

NATS (Services) Limited
Financial statements
for the year ended 31 March 2012

Company Number: 04129270

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Company Secretary

Richard Churchill-Coleman

Registered office

4000 Parkway, Whiteley, Fareham,
Hampshire, PO15 7FL

Registered in England and Wales
Company No. 04129270

Auditor

Deloitte LLP

This review presents a summary of the operating performance and results, financial position and cash flows of NATS (Services) Limited (NATS Services) for the year ended 31 March 2012.

Introduction

NATS Services provides commercial air traffic control (ATC) and aviation related services to a variety of customers in the UK and overseas. The company also sells NATS expertise and capabilities to UK and overseas customers for the NATS group.

Its core business is the provision of ATC services at 15 UK airports plus Gibraltar under competitive contract to the airport operator. It provides services to all five airports owned by BAA including Heathrow, the world's busiest dual-runway airport, and to Global Infrastructure Partner's Gatwick, the world's busiest single-runway airport, and Edinburgh airports.

NATS Services also has a joint venture with Spanish infrastructure company Ferrovial, which is contracted to provide air traffic control tower services at ten airports in Spain.

It also provides engineering, consultancy (including training), defence and aviation information management services to customers in the UK and overseas.

The company has been very successful this year in winning business in new

markets and retaining its existing domestic airports contracts, securing orders worth £495m in the UK and 20 other countries. Our success in winning contracts relies on three key principles. Firstly, our focus on adding value to our customer's operations, secondly our unrelenting focus on our core competencies and thirdly our export focus where we are delivering the same services for our customers overseas as we do in the UK within carefully chosen markets where risk can be managed effectively.

Overall, NATS Services has had another successful year. Its safety performance remained strong and it delivered a good set of financial results with a profit before tax of £39.4m (2011: £35.6m). Revenues increased by £7.8m to £201.2m (2011: £193.4m) or 4.0% from 2011. On cost efficiency, the company continued to make progress towards the target it set itself to reduce its cost base by £10m relative to previously planned levels. It exceeded its £7.7m target for 2012 by £0.1m, and is working on its plans to further reduce costs through the implementation of new technology changes to working practices.

Vision and strategy

The market for air traffic management services is changing in response to the long term growth in aviation, which is placing greater pressure on existing airport and airspace infrastructure just as environmental concerns are making expansion of that infrastructure more challenging. The European Commission's 'Single European Sky' project is seeking to improve ATM performance, increase integration and improve network performance; and ensure that European developments are aligned with the NextGen program in the USA. We are also seeing increasing liberalisation of the airport tower contract market internationally.

We believe these developments will provide NATS Services with many exciting opportunities where traditional service providers focussed purely on a low-cost model will lose out to those who can differentiate themselves through added value services in increasingly complex operational environments.

Within the marketplace, we expect a growing trend towards outsourcing which will enable us to demonstrate our ability to squeeze maximum use out of runways and airspace. At the same time, changes to International Civil Aviation Organisation (ICAO) standards, European legislation and network technology will mean that airports,

airlines and air navigation service providers (ANSPs) will need more complete, timely and accurate information, which NATS Services is well placed to provide.

Many ANSPs and airports will implement major airspace improvements and systems developments over the next decade providing opportunities for NATS Services to help transition new equipment and facilities into operational service given our experience in this area. Cutbacks in defence budgets are also encouraging innovative thinking in the future provision of military air traffic service provision. The NATS group has operated a joint and integrated service with the UK's Ministry of Defence (MoD) for many years and this is a unique differentiator of our capability.

In response to these trends we have developed a clear and compelling strategy which retains and builds on the success of our existing business to realise the opportunities that we believe these changes will present. We are clear on which products and which markets offer the best opportunities at manageable risk. We also recognise that these developments may bring increased competition to our domestic market, although we have been encouraged by our significant contract renewals in the past year with customers who recognise the unique value inherent in the NATS Services' offering.

Above all, we must continue to deliver a safe and efficient service to our airport customers which is essential not only to maintain our UK market position but also to demonstrate our capabilities to new customers. With these challenges in mind our vision is: *"To be the acknowledged global leader in innovative air traffic solutions and airport performance"*.

The NATS group has set itself a target of generating sustainable revenue of £1bn by 2015. NATS Services' strategy is to contribute to this whilst continuing to deliver a safe and efficient service to airport customers.

We have reorganised the business by service line to reflect our core competencies and our routes to market and provide greater clarity to our customers of the capabilities offered under the NATS brand. The service lines relevant to the company are: NATS Airports, NATS Consultancy, NATS Defence, NATS Engineering and NATS Information. We will report our operational and financial performance by service line in next year's annual report.

In addition, our growth is very much focussed on creating successful partnerships in overseas markets to mitigate risk and to support the increased supply of qualified staff to assist in contract delivery. Our win in

Spain with our Spanish partner, Ferrovial is a good example of this strategy.

Overview of business performance

Safety

Our first priority is the safety of aircraft and the travelling public. We have an international reputation for our approach to safety management, our well established safety culture and our excellent safety record.

NATS Service's Strategic Plan for Safety (SPfS) is designed to mitigate risks in the operation and to deliver safety performance improvements to all operations. It sets out the vision, strategy and areas of focus required to deliver on our committed safety improvement targets. In addition, each airport has an Airport Safety Plan (developed with the airport operator) which identifies the risks at each particular airport and details an action plan to address and mitigate them.

Innovation in safety practice led to the development of a new wide area multilateration system. This system tracks the aircraft using signal transmitters and receivers fitted to offshore rigs giving a much greater range than radar, which can only track them 80 miles from land.

NATS Services has been recognised for its contribution to the North Sea energy industry winning the Innovation in

Safety Award at the 2011 Oil & Gas Industry Safety Awards. In October we received the Air Traffic Control Association's (ATCA) prestigious Earl F. Ward Memorial Award for deployment of wide area multilateration; the award recognised the "outstanding achievement during the previous year, which has added to the quality, safety or efficiency of air traffic control".

Environment

Our focus on the environment continues to remain one of our core values. Reducing fuel burn also reduces CO₂ emissions and our customers have a very high priority for efficient flight profiles that deliver these benefits. Four years ago the NATS group set a clