives and which are relevant to the different activities of our principal operating subsidiaries: NERL and NATS

Services. These metrics are also used to set targets for remuneration purposes and so align the interests of managers across the company with our business strategies and the needs of our stakeholders (see Remuneration Committee report, page 50).

NATS performance against financial and non-financial KPIs summary

Description	As at 31 March 2011	As at 31 March 2010
Financial KPIs		
Management EBITDA ¹ – NERL	£260.9m	£219.5m
Management EBITDA ¹ – NATS Services	£39.2m	£29.8m
¹ Management earnings before interest, tax, depreciation and amortisation (EBITDA) is stated before exceptional costs, the cost of employee shares, certain variances between actual and budgeted revenues and pension costs, the costs of business development and gains or losses on asset sales. This definition of profit reflects performance that managers are able to control.		
Non-financial KPIs		
Safety:		
Category A or B Airprox ² attributable to NERL or NATS Services	Nil	Nil
Service performance:		
Average delay per flight (seconds) – NERL	4.3	4.3
Attributable delay of > 15 minutes between 05:00 and 08:59 (local time) – NERL	985	1,344
Staff attributable delay (minutes) – NERL	15,293	28,817
Service quality penalties at BAA airports (% of contract revenue) – NATS Services	0.01	0.25
Customer satisfaction score (%) – NERL	81	77
Environmental performance: Fuel saving (tonnes) – NERL	12,000	Not determined for 2010
² An Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.		

Directors of NATS Holdings Limited



John Devaney



Richard Deakin



Nigel Fotherby



Ian Mills



Giovanni Bisignani



Peter Read



Barry Humphreys



Andy Lord



Nigel Turner



Baroness Dean of
Thornton-le-Fylde



Sigurd Reinton



Andrew White



Roger Cato

Directors of NATS Holdings Limited

The directors of the company at 30 June 2011 were:

John Devaney

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

John was appointed Managing Director, Eastern Electricity plc in 1992 and became Chief Executive in August 1993. Following the acquisition of Eastern by Hanson plc, John assumed the role of Chairman. From 1983 to 1988 John was President of Perkins Engines and from 1988 to 1992 he was the Chairman and Chief Executive Officer of Kelsey-Hayes Corporation. He was also Chairman of Exel from 1999 to 2002 and, until December 2007, was Chairman of telent plc, formerly Marconi, the global telecommunications equipment company. His previous non-executive directorships have included Northern Rock plc from 2007 to 2009, HSBC Bank plc from 1994 to 2000 and British Steel plc from 1998 to 1999. John chairs the Audit and Nomination Committees.

Richard Deakin

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

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

Nigel Fotherby

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

Ian Mills

Ian was appointed Managing Director, NERL on 1 May 2010, having previously held the post of Chief Operating Officer, NERL. He is an experienced international director having spent over 20 years in operations and project management servicing the power, water and transportation industries. In 1996 Ian was appointed European Director of Project Methodology and went on to hold various senior roles in operations and projects in ALSTOM Transport. Ian joined NATS in 2004 as the executive responsible for change management and business process before going on to become Programmes Director and, subsequently, Director Engineering and Commercial Services.

Directors of NATS Holdings Limited

Giovanni Bisignani

Giovanni has served as Director General and Chief Executive Officer 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. His mandate as Director General and Chief Executive Officer of IATA will end on 30 June 2011.

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

Peter Read

Peter held a number of senior positions with British Airways, most recently as Director of Heathrow from 1997 until 2003, and as Director of Operations until 2005. He joined BA in 1972 as a pilot and flew as a Captain until 1996. He subsequently held senior positions in engineering and flight operations, and in leading major business change programmes in cargo and BA corporate. During 2006 and 2007 Peter was employed as Director of Operations for Malaysia Airlines, responsible for all operational areas during a major reconstruction of the company. For several years Peter acted as a Technical Advisor to the Board

of Iberia on safety matters. He is the Chairman of AG and is a member of the Nomination Committee and the Safety Review Committee. He also chairs the Technical Review Committee.

Barry Humphreys

Barry spent his early career with the UK Civil Aviation Authority and at the time of his departure was Head of Air Services Policy. He retired in 2009 as Director of External Affairs and Route Development for Virgin Atlantic Airways. Barry is a Fellow of the Royal Aeronautical Society and formerly of the Chartered Institute of Logistics and Transport and the Tourism Society. He is currently an aviation consultant and the Chairman of the British Air Transport Association. He is also a director of AG. Among his charity work Barry is a trustee of the Loomba Trust and Executive Director of the ISTAT Airlink. Barry chairs the Remuneration Committee.

Andy Lord

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

As Director of Operations, Andy is responsible for the control and performance, safety, compliance and IT systems of the worldwide operation, corporate business resilience and delivery of customer services at all Worldwide Airports, excluding Gatwick. He is a director of AG, a non-executive Director of BA Cityflyer 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 over 20 years and was appointed as Chief Executive Officer in 2004 having previously held a number of senior positions within the company. Before joining bmi he worked for Next and Northern Foods. Nigel stood down as Chief Executive Officer in 2009 and took up the position of Deputy Chairman of bmi with effect from December 2009. Nigel was a main Board director of NATS from 2001 until the end of 2003 and was involved in The AG's purchase of its controlling stake in the business. Nigel is a member of the Audit Committee and the Treasury Committee.

Nigel is also Deputy Chairman of Jetscape, an aircraft leasing company based in the USA and Chairman of Gyro-Jet, a manufacturer of aircraft.

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

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

Sigurd Reinton

Sigurd was Chairman of the London Ambulance Service NHS Trust for ten years until 2009 and before that of Mayday University Hospitals NHS Trust. He was a member of the board of the Ambulance Services Network of the NHS Confederation and a member of the advisory board of The Foundation. He was a member of the Council of the NHS Confederation from 1998 to 2007 and was the lead for London. He was previously a Director (senior partner) at McKinsey & Company. An instrument rated private pilot, Sigurd is a member of the Audit Committee and the Nomination Committee and chairs the NATS Stakeholder Council.

Andrew White

Andrew spent his career in the Royal Air Force, rising to the rank of Air Vice Marshal. Prior to his retirement from the service in 2006, Andrew had responsibility for managing one third of the Royal Air Force's front line assets, including all military air traffic control in the UK. He was also a member of the Strike Command Management Board. After leaving the RAF Andrew became the Chief Executive Officer of the National Security Inspectorate; he retired from this position in December 2010. Andrew continues to fly as a civilian pilot. 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 20 years experience of working in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express. Richard is a Member of the Royal Aeronautical Society.

Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditors report for the year ended 31 March 2011. The Corporate Governance statement, which has not been subject to audit, is set out on pages 40 to 49 and forms part of this report.

Principal activities and business review

The company was established as a holding company to effect the transfer of ownership of NATS from the CAA to the Strategic Partners under the Public Private Partnership (PPP). Initially the company was wholly owned by the Crown. At completion of the PPP the Crown sold 46% of the company to a strategic partner, The Airline Group (AG), and transferred 5% to employees under a share scheme. On 19 March 2003 the group underwent a financial restructuring which resulted in BAA Airports 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 6-9 and the Business and Financial Review on pages 10-39.

Use of financial instruments

The company's operating subsidiaries, NATS (En Route) plc and NATS (Services) Limited, use financial instruments to manage financial risk. The accounting policies and notes to the financial statements explain the financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Results and dividends

The group's results for the year are shown in the income statement on page 72. Two interim dividends of £20.0m each of 13.98 pence per share were approved in the year (2010: £nil). The Board recommends a final dividend for the year of £nil (2010: £nil).

In May 2011 the Board approved and the company paid an interim dividend of £42.5m of 29.71 pence per share for the year ending 31 March 2012.

Charitable donations

The group made aggregate donations of £35,682 (2010: £22,798).

Report of the directors

Employees

The group continues its commitment to the involvement of employees in the decision making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company work groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS Chief Executive Officer maintains high visibility with staff through visits to NATS sites where he talks to them about current business issues and takes questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the 'Working Together' programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trades Unions.

It is the group's policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

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

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

The group strives to maintain the health and safety of employees through an appropriate culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained; responsibility for ensuring compliance with both legal requirements and company policy rests with the HR Director.

Report of the directors

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 2006 is 59 days (2010: 39 days).

Directors and their interests

The directors of the company as at 30 June 2011 are set out on pages 62 to 65. Lawrence Hoskins resigned from the Board on 30 April 2010. Ian Hall resigned from the Board on 24 March 2011. 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 59.

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;

Report of the directors

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

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

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



Richard Churchill-Coleman

Secretary
30 June 2011

Registered office

4000 Parkway, Whiteley, Fareham, Hampshire
PO15 7FL

Registered in England and Wales
Company No. 04138218

Independent auditors' report to the members of NATS Holdings Limited

We have audited the financial statements of NATS Holdings Limited for the year ended 31 March 2011 which comprise the group income statement, the group statement of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in equity, the group cash flow statement, the statement of accounting policies and the related notes 1 to 30 of the group and 1 to 8 of the parent company. The financial reporting that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's profit and the parent company's result for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Independent auditors' report to the members of NATS Holdings Limited

Separate opinion in relation to IFRS as issued by the IASB

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

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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



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

*Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
30 June 2011*

Consolidated financial statements

Consolidated income statement for the year ended 31 March 2011

	Year ended 31 March 2011			Year ended 31 March 2010			
	Notes	Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m	Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m
Revenue	4	777.3	-	777.3	754.9	-	754.9
Staff costs	7	(357.2)	(9.5)	(366.7)	(382.0)	(21.2)	(403.2)
Services and materials		(76.4)	-	(76.4)	(71.7)	5.1	(66.6)
Repairs and maintenance		(33.0)	-	(33.0)	(36.6)	-	(36.6)
External research and development		(0.2)	-	(0.2)	(0.3)	-	(0.3)
Depreciation, amortisation and impairment	6	(101.8)	-	(101.8)	(89.5)	-	(89.5)
Loss on disposal of non-current assets		(0.2)	-	(0.2)	(0.3)	-	(0.3)
Other operating charges		(41.0)	(1.9)	(42.9)	(39.3)	(6.3)	(45.6)
Deferred grants released	6	1.7	-	1.7	2.0	-	2.0
Net operating costs		(608.1)	(11.4)	(619.5)	(617.7)	(22.4)	(640.1)
Operating profit	6	169.2	(11.4)	157.8	137.2	(22.4)	114.8
Share of results of associates	29	0.2	-	0.2	0.1	-	0.1
Investment revenue	8	2.7	-	2.7	1.6	-	1.6
Finance costs	9	(54.6)	-	(54.6)	(38.2)	-	(38.2)
Profit before tax		117.5	(11.4)	106.1	100.7	(22.4)	78.3
Tax	10	(22.4)	3.2	(19.2)	(26.5)	6.3	(20.2)
Profit for the year attributable to equity shareholders		95.1	(8.2)	86.9	74.2	(16.1)	58.1

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

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the year after tax		86.9	58.1
Other comprehensive (expense)/income for the year net of tax			
Actuarial (loss)/gain on defined benefit pension scheme	27	(75.4)	160.4
Change in fair value of hedging derivatives		(3.5)	1.3
Transfer to income statement on cash flow hedges		2.3	(1.1)
Deferred tax relating to components of other comprehensive (expense)/income	21	19.9	(45.0)
		<hr/>	<hr/>
		(56.7)	115.6
Total comprehensive income for the year attributable to equity shareholders		<hr/> <hr/>	<hr/> <hr/>
		30.2	173.7

Consolidated financial statements

Consolidated balance sheet at 31 March 2011

	Notes	2011 £m	2010 £m
Assets			
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	230.7	201.4
Property, plant and equipment	14	629.1	637.9
Interest in associates	29	0.5	0.2
Retirement benefit asset	27	48.0	79.9
Trade and other receivables	15	47.7	4.4
		<u>1,307.0</u>	<u>1,274.8</u>
Current assets			
Trade and other receivables	15	152.8	171.2
Short-term investments	18	16.4	15.5
Cash and cash equivalents	18	167.5	145.6
Derivative financial instruments	17	0.2	0.8
		<u>336.9</u>	<u>333.1</u>
Total assets		<u>1,643.9</u>	<u>1,607.9</u>
Current liabilities			
Trade and other payables	19	(127.1)	(114.2)
Borrowings	16	(14.2)	-
Provisions	20	(12.9)	(24.2)
Current tax liabilities		(8.9)	(4.0)
Derivative financial instruments	17	(113.2)	(88.0)
		<u>(276.3)</u>	<u>(230.4)</u>
Net current assets		<u>60.6</u>	<u>102.7</u>
Non-current liabilities			
Borrowings	16	(697.7)	(680.8)
Trade and other payables	19	(15.4)	(13.4)
Provisions	20	(5.3)	(7.5)
Deferred tax liability	21	(122.0)	(138.8)
		<u>(840.4)</u>	<u>(840.5)</u>
Total liabilities		<u>(1,116.7)</u>	<u>(1,070.9)</u>
Net assets		<u>527.2</u>	<u>537.0</u>
Equity			
Called up share capital	22	140.6	140.6
Share premium account	23	0.4	0.4
AESOP reserve		(0.3)	(0.3)
Hedge reserve		(0.5)	0.4
Other reserves		(34.7)	(34.7)
Retained earnings		421.7	430.6
Total equity		<u>527.2</u>	<u>537.0</u>

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 30 June 2011 and signed on its behalf by:

John Devaney
Chairman



Nigel Fotherby
Finance Director



Consolidated financial statements

Consolidated statement of changes in equity for the year ended 31 March 2011

	Equity attributable to equity holders of the Company						
	Share capital	Share premium account	AESOP reserve	Hedge reserve	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2009	140.6	0.4	(0.3)	0.3	(34.7)	257.0	363.3
Profit for the year	-	-	-	-	-	58.1	58.1
Other comprehensive income for the year	-	-	-	0.1	-	115.5	115.6
Total comprehensive income for the year	-	-	-	0.1	-	173.6	173.7
Dividends paid	-	-	-	-	-	-	-
At 31 March 2010	<u>140.6</u>	<u>0.4</u>	<u>(0.3)</u>	<u>0.4</u>	<u>(34.7)</u>	<u>430.6</u>	<u>537.0</u>
At 1 April 2010	140.6	0.4	(0.3)	0.4	(34.7)	430.6	537.0
Profit for the year	-	-	-	-	-	86.9	86.9
Other comprehensive expense for the year	-	-	-	(0.9)	-	(55.8)	(56.7)
Total comprehensive (expense)/income for the year	-	-	-	(0.9)	-	31.1	30.2
Dividends paid	-	-	-	-	-	(40.0)	(40.0)
At 31 March 2011	<u>140.6</u>	<u>0.4</u>	<u>(0.3)</u>	<u>(0.5)</u>	<u>(34.7)</u>	<u>421.7</u>	<u>527.2</u>

Other reserves arose on the completion of the PPP transaction in July 2001.

Consolidated financial statements

Consolidated cash flow statement for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Net cash from operating activities	24	<u>182.6</u>	<u>177.5</u>
Cash flows from investing activities			
Interest received on short-term investments		1.4	1.5
Purchase of property, plant and equipment and other intangible assets		(120.4)	(143.1)
Cost of disposal of property, plant and equipment		-	(0.1)
Investment in associate		(0.1)	-
Changes in short-term investments		(0.9)	10.1
Net cash outflow from investing activities		<u>(120.0)</u>	<u>(131.6)</u>
Cash flows from financing activities			
Interest paid		(33.7)	(34.3)
Interest received on derivative financial instruments		2.8	3.4
Bank and other loans		30.2	10.6
Dividends paid		(40.0)	(43.5)
Net cash outflow from financing activities		<u>(40.7)</u>	<u>(63.8)</u>
Increase/(decrease) in cash and cash equivalents during the year		21.9	(17.9)
Cash and cash equivalents at 1 April		<u>145.6</u>	<u>163.5</u>
Cash and cash equivalents at 31 March		<u><u>167.5</u></u>	<u><u>145.6</u></u>
Net Debt (representing borrowings net of cash and short-term investments)		<u><u>(528.0)</u></u>	<u><u>(519.7)</u></u>

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 69. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Business and financial review.

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

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 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 Interpretations

Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

In the current year, the following new and revised Standards and Interpretations have been adopted.

Two Interpretations issued by the IFRIC have been adopted in the current year; these Interpretations are not yet effective but have been adopted early as they have been endorsed by the EU. These are: Amendment to IFRIC 14: *Prepayments of a Minimum Funding Requirement* and IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*. The adoption of these Interpretations has not led to any changes in the group's accounting policies.

In addition, the group adopted: IFRS 3 (2008): *Business Combinations*; IAS 27: *Consolidated and Separate Financial Statements (2008)*; and IAS 28 (2008): *Investments in Associates*. These Standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or associate.

The following amendments were made as part of the Improvements to IFRSs (2009): Amendments to IFRS 2: *Share-based Payment*, which confirms that the contribution of a business on the formation

Notes forming part of the consolidated accounts

of a joint venture and common control transactions are not within the scope of IFRS 2; Amendments to IAS 17: *Leases*, which clarifies that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17; Amendments to IAS 39: *Financial Instruments: Recognition and Measurement*; and IAS 32 (Amended): *Classification of Rights Issues*. The adoption of these Standards has not had any significant impact on the amounts reported or disclosed in these financial statements.

The following Standard has been adopted in the current year, this adoption has not had any significant impact on the amounts reported in these financial statements: IFRS 2 (Amended): *Group Cash-settled Share-based Payment Transactions*, which clarifies the accounting for share-based payment transactions between group entities.

At the date of authorisation of these financial statements the following Standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU): IFRS 9: *Financial Instruments*; IAS 24 (Amended): *Related Party Disclosures*; Improvements to IFRSs (May 2010); IFRS 10: *Consolidated Financial Statements*; IFRS 11: *Joint Arrangements*; IFRS 12: *Disclosure*

of Interests in Other Entities; IFRS 13: *Fair Value Measurement* and IAS19 (Amended): *Employee Benefits*. The adoption of IFRS 9 and IFRS 13, which will be effective for the year beginning on 1 April 2013, will impact both the measurement and disclosures of financial instruments. The adoption of IFRS 10, IFRS 11 and IFRS 12 may impact the disclosures of the group's investments in NATSNav and FerroNATS. These standards will be effective for the year beginning on 1 April 2013. The principal impact of the adoption of IAS 19 (Amended) will be to require disaggregation of defined benefit costs into components, recognition of re-measurements in other comprehensive income and enhance disclosures about the defined benefit scheme. This standard will be effective for the year beginning 1 April 2013.

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.

Notes forming part of the consolidated accounts

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

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the company's Executive team, who is considered to be the chief operating decision maker. An operating segment is a component of NATS that engages in business activities from which it may earn revenues and incur expenses. Operating segments' operating results are reviewed regularly by the Executive team to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise investment revenue, finance expenses and income tax expenses. Unallocated assets and liabilities comprise balances relating to taxation, borrowings, derivative financial instruments and dividends.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

Operating profit

Operating profit is stated after charging restructuring costs but before the group's share of results of associates, investment income, finance costs and taxation.

Revenue recognition

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

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NATS (En Route) plc's air traffic services licence (including volume risk sharing, service performance incentives and inflation adjustments) and airport contracts and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence.

Notes forming part of the consolidated accounts

- 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.

Goodwill

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

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

Leases

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

The group does not have any finance leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value. The cost of property, plant and equipment includes internal and contracted labour costs directly attributable to bringing the assets into working condition for their intended use. Depreciation is provided on a straight-line basis to write off the

Notes forming part of the consolidated accounts

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.

Borrowing costs

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

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

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

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

Notes forming part of the consolidated accounts

Deferred grants and other contributions to property, plant and equipment

Government grants as contributions to non-current assets are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful economic lives of the related assets.

Grants of a revenue nature are credited to income in the period to which they relate.

Investments in associates

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

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

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.

Notes forming part of the consolidated accounts

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.

Emissions allowances

Consistent with the withdrawal of IFRIC 3, emissions allowances previously recognised at a valuation are now recognised at cost. Emission allowances granted free of charge are recognised at zero value on the balance sheet as an intangible asset. As carbon is produced and an obligation to submit allowances arises, a provision is created. The provision is measured at book value ('zero' or carrying amount

Notes forming part of the consolidated accounts

of purchased emission certificates) of the recognised emission certificates. If there is an obligation that is not covered by allowances already on the balance sheet, the corresponding provision made is measured at current market prices.

Amounts recoverable on contracts

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

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

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

Share-based payments

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

In 2001, the group established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following 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.

Shares awarded by the Plan are treated as cash-settled liabilities. A liability is recognised for shares awarded over the period from award to when the employee becomes unconditionally entitled to the shares and are measured initially at their fair value. At each balance sheet date until the liability is settled, as well as at the date of settlement, the fair value of

Notes forming part of the consolidated accounts

the liability is re-measured based on independent share valuations with any changes in fair value recognised in profit or loss for the year.

In respect of the award schemes, the group provides finance to the NATS Employee Sharetrust to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The group's share of the costs of running the employee share trust is 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 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.

Notes forming part of the consolidated accounts

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.

On 29 March 2011 under the Provisional Collection of Taxes Act, the corporation tax rate was reduced to 26% with effect from 1 April 2011. The Government has also indicated that it intends to enact future reductions in the main UK tax rate of 1% each year down to 23% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the group's financial statements as outlined above, subject to the impact of other developments in the group's tax position which may reduce the beneficial effect of this in the group's tax rate. As the further reductions in UK corporate tax rates have not been substantially enacted at the balance sheet date, this is considered a non-adjusting event in accordance with IAS 10 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

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

Notes forming part of the consolidated accounts

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 15 to 19.

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories:

- Loans and receivables;
- Financial assets at fair value through the profit and loss;
- Available for sale financial assets; and
- Held to maturity investments.

Financial assets are assigned to different categories on initial recognition. The classification depends upon the nature and purpose of the financial asset. A financial instrument's category is relevant to the way it is measured and whether the resulting income is recognised through the income statement or directly in equity. Subsequent to initial recognition financial assets are measured at either fair value or at amortised cost according to the category in which they are classified.

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value plus transaction costs.

Notes forming part of the consolidated accounts

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 (with a maturity of 3 months or less) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

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

Fair value through the profit and loss

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

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

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes forming part of the consolidated accounts

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 group 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 and 18 to the accounts.

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

The use of financial derivatives is governed by the group's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The group documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If a hedge

Notes forming part of the consolidated accounts

of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recycled to the income statement in the same period in which the hedged item affects the income statement.

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

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

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

3. Critical judgements and key sources of estimation uncertainty

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset bases, market premiums for regulated businesses and the outcome of the regulatory price control determination for Control Period 3 (from January 2011). If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. A reduction in net realisable value of 20%

Notes forming part of the consolidated accounts

(2010: value in use of 6%) or a reduction in market premium by 7% (2010: 3%) would result in the recoverable amount being equal to the carrying amount of goodwill. Refer to notes 12, 13 and 14.

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 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. 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 2011 £m	Year ended 31 March 2010 £m
UK air traffic services	578.2	561.4
North Atlantic air traffic services	21.1	22.2
Airport air traffic services	159.0	152.1
Miscellaneous services	19.0	19.2
	<u>777.3</u>	<u>754.9</u>

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 provision of services 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 a £2.3m gain (2010: £1.1m loss).

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 air space, air traffic services for helicopters operating in the North Sea, approach services for London airports, services to the Ministry of Defence and miscellaneous activity connected to the en route business. 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 economically regulated business, which operate under an air traffic services licence granted by the CAA. Segment information is presented below.

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

Year ended 31 March 2011	Economically regulated activities			Activities not economically regulated			Total £m
	UK air traffic services £m	North Atlantic air traffic services £m	Sub-total £m	Airport air traffic services £m	Miscellaneous services £m	Sub-total £m	
Revenue							
Revenue from external customers	578.2	21.1	599.3	159.0	19.0	178.0	777.3
Segment result	121.8	1.6	123.4	30.9	3.5	34.4	157.8
Operating profit							157.8
Share of results of associates							0.2
Investment revenue							2.7
Finance costs							(54.6)
Profit before tax							106.1
Tax							(19.2)
Profit for the year							86.9
Other information							
Exceptional items	7.8	0.2	8.0	3.0	0.4	3.4	11.4
Capital expenditure	119.0	2.5	121.5	0.8	0.2	1.0	122.5
Depreciation and amortisation	81.6	3.4	85.0	3.4	0.3	3.7	88.7
Impairment losses recognised in income	13.1	-	13.1	-	-	-	13.1
Deferred grants released	(1.4)	-	(1.4)	(0.3)	-	(0.3)	(1.7)
Balance sheet							
Assets							
Segment assets	1,359.3	31.3	1,390.6	53.6	15.6	69.2	1,459.8
Unallocated assets							184.1
Consolidated total assets							1,643.9
Liabilities							
Segment liabilities	(117.5)	(4.0)	(121.5)	(32.2)	(6.9)	(39.1)	(160.6)
Unallocated liabilities							(956.1)
Consolidated total liabilities							(1,116.7)

Notes forming part of the consolidated accounts

5. Business and geographical segments (continued)

Year ended 31 March 2010	Economically regulated activities			Activities not economically regulated			Total
	UK air traffic services £m	North Atlantic air traffic services £m	Sub-total £m	Airport air traffic services £m	Miscellaneous services £m	Sub-total £m	
Revenue							
Revenue from external customers	561.4	22.2	583.6	152.1	19.2	171.3	754.9
Segment result	92.1	0.2	92.3	19.9	2.6	22.5	114.8
Operating profit							114.8
Share of results of associates							0.1
Investment revenue							1.6
Finance costs							(38.2)
Profit before tax							78.3
Tax							(20.2)
Profit for the year							58.2
Other information							
Exceptional items	19.6	0.7	20.3	1.9	0.2	2.1	22.4
Capital expenditure	134.8	2.7	137.5	2.8	1.5	4.3	141.8
Depreciation and amortisation	79.9	3.7	83.6	2.6	0.3	2.9	86.5
Impairment losses recognised in income	2.4	0.1	2.5	0.4	0.1	0.5	3.0
Deferred grants released	(1.7)	-	(1.7)	(0.3)	-	(0.3)	(2.0)
Balance sheet							
Assets							
Segment assets	1,329.5	34.3	1,363.8	53.3	28.9	82.2	1,446.0
Unallocated assets							161.9
Consolidated total assets							1,607.9
Liabilities							
Segment liabilities	(114.3)	(3.9)	(118.2)	(33.5)	(7.4)	(40.9)	(159.1)
Unallocated liabilities							(911.8)
Consolidated total liabilities							(1,070.9)

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

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

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 2011 £m	Year ended 31 March 2010 £m
UK	424.0	404.0
Rest of Europe	210.2	204.0
North America	102.2	100.6
Other	40.9	46.3
	777.3	754.9

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 £99.5m (2010: £107.9m) which arose from the group's largest customer.

6. Operating profit for the year

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

a. Exceptional items

Redundancy and relocation costs

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

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Redundancy costs (including pension augmentation costs, see note 7a)	9.5	21.2
Relocation of staff to the Swanwick area	2.7	5.3
Relocation of staff to the Prestwick area	(2.6)	(0.1)
Relocation of staff from Hurn to the Corporate Technical Centre	1.8	1.1
Swanwick business rates rebate relating to prior years	-	(5.1)
	11.4	22.4

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

Notes forming part of the consolidated accounts

6. Operating profit for the year (continued)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
b. Other items		
CAA regulatory charges in respect of NERL's air traffic services licence	5.0	5.8
CAA regulatory charges for safety regulation at airports	2.8	2.7
Depreciation of property, plant and equipment	77.5	76.5
Impairment of property, plant and equipment	(0.1)	1.3
Amortisation of internally generated intangible assets	11.2	10.0
Impairment of internally generated intangible assets	13.2	1.7
Deferred grants released	(1.7)	(2.0)
Research and development costs	12.5	8.6
Auditors' remuneration for audit services (see below)	0.2	0.2

The analysis of auditors' remuneration is as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditors and their associates for other services to the group		
- The audit of the company's subsidiaries pursuant to legislation	-	-
Total audit fees	0.2	0.2

Total non-audit fees of £33,848 (2010: £77,700) included tax services of £18,573 (2010: £47,000) and other services of £15,275 (2010: £30,700). Total fees payable to the company's auditors for the audit of the subsidiary accounts was £51,700 (2010: £41,700).

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 2011 £m	Year ended 31 March 2010 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	291.7	298.3
Social security costs	27.5	28.5
Pension costs (note 7b)	80.7	114.3
	<u>399.9</u>	<u>441.1</u>
Less: amounts capitalised	(33.2)	(37.9)
	<u><u>366.7</u></u>	<u><u>403.2</u></u>

Wages and salaries include redundancy costs of £4.7m (2010: £11.9m), share-based payment charges, other allowances and holiday pay. Pension costs include £4.8m (2010: £9.3m) for redundancy related augmentation payments which staff elected to receive in lieu of severance payments.

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
b. Pension costs		
Defined benefit pension scheme costs for year (note 27)	79.6	114.1
Defined contribution pension scheme costs for year	1.1	0.2
	<u>80.7</u>	<u>114.3</u>

Wages and salaries and pension costs reflect the implementation of pension salary sacrifice arrangements for staff.

c. Staff numbers

	Year ended 31 March 2011 No.	Year ended 31 March 2010 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,957	2,003
Air traffic service assistants	863	964
Engineers	970	1,054
Others	862	899
	<u>4,652</u>	<u>4,920</u>

Notes forming part of the consolidated accounts

8. Investment revenue

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest on bank deposits	1.3	1.5
Other loans and receivables	1.4	0.1
	<u>2.7</u>	<u>1.6</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 2011 £m	Year ended 31 March 2010 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	1.5	1.4
Bond and related costs including financing expenses	30.9	30.3
Other	-	0.2
	<u>32.4</u>	<u>31.9</u>
Loss on derivatives not qualifying for hedge accounting	22.2	6.3
	<u>54.6</u>	<u>38.2</u>

Notes forming part of the consolidated accounts

10. Tax

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Current tax (including a credit of £0.1m in respect of prior years, 2010: £2.7m charge)	(16.1)	(4.8)
Deferred tax (See note 21. Including £nil in respect of prior years, 2010: £2.2m charge)	(3.1)	(15.4)
	<u>(19.2)</u>	<u>(20.2)</u>

Corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year.

	Year ended 31 March 2011 £m	%	Year ended 31 March 2010 £m	%
The charge for the year can be reconciled to the profit per the income statement as follows:				
Profit on ordinary activities before tax	<u>106.1</u>		<u>78.3</u>	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2010: 28%)	(29.7)	(28.0)	(21.9)	(28.0)
Deferred tax effect of change in corporation tax rate from 28% to 26% from April 2011	10.8	10.2	-	0.0
Tax effect of prior year adjustments	0.1	0.1	0.5	0.7
Other permanent differences	(0.4)	(0.4)	1.2	1.5
Tax charge for year at an effective tax rate of 18.1% (2010: 25.8%)	<u>(19.2)</u>	(18.1)	<u>(20.2)</u>	(25.8)
Deferred tax (credit)/charge taken directly to equity (see note 21)	<u>(19.9)</u>		<u>45.0</u>	

Notes forming part of the consolidated accounts

11. Dividends

Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
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Amounts recognised as dividends to equity shareholders in the year:

First interim dividend of 13.98 pence per share (2010: nil) paid in June 2010	20.0	-
Second interim dividend of 13.98 pence per share (2010: nil) paid in November 2010	20.0	-
	40.0	-

In May 2011, the Board declared and the company paid an interim dividend for the year ending 31 March 2012 of 29.71 pence per share, totalling £42.5m.

12. Goodwill

£m

Carrying amount

At 31 March 2011 and 31 March 2010	351.0
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The group 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, representing the cash generating units, including market premiums for regulated businesses (assumed at 10%, 2010: 10%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of the third regulatory control period (31 December 2014 for UK air traffic services and 31 March 2015 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 outcome of the price control review which included forecasts of traffic volumes reflecting the current economic environment. The discount rate is a pre-tax nominal rate of 10.69% (2010: 10.26%). 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 2009	38.1	28.9	17.5	113.0	197.5
Additions internally generated	0.6	0.2	0.6	13.5	14.9
Additions externally acquired	1.4	2.5	0.2	44.0	48.1
Disposals during the year	(0.1)	-	-	(12.6)	(12.7)
Other transfers during the year	8.5	0.5	0.3	(9.2)	0.1
At 1 April 2010	48.5	32.1	18.6	148.7	247.9
Additions internally generated	2.3	-	0.1	15.2	17.6
Additions externally acquired	2.7	1.1	-	33.1	36.9
Disposals during the year	(0.5)	(0.2)	(1.0)	-	(1.7)
Other transfers during the year	3.3	0.5	1.1	(5.6)	(0.7)
At 31 March 2011	<u>56.3</u>	<u>33.5</u>	<u>18.8</u>	<u>191.4</u>	<u>300.0</u>
Accumulated amortisation					
At 1 April 2009	15.0	9.6	6.5	16.2	47.3
Charge for the year	5.1	3.3	1.6	-	10.0
Provisions for impairment	-	-	-	1.7	1.7
Disposals during the year	-	-	-	(12.5)	(12.5)
At 1 April 2010	20.1	12.9	8.1	5.4	46.5
Charge for the year	5.7	3.9	1.6	-	11.2
Provisions for impairment	-	-	-	13.2	13.2
Utilisation of impairment provision	(0.5)	(1.0)	-	-	(1.5)
Disposals during year	0.5	0.9	-	(1.5)	(0.1)
At 31 March 2011	<u>25.8</u>	<u>16.7</u>	<u>9.7</u>	<u>17.1</u>	<u>69.3</u>
Carrying amount					
At 31 March 2011	<u>30.5</u>	<u>16.8</u>	<u>9.1</u>	<u>174.3</u>	<u>230.7</u>
At 31 March 2010	<u>28.4</u>	<u>19.2</u>	<u>10.5</u>	<u>143.3</u>	<u>201.4</u>

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

Notes forming part of the consolidated accounts

14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2009	221.6	47.6	1,045.5	17.7	159.3	1,491.7
Additions during the year	1.0	0.2	35.9	0.1	41.6	78.8
Disposals during the year	-	-	(16.7)	(0.1)	(1.6)	(18.4)
Other transfers during the year	0.9	0.4	72.0	0.1	(73.5)	(0.1)
At 1 April 2010	223.5	48.2	1,136.7	17.8	125.8	1,552.0
Additions during the year	1.0	0.1	14.4	0.7	51.8	68.0
Disposals during the year	-	(0.6)	(36.6)	(0.2)	-	(37.4)
Other transfers during the year	0.2	-	14.2	0.2	(13.9)	0.7
At 31 March 2011	<u>224.7</u>	<u>47.7</u>	<u>1,128.7</u>	<u>18.5</u>	<u>163.7</u>	<u>1,583.3</u>
Accumulated depreciation and impairment						
At 1 April 2009	77.9	30.6	734.2	8.1	3.9	854.7
Provided during the year	6.9	1.6	66.6	1.4	-	76.5
Provisions for impairment	-	-	0.3	-	1.0	1.3
Utilisation of impairment provision	-	-	-	-	(1.7)	(1.7)
Disposals during the year	-	-	(16.6)	(0.1)	-	(16.7)
At 1 April 2010	84.8	32.2	784.5	9.4	3.2	914.1
Provided during the year	6.9	1.5	67.6	1.5	-	77.5
Provisions for impairment	-	-	-	-	(0.1)	(0.1)
Utilisation of impairment provision	-	-	-	-	(0.1)	(0.1)
Disposals during the year	-	(0.6)	(36.5)	(0.1)	-	(37.2)
At 31 March 2011	<u>91.7</u>	<u>33.1</u>	<u>815.6</u>	<u>10.8</u>	<u>3.0</u>	<u>954.2</u>
Carrying amount						
At 31 March 2011	<u>133.0</u>	<u>14.6</u>	<u>313.1</u>	<u>7.7</u>	<u>160.7</u>	<u>629.1</u>
At 31 March 2010	<u>138.7</u>	<u>16.0</u>	<u>352.2</u>	<u>8.4</u>	<u>122.6</u>	<u>637.9</u>

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £13.1m (2010: £3.0m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

During the year the group capitalised £0.5m (2010: £0.1m) of general borrowing at a capitalisation rate of 1.8% (2010: 0.7%), in accordance with IAS 23: Borrowing Costs.

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

	2011 £m	2010 £m
Non-current		
Other debtors	1.1	4.4
Accrued income	46.6	-
	<u>47.7</u>	<u>4.4</u>
Current		
Receivable from customers gross	62.7	46.8
Allowance for doubtful debts	(6.0)	(5.7)
	<u>56.7</u>	<u>41.1</u>
Amounts recoverable under contracts	5.4	8.0
Other debtors	7.0	4.8
Prepayments	11.3	13.6
Accrued income	72.4	103.7
	<u>152.8</u>	<u>171.2</u>

The average credit period taken on sales of services is 28 days (2010: 29 days). Interest is charged by Eurocontrol to UK en route customers at 11.00% (2010: 11.58%) 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 £6.0m (2010: £5.7m). 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 or where there is evidence of a reduction in the recoverability of the cash flows.

Ageing of past due but not impaired trade receivables

	2011 £m	2010 £m
30-90 days	0.9	0.3
91-365 days	0.7	0.4
	<u>1.6</u>	<u>0.7</u>

Movement in the allowance for doubtful debts

	2011 £m	2010 £m
Balance at the beginning of the year	5.7	5.8
Increase in allowance recognised in the income statement	0.8	0.1
Amounts written off as irrecoverable	(0.5)	(0.2)
	<u>6.0</u>	<u>5.7</u>

Notes forming part of the consolidated accounts

15. Financial and other assets (continued)

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 via a £1m annual revenue allowance. 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 £4.7m (2010: £4.6m) 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

	2011 £m	2010 £m
Current	-	0.2
30-90 days	0.3	-
91-365 days	2.1	0.2
more than 365 days overdue	3.6	5.3
	<u>6.0</u>	<u>5.7</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 £373.1m (2010: £323.1m).

Notes forming part of the consolidated accounts

16. Borrowings

	2011 £m	2010 £m
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	597.9	597.6
Bank overdraft	-	1.2
Bank loans (revolving term loan and revolving credit facility expiring 2011-2012)	119.5	88.1
Gross borrowings	<u>717.4</u>	<u>686.9</u>
Unamortised bond issue costs	(5.5)	(6.1)
	<u>711.9</u>	<u>680.8</u>
Amounts due for settlement within 12 months	<u>14.2</u>	<u>-</u>
Amounts due for settlement after 12 months	<u>697.7</u>	<u>680.8</u>

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NERL grants its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Drawings of £119.5m made by NERL under its £205.2m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and by NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is circa £1,309m (2010: £1,257m), including the carrying amount of balance sheet goodwill of £351.0m.

The average effective interest rate on the bank loans in the year was 1.2% (2010: 1.6%) and was determined based on LIBOR rates plus a margin.

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

Undrawn committed facilities	2011 £m	2010 £m
Undrawn committed facilities expire as follows:		
Less than one year	34.3	11.0
Between one and two years	51.4	34.3
After more than two years	-	81.6
	<u>85.7</u>	<u>126.9</u>

NERL has outstanding drawings of £119.5m on its committed facilities. The bank facilities expire as follows: £34.25m in November 2011 and the balance of £170.95m in November 2012.

NATS Services has an uncommitted overdraft facility of £1m that was undrawn as at 31 March 2011 and 31 March 2010 and is not included in the table above.

Notes forming part of the consolidated accounts

17. Derivative financial instruments

Fair value of derivative financial instruments

	2011 £m	2010 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
– Forward foreign exchange contracts (cash flow hedges)	<u>0.2</u>	<u>0.8</u>
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
– Forward foreign exchange contracts (cash flow hedges)	(4.0)	(1.0)
Derivative financial instruments classified as held for trading		
– Index-linked swaps	<u>(109.2)</u>	<u>(87.0)</u>
	<u>(113.2)</u>	<u>(88.0)</u>

Further details on derivative financial instruments are provided in note 18. The index-linked swap is classified under international accounting standards as held for trading as it does not qualify for hedge accounting. The index-linked swap was taken out in August 2003 to hedge against the risk of low inflation and previously qualified as a hedge under UK generally accepted accounting principles prior to the group's adoption of international accounting standards.

Fair value measurements recognised in the balance sheet

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

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

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

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

	2011				2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative instruments in designated hedge accounting relationships	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>0.8</u>	<u>-</u>	<u>0.8</u>
Financial liabilities								
Derivative instruments in designated hedge accounting relationships	-	(4.0)	-	(4.0)	-	(1.0)	-	(1.0)
Derivative financial instruments classified as held for trading	<u>-</u>	<u>(109.2)</u>	<u>-</u>	<u>(109.2)</u>	<u>-</u>	<u>(87.0)</u>	<u>-</u>	<u>(87.0)</u>
	<u>-</u>	<u>(113.2)</u>	<u>-</u>	<u>(113.2)</u>	<u>-</u>	<u>(88.0)</u>	<u>-</u>	<u>(88.0)</u>

There were no transfers between individual levels in the period.

Notes forming part of the consolidated accounts

18. Financial instruments

Capital risk management

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

The capital structure of the group consists of debt as disclosed in note 16, cash and cash equivalents and short-term investments, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

External capital requirements

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

As at 31 March 2011, NERL had a corporate rating of AA- negative outlook from Standard & Poor's (2010: AA- negative outlook) and A2 stable outlook from Moody's (2010: A2 stable outlook).

Gearing ratio

The group does not seek to maintain a target gearing level at group level but rather sets a gearing target for NERL, the economically regulated subsidiary, based on a ratio of net debt to its regulatory asset base (RAB). Following the price control review for the years 2011 to 2014, the CAA has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement for NERL to remedy the position if this cap is exceeded. NATS Services and NATS Limited, the group's intermediate holding company, have no borrowings.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instrument

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

	2011 £m	2010 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	70.2	58.3
Cash and cash equivalents and short-term investments	183.9	161.1
Derivative financial instruments in designated hedge accounting relationships	0.2	0.8
	<u>254.3</u>	<u>220.2</u>
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(4.0)	(1.0)
Derivative financial instruments classified as held for trading	(109.2)	(87.0)
Other financial liabilities at amortised cost	(760.0)	(724.4)
	<u>(873.2)</u>	<u>(812.4)</u>

Other financial liabilities at amortised cost includes balances for trade and other payables (excluding accruals and deferred income), 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 £22.2m has been recorded in the income statement in the year (2010: £6.3m).

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Financial risk management objectives

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

Market risk

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

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

Foreign currency risk management

The group's principal exposure to foreign currency transaction risk is in relation to UK en route services revenue, accounting for 65% of the group's turnover (2010: 66%). 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	
	2011 £m	2010 £m	2011 £m	2010 £m
Euro	148.9	115.7	(6.4)	(3.4)
US Dollar	0.1	0.9	(0.1)	(1.5)
Canadian Dollar	-	0.6	(0.1)	(0.9)
Norwegian Krone	0.2	-	(0.1)	-
Danish Krone	-	0.5	-	-
	<u>149.2</u>	<u>117.7</u>	<u>(6.7)</u>	<u>(5.8)</u>

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 and Norwegian 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	2011 Impact £m	2010 Impact £m
Euro	(3.8)	(2.9)
US Dollar	-	-
Canadian Dollar	-	-
Norwegian Krone	-	-
Danish Krone	(0.1)	(0.1)
	<u>(3.9)</u>	<u>(3.0)</u>

The group's sensitivity to the Euro increased during the year reflecting an increase in Euro denominated monetary assets and forward contracts taken out to hedge future purchase commitments. Exposure to other currencies has remained constant. NATS believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the level of currency investments was broadly constant throughout the reporting period.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Forward foreign exchange contracts

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

	2011				2010		
	£m	£m	Average exchange rate		£m	£m	Average exchange rate
Euro sold				Euro sold			
0-3 months	113.0	132.4	0.8535	0-3 months	103.3	116.5	0.8867
Over 3 months	0.2	0.2	0.8703	Over 3 months	1.4	1.5	0.9075
	<u>113.2</u>	<u>132.6</u>	<u>0.8536</u>		<u>104.7</u>	<u>118.0</u>	<u>0.8869</u>
Euro bought				Euro bought			
0-3 months	2.0	1.8	0.8691	0-3 months	6.9	6.1	0.8813
Over 3 months	7.9	6.8	0.8661	Over 3 months	17.2	15.2	0.8847
	<u>9.9</u>	<u>8.6</u>	<u>0.8686</u>		<u>24.1</u>	<u>21.3</u>	<u>0.8841</u>
US Dollar bought	US\$m	£m		US Dollar bought	US\$m	£m	
0-3 months	-	-	n/a	0-3 months	0.3	0.2	1.4715
Over 3 months	-	-	n/a	Over 3 months	-	-	n/a
	<u>-</u>	<u>-</u>	<u>-</u>		<u>0.3</u>	<u>0.2</u>	<u>1.4715</u>
Canadian Dollar bought	C\$m	£m		Canadian Dollar bought	C\$m	£m	
0-3 months	0.3	0.2	1.5584	0-3 months	-	-	n/a
Over 3 months	0.3	0.2	1.5770	Over 3 months	0.1	0.1	1.7920
	<u>0.6</u>	<u>0.4</u>	<u>1.5437</u>		<u>0.1</u>	<u>0.1</u>	<u>1.7920</u>
Norwegian Krone bought	NOKm	£m		Norwegian Krone bought	NOKm	£m	
Over 3 months	1.9	0.2	9.4465	Over 3 months	-	-	n/a
Danish Krone bought	DKKm	£m		Danish Krone bought	DKKm	£m	
0-3 months	2.7	0.3	8.7063	0-3 months	5.2	0.6	8.3870
Over 3 months	1.4	0.2	8.7056	Over 3 months	1.5	0.2	8.4070
	<u>4.1</u>	<u>0.5</u>	<u>8.7061</u>		<u>6.7</u>	<u>0.8</u>	<u>8.3914</u>

At 31 March 2011, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these future transactions was £0.5m (2010: £0.4m – unrealised gains). The majority of these contracts will mature within the first two months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

In addition to the above, NERL has entered into average rate forward agreements with a contract date after 31 March 2011 to sell Euro anticipated to be received in July and August 2011 in respect of UK en route revenues. The value of these cash flows is £93m. These contracts are also designated as cash flow hedges. They are not included in the table above.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL, NATS Services and NATS Limited, the intermediate holding company, had no borrowings at 31 March 2011 (2010: £nil).

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

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

The group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2011 (2010: none).

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Economic interest rate exposure

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

Currency	2011						
	Amount £m	Cash	Average maturity days	Short-term deposits			Total £m
		Economic interest rate %		Amount £m	Economic interest rate %	Average maturity days	
Sterling	154.7	0.5	3	16.4	1.1	183	171.1
Euro	12.5	0.6	2	-	-	-	12.5
US Dollar	0.1	-	1	-	-	-	0.1
Norwegian Krone	0.2	-	1	-	-	-	0.2
	<u>167.5</u>			<u>16.4</u>			<u>183.9</u>

Currency	2010						
	Amount £m	Cash	Average maturity days	Short-term deposits			Total £m
		Economic interest rate %		Amount £m	Economic interest rate %	Average maturity days	
Sterling	139.9	0.5	3	15.5	0.8	183	155.4
Euro	4.2	0.1	4	-	-	-	4.2
US Dollar	0.5	-	1	-	-	-	0.5
Canadian Dollar	0.6	-	1	-	-	-	0.6
Danish Krone	0.4	0.3	6	-	-	-	0.4
	<u>145.6</u>			<u>15.5</u>			<u>161.1</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 2011						
Sterling:						
5.25% guaranteed secured bonds	597.9	-	-	597.9	5.27	9.0
Bank loans	119.5	119.5	-	-	1.34	0.5
Total	717.4	119.5	-	597.9		
At 31 March 2010						
Sterling:						
5.25% guaranteed secured bonds	597.6	-	-	597.6	5.27	10.0
Bank loans	89.3	89.3	-	-	1.13	0.5
Total	686.9	89.3	-	597.6		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2011						
Sterling:						
5.25% guaranteed secured bonds	397.9	-	-	397.9	5.28	9.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.40	0.5
Bank loans	119.5	119.5	-	-	1.34	0.5
Total	717.4	119.5	200.0	397.9		
At 31 March 2010						
Sterling:						
5.25% guaranteed secured bonds	397.6	-	-	397.6	5.28	10.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.64	0.5
Bank loans	89.3	89.3	-	-	1.13	0.5
Total	686.9	89.3	200.0	397.6		

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

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

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

	2011		2010	
	£m		£m	
Net debt	<u>528.0</u>		<u>519.7</u>	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	392.4	74.3	391.5	75.3
Index-linked	200.0	37.9	200.0	38.5
Floating (net of cash and short-term investments)	(64.4)	(12.2)	(71.8)	(13.8)
	<u>528.0</u>	<u>100.0</u>	<u>519.7</u>	<u>100.0</u>

At 31 March 2011, NERL had net debt, including an inter-company loan of £23.4m, of £651.6m (2010: net debt £624.2m), NATS Limited held cash balances of £4.9m (2010: cash £4.8m), NATS Services had cash of £95.3m (2010: cash £75.5m) and NATSNav had cash of £0.04m (2010: cash £1.1m).

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.

	2011		2010	
	£m		£m	
Net debt	<u>651.6</u>		<u>624.2</u>	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	392.4	60.2	391.5	62.7
Index-linked	200.0	30.7	200.0	32.0
Floating (net of cash and short-term investments)	59.2	9.1	32.7	5.3
	<u>651.6</u>	<u>100.0</u>	<u>624.2</u>	<u>100.0</u>

In 2007, in order to reduce its exposure to interest rate risk on its cash balances, NERL adopted a strategy of hedging net debt rather than gross debt. This is an economic hedge whereby exposure to floating rate debt is offset by interest on cash balances.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates on floating rate assets and liabilities. The analysis is prepared assuming the amount of assets or liabilities at the balance sheet date was in place for the whole year. A 1% increase or decrease is considered to represent management's assessment of the reasonably possible change in interest rates.

The following table shows the effect of a 1% increase in interest rates on the group's cash and floating rate bank loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2011 Impact	2010 Impact
	£m	£m
Cash on deposit (2011: £183.9m, 2010: £161.1m)	1.8	1.6
Borrowings (2011: £119.5m, 2010: £89.3m)	(1.2)	(0.9)
	<u>0.6</u>	<u>0.7</u>

Overall the group's sensitivity to interest rates is in line with the prior year, reflecting increases in both cash and borrowing levels.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation. 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 3.43% 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 inflation-linked revenues.

From the start of Control Period 3 (January 2011) the reference to inflation was changed from an RPI-X basis to CPI basis. The CAA has provided NERL with a hedging allowance to compensate the company for the change in basis. NERL continues to monitor the progression of both RPI and CPI and as at 31 March 2011 no further inflation-linked derivatives have been entered into.

The value of the notional principal of £200m of the index-linked swap is also linked to movements in RPI. Commencing on 31 March 2017, semi-annual payments will be made relating to the inflation uplift on the amortisation of the notional principal.

Inflation rate sensitivity analysis

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

The following table shows the effect of a 1% increase in breakeven inflation on the amount of interest payable in respect of this swap and the impact on its value when marked to market. A positive number indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be an equal and opposite impact on profit and equity if breakeven inflation falls by 1%.

	2011 Impact £m	2010 Impact £m
Change in swap interest and mark to market value	<u>(29.4)</u>	<u>(31.8)</u>

The mark to market value of the index-linked swap is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £12.3m (2010: £11.2m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 15. With regard to funds or contracts held with financial institutions, the group's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Currently, the group's investments take the form of bank time deposits. Investments in bank time deposits with maturities up to three months and between three and six months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch and A3 and A1 respectively from Moody's. During 2008 the group tightened its investment criteria and currently only places deposits that have a maturity in excess of seven days with banks rated AA- or better.

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

Rating (Standard & Poor's)	Limit per institution £m
AAA	50.0
AA+	40.0
AA	30.0
AA-	20.0
A+	15.0
A	10.0
A-	7.5

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

Rating (Standard & Poor's)	Number of institutions	2011 £m	By credit rating %	Limit utilised %	Number of institutions	2010 £m	By credit rating %	Limit utilised %
AA	2	27.0	14.7	54.0	1	20.0	12.4	66.7
AA-	1	17.8	9.6	89.0	2	16.1	10.0	40.3
A+	8	111.3	60.5	92.8	8	85.1	52.8	70.9
A	3	16.1	8.8	53.7	3	18.4	11.4	61.4
A-	2	11.7	6.4	78.0	3	21.5	13.4	95.5
		<u>183.9</u>	<u>100.0</u>			<u>161.1</u>	<u>100.0</u>	

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity risk management, the risk that the group will have insufficient funds to meet its obligations as they fall due, rests with the Board with oversight provided by the Treasury Committee. The group manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. Specific liquidity policies are maintained for NERL. NATS Services and NATS Limited had no debt at year end.

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

- maintain free cash equal to between one and two 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 £16.4m 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 110% 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 circa £205.2m available until November 2011 and circa £170.95m until November 2012. To ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its CP3 business plan, the company anticipates that it will replace these facilities with a new five year facility during the financial year ending 31 March 2012;
- 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 circa £205.2m of which £34.25m expires in November 2011 and circa £170.95m in November 2012.

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

	2011 £m	2010 £m
Average monthly UK en route services income	42.0	41.6
Free cash at 31 March	46.0	42.8
Ratio of free cash to UK en route services income	<u>1.1</u>	<u>1.0</u>

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

	2011 £m	2010 £m
Bank borrowings	119.5	89.3
Gross borrowings	717.4	686.9
Bank borrowings as a percentage of gross borrowings	<u>16.7%</u>	<u>13.0%</u>

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

Notes forming part of the consolidated accounts

18. Financial instruments (continued)

Maturity of borrowings

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

	2011			2010		
	Secured loans	Other liabilities	Total	Secured loans	Other liabilities	Total
	£m	£m	£m	£m	£m	£m
Due within one year or less	49.1	42.6	91.7	35.2	37.5	72.7
Between one and two years	182.7	-	182.7	49.7	-	49.7
Due between two and five years	171.1	-	171.1	268.1	-	268.1
Due in more than five years	607.7	-	607.7	669.3	-	669.3
	<u>1,010.6</u>	<u>42.6</u>	<u>1,053.2</u>	<u>1,022.3</u>	<u>37.5</u>	<u>1,059.8</u>
Effect of interest, discount and unamortised bond issue costs	(298.7)	-	(298.7)	(341.5)	-	(341.5)
	<u>711.9</u>	<u>42.6</u>	<u>754.5</u>	<u>680.8</u>	<u>37.5</u>	<u>718.3</u>

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

	Due within one year or less £m	Due between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2011					
Net settled:					
Index-linked swap receivable/(payable)	3.4	3.4	8.5	(128.4)	(113.1)
Gross settled:					
Foreign exchange forward contract receivables	122.9	0.2	-	-	123.1
Foreign exchange forward contract payables	(126.9)	(0.2)	-	-	(127.1)
	<u>(0.6)</u>	<u>3.4</u>	<u>8.5</u>	<u>(128.4)</u>	<u>(117.1)</u>
2010					
Net settled:					
Index-linked swap receivable/(payable)	3.3	3.2	8.1	(112.1)	(97.5)
Gross settled:					
Foreign exchange forward contract receivables	122.6	4.8	-	-	127.4
Foreign exchange forward contract payables	(123.0)	(4.7)	-	-	(127.7)
	<u>2.9</u>	<u>3.3</u>	<u>8.1</u>	<u>(112.1)</u>	<u>(97.8)</u>

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 breakeven 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	
	2011 £m	2010 £m	2011 £m	2010 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	70.2	58.3	70.2	58.3
Cash and short-term investments	183.9	161.1	183.9	161.1
Derivative financial instruments				
– Forward foreign exchange contracts	0.2	0.8	0.2	0.8
	<u>254.3</u>	<u>220.2</u>	<u>254.3</u>	<u>220.2</u>
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	(42.6)	(37.5)	(42.6)	(37.5)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.9)	(597.6)	(618.3)	(608.6)
Bank loans and overdraft	(119.5)	(89.3)	(119.5)	(89.3)
Other loans	-	-	-	-
Derivative financial instruments				
– Forward foreign exchange contracts	(4.0)	(1.0)	(4.0)	(1.0)
– Index-linked swap	(109.2)	(87.0)	(109.2)	(87.0)
	<u>(873.2)</u>	<u>(812.4)</u>	<u>(893.6)</u>	<u>(823.4)</u>

Notes forming part of the consolidated accounts

19. Financial and other liabilities

Trade and other payables

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

	2011 £m	2010 £m
Current		
Trade payables	22.7	16.7
Other payables	10.7	10.9
Tax and social security	9.2	9.9
Accruals and deferred income		
- Deferred grants	0.9	1.7
- Other	83.6	75.0
	<u>127.1</u>	<u>114.2</u>
Non-current		
Accruals and deferred income		
- Deferred grants	7.6	8.6
- Other	7.8	4.8
	<u>15.4</u>	<u>13.4</u>
	<u><u>142.5</u></u>	<u><u>127.6</u></u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 54 days (2010: 39 days). This increase reflects the reduction in operating costs incurred in the year and the timing of receipt of invoices for services received during the year. The directors consider that the carrying amount of the trade payables approximates to their fair value.

Notes forming part of the consolidated accounts

20. Provisions

	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2010	19.3	10.5	1.9	31.7
Additional provision in the year	9.5	1.9	-	11.4
Utilisation of provision	(17.3)	(5.8)	(1.8)	(24.9)
At 31 March 2011	11.5	6.6	0.1	18.2
				Total £m
Amounts due for settlement within 12 months				12.9
Amounts due for settlement after 12 months				5.3
				18.2

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the group's redundancy programme at 31 March 2011. The ageing of the provision reflects the expected timing of employees leaving the group.

The relocation provision represents the best estimate of the future cost of relocating staff when the site they work at closes and they are relocated to another site. The ageing of the provision reflects the expected timing of the settlement of relocation costs.

The other provisions represent the best estimate of other liabilities. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

Notes forming part of the consolidated accounts

21. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Financial instruments £m	Other £m	Total £m
At 1 April 2009	113.1	(19.4)	(12.0)	(3.3)	78.4
Charge/(credit) to income	20.3	(3.2)	(1.5)	(0.2)	15.4
Charge to equity	-	44.9	0.1	-	45.0
At 31 March 2010	133.4	22.3	(13.4)	(3.5)	138.8
At 1 April 2010	133.4	22.3	(13.4)	(3.5)	138.8
(Credit)/charge to income	(5.4)	9.8	(1.5)	0.2	3.1
Credit to equity	-	(19.6)	(0.3)	-	(19.9)
At 31 March 2011	128.0	12.5	(15.2)	(3.3)	122.0

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

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Deferred tax liabilities	(140.5)	(155.7)
Deferred tax assets	18.5	16.9
	(122.0)	(138.8)

22. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2011 and 31 March 2010	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2011 and 31 March 2010	54,272,594	43.4	12,048,193	9.6
		187.5		140.6

Special share

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

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

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

Notes forming part of the consolidated accounts

23. Share premium account

	£m
Balance as at 31 March 2011 and 31 March 2010	<u>0.4</u>

24. Notes to the cash flow statement

	Year ended 31 March 2011	Year ended 31 March 2010
	£m	£m
Operating profit from continuing operations	157.8	114.8
Adjustments for:		
Depreciation of property, plant and equipment	77.5	76.5
Amortisation of intangible assets	11.2	10.0
Impairment losses	13.1	3.0
Deferred grants released	(1.7)	(2.0)
Loss on disposal of property, plant and equipment	0.2	0.3
Non-cash element of charge for pension costs	(43.5)	11.1
Operating cash flows before movements in working capital	214.6	213.7
Increase in trade and other receivables	(24.3)	(16.3)
Increase/(decrease) in trade and other payables	3.5	(12.0)
Cash generated from operations	193.8	185.4
Tax paid	(11.2)	(7.9)
Net cash from operating activities	<u>182.6</u>	<u>177.5</u>

Cash and cash equivalents, which are presented as a single class of asset on the face of the balance sheet, comprise cash at bank and short-term highly liquid investments with a maturity of three months or less.

Notes forming part of the consolidated accounts

25. Financial commitments

	2011 £m	2010 £m
Amounts contracted but not provided for in the accounts	<u>71.3</u>	<u>96.8</u>
Minimum lease payments under operating leases recognised in the income statement	<u>22.6</u>	<u>21.8</u>
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	23.0	22.3
In the second to fifth years inclusive	54.5	60.8
After five years	47.3	53.1
	<u>124.8</u>	<u>136.2</u>

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. Comparative figures have been restated.

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its contract with the MoD. NATSNav has given joint and several shareholder's guarantees up to €20m in favour of the European Commission, in respect of the contractual performance of ESSP SAS, in which NATSNav has a 16.67% interest.

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, dividend shares, partnership shares and matching shares to be awarded to employees. The free shares and matching shares have a vesting period of three years from date of award and may be cash-settled from this date. The shares may be forfeited if the employee leaves within three years of the date of the award, depending on conditions of departure.

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2011	No. employee shares outstanding at 31 March 2010
Free share awards			
21 September 2001	3,353,742	570,495	625,772
20 October 2003	2,459,000	529,242	595,288
10 September 2004	1,966,000	908,729	1,018,600
11 January 2008	1,071,840	851,180	905,960
18 September 2009	963,200	851,800	912,000
Partnership shares			
01 March 2011	694,783	691,583	-
Matching shares			
01 March 2011	694,783	691,583	-
		5,094,612	4,057,620
Dividend shares issued on 28 June 2005	247,017	67,275	74,473
Total employee shares in issue at 31 March		5,161,887	4,132,093

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

	Movement in the no. of shares during the year ended 31 March 2011	Movement in the no. of shares during the year ended 31 March 2010
Balance at 1 April	4,132,093	4,043,931
Granted during the year	1,389,566	963,200
Forfeited during the year	(20,823)	(15,420)
Exercised during the year	(338,949)	(859,618)
Balance at 31 March	5,161,887	4,132,093

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2011 the price of an employee share was valued at £3.50 (2010: £2.30). A valuation at 30 June 2010 valued the shares at £2.65. The liability on the balance sheet for the employee shares at 31 March 2011 was £12.7m (2010: £7.3m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £0.9m (2010: £1.9m).

Notes forming part of the consolidated accounts

27. Retirement benefit scheme

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

The Civil Aviation Authority Pension Scheme is a fully funded benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Upon transfer of NATS Limited (formerly National Air Traffic Services Limited) to the Secretary of State, two separate sections of the scheme were established, namely the CAA section and the NATS section. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001.

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

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

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

The two valuations differ in a number of critical respects, including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2009, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

Trustees' funding assessment

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2009 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purpose of the Trustees' funding assessment, it was assumed that the annual investment returns before retirement will be 3.0% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and the annual investment returns for pensions in payment will be 0.75% higher than the annual increases in pensions.

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

Contributions to the pension scheme

During the year the group paid cash contributions to the scheme of £123.1m (2010: £103.0m). This amount included £15.1m (2010: £15.8m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 38.4% (2010: 27.5%) of pensionable pay. The group increased contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost. In response to the triennial valuation, NATS has also begun a deficit recovery plan with Trustees and from January 2011 it has made further contributions of £2.0m per month, increasing these by 3.5% each January hereafter.

Notes forming part of the consolidated accounts

27. Retirement benefit scheme (continued)

Company's accounting valuation under international accounting standards

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

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

A Trustees' funding assessment was carried out as at 31 December 2009 and updated to 31 March 2011 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:

	2011	2010	2009
Inflation	3.45%	3.65%	3.40%
Increase in:			
- salaries	3.95%	4.15%	3.90%
- deferred pensions	3.45%	3.65%	3.40%
- pensions in payment	3.45%	3.65%	3.40%
Expected return on:			
- equities	7.35%	7.55%	7.05%
- property	7.35%	7.55%	7.05%
- bonds	4.70%	4.90%	4.40%
Discount rate for scheme liabilities	5.45%	5.65%	6.40%

The mortality assumptions have been drawn from actuarial tables 82% S1PMA and 101% S1PFA with future improvements in line with 80%/60% long cohort projections for male/female members, subject to a minimum improvement of 1.25% (2010: 82% S1NMA and 101% S1FNA medium cohort with a 1% underpin). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.9 years and a female pensioner is 28.9 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 30.9 years and for females to 30.7 years.

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 11.0%/increase by 12.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.5%/decrease by 10.8%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.1%/decrease by 3.9%
Rate of mortality	Increase by 1 year	Increase by 1.9%

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

	2011 £m	2010 £m
Current service cost	(108.5)	(96.8)
Past service cost	(5.1)	(9.3)
Expected return on scheme assets	195.4	137.0
Interest cost on scheme liabilities	(161.4)	(145.0)
Total defined benefit charge recognised in arriving at operating profit	<u>(79.6)</u>	<u>(114.1)</u>

Notes forming part of the consolidated accounts

27. Retirement benefit scheme (continued)

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

	2011 £m	2010 £m
Actual return less expected return on scheme assets	60.8	578.0
Experience gains and losses arising on scheme liabilities	16.1	211.3
Changes in assumptions underlying the present value of the scheme liabilities	(152.3)	(628.9)
	(75.4)	160.4

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

	2011 £m	2010 £m
Fair value of scheme assets	3,219.8	2,923.3
Present value of defined benefit obligations	(3,171.8)	(2,843.4)
	48.0	79.9

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

	2011 £m	2010 £m
At 1 April	2,923.3	2,188.9
Expected return on scheme assets	195.4	137.0
Actuarial gains and losses	60.8	578.0
Contributions from scheme members	0.1	0.3
Contributions from sponsoring companies	123.1	103.0
Benefits paid	(82.9)	(83.9)
At 31 March	3,219.8	2,923.3

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

	2011 £m	2010 £m
At 1 April	(2,843.4)	(2,258.3)
Current service cost	(108.5)	(96.8)
Past service costs	(5.1)	(9.3)
Interest cost	(161.4)	(145.0)
Actuarial gains and losses	(136.2)	(417.6)
Contributions from scheme members	(0.1)	(0.3)
Benefits paid	82.9	83.9
At 31 March	(3,171.8)	(2,843.4)

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	
	2011 £m	2010 £m	2011 %	2010 %
Equity instruments	1,691.1	1,535.2	7.35	7.55
Property and other assets	474.8	379.5	7.35	7.55
Bonds	996.8	967.4	4.70	4.90
Cash	57.1	41.2	4.70	4.90
	<u>3,219.8</u>	<u>2,923.3</u>	<u>6.48</u>	<u>6.64</u>

The five year history of experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	(3,171.8)	(2,843.4)	(2,258.3)	(2,432.7)	(2,594.5)
Fair value of scheme assets	3,219.8	2,923.3	2,188.9	2,846.2	2,833.1
Surplus/(deficit) in the scheme	<u>48.0</u>	<u>79.9</u>	<u>(69.4)</u>	<u>413.5</u>	<u>238.6</u>
Experience adjustments in scheme liabilities					
Amount (£m)	<u>16.1</u>	<u>211.3</u>	<u>43.4</u>	<u>100.6</u>	<u>30.7</u>
Percentage of scheme liabilities	<u>(0.5)</u>	<u>(7.4)</u>	<u>(1.9)</u>	<u>(4.1)</u>	<u>(1.2)</u>
Experience adjustments in scheme assets					
Amount (£m)	<u>60.8</u>	<u>578.0</u>	<u>(868.0)</u>	<u>(175.6)</u>	<u>(5.2)</u>
Percentage of scheme assets	<u>1.9</u>	<u>19.8</u>	<u>(39.7)</u>	<u>(6.2)</u>	<u>(0.2)</u>

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2012 is £141m, including salary sacrifice contributions estimated at £16m.

Notes forming part of the consolidated accounts

28. Related party transactions

Since 26 July 2001, the NATS group has had four shareholders – the Crown, The Airline Group (AG), BAA Airports Limited and the NATS Employee Sharetrust Limited. During the year transactions with the Crown have taken place with the Meteorological Office, the Department for Transport (DfT) and the Ministry of Defence (MoD), and BAA Airports Limited and AG.

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

Contractual arrangements exist between BAA Airports Limited and NATS Services in relation to air navigation services provided at Aberdeen, Edinburgh, Glasgow, Heathrow, Southampton and Stansted airports. Balances for 2010 below include contractual arrangements with Gatwick up until its sale by BAA Airports Limited to Global Infrastructure Partners on 4 December 2009.

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

Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
BAA Airports Limited	100.8	104.5	8.7	10.9	13.6	15.9	7.2	3.4
Ministry of Defence	49.1	48.7	3.5	4.2	5.4	0.4	4.3	5.3
The Airline Group	-	-	0.1	0.2	-	-	-	-
Department for Transport	0.5	0.6	-	-	-	0.1	-	-
Meteorological Office	0.4	0.3	0.7	0.6	-	-	0.1	-

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. A provision of £0.5m (2010: £0.3m) has 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 Directors' Remuneration Report.

	Year ended 31 March 2011 £m	Restated Year ended 31 March 2010 £m
Short-term employee benefits	6.4	7.5
Post-employment benefits	0.8	1.1
Termination benefits	0.3	-
Share scheme costs	0.1	-
	<u>7.6</u>	<u>8.6</u>

The comparative has been restated to show the remuneration of the current definition of key management personnel.

Notes forming part of the consolidated accounts

29. Subsidiaries and associates

The group's principal subsidiaries at 31 March 2011, 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
NATSNV 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 two associates as at 31 March 2011, details are as follows :

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
ESSP SAS	Satellite navigation services	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA	Airport air traffic services	28 January 2011	50.0%	Spain

Notes forming part of the consolidated accounts

29. Subsidiaries and associates (continued)

Summarised financial information relating to the associates

	At 31 December 2010 £m	At 31 December 2009 £m
ESSP SAS		
Total assets	21.7	11.8
Total liabilities	(19.2)	(10.3)
Net assets	<u>2.5</u>	<u>1.5</u>
Group share of net assets of the associate	<u>0.4</u>	<u>0.2</u>
Revenue	32.2	27.1
Profit after tax	<u>0.9</u>	<u>0.7</u>
Group share of profit of the associate	<u>0.2</u>	<u>0.1</u>

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

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

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

As the reporting date of ESSP SAS is 31 December 2010 the results have not been restated as the reporting date is within three months of the reporting date of the group. There have been no significant events within the last three months that should be included in these results.

FerroNATS Air Traffic Services SA

On 28 January 2011, the group acquired 50.0% of the issued share capital of FerroNATS Air Traffic Services SA for a cash consideration of €0.1m (£0.1m).

The group has not presented summarised financial information relating to the period to 31 March 2011, as the associate has had no significant transactions since incorporation.

30. Events after the reporting period

In May 2011, the Board declared and the company paid an interim dividend for the year ending 31 March 2012 of 29.71 pence per share, totalling £42.5m.


Company accounts

Company balance sheet at 31 March 2011


	Note	2011 £m	2010 £m
Assets			
Non-current assets			
Investments	4	<u>141.0</u>	<u>141.0</u>
Net assets		<u><u>141.0</u></u>	<u><u>141.0</u></u>
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings		<u>-</u>	<u>-</u>
Total equity		<u><u>141.0</u></u>	<u><u>141.0</u></u>

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 30 June 2011 and signed on its behalf by:

John Devaney
Chairman



Nigel Fotherby
Finance Director



Company accounts

Company statement of changes in equity at 31 March 2011

	Share capital £m	Retained earnings £m	Total £m
At 1 April 2009	141.0	-	141.0
Profit for the year	-	-	-
Other comprehensive income/(expense) for the year	-	-	-
Total comprehensive income for the year	-	-	-
Dividends payable	-	-	-
At 31 March 2010	141.0	-	141.0
At 1 April 2010	141.0	-	141.0
Profit for the year	-	40.0	40.0
Other comprehensive income/(expense) for the year	-	-	-
Total comprehensive income for the year	-	40.0	40.0
Dividends payable	-	(40.0)	(40.0)
At 31 March 2011	141.0	-	141.0

Notes to the financial statements

1. Cash flow statement

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

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

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

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

3. Profit for the year and dividends

As permitted by s408 of the Companies Act 2006 the company has elected not to present its own income statement for the year.

Profit for the year has been arrived at after charging:

	2011 £m	2010 £m
Staff costs	-	-
Auditors' remuneration	-	-
	<u> </u>	<u> </u>

The company incurred no charge to current or deferred taxes in the year (2010: £nil).

	2011 £m	2010 £m
Dividends		
Amounts recognised as distributions to equity holders in the period:		
First interim dividend for the year ended 31 March 2011 of 13.98 pence per share (2010: nil) paid in June 2010	20.0	-
Second interim dividend for the year ended 31 March 2011 of 13.98 pence per share (2010: nil) paid in November 2010	20.0	-
	<u> </u>	<u> </u>
	<u>40.0</u>	<u> </u>

Notes to the financial statements

4. Investments

Investments
in subsidiary
undertakings
£m

Investments at 31 March 2011 and 1 April 2010

141.0

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 the consolidated statement of changes in equity in the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2011 (2010: nil).

7. Ultimate controlling party

The ultimate controlling party of NATS Holdings Limited is The Airline Group Limited, a company incorporated in Great Britain and registered in England and Wales.

8. Events after the reporting period

In May 2011, the Board declared and the company paid an interim dividend for the year ending 31 March 2012 of 29.71 pence per share, totalling £42.5m.

[← Back to contents](#)

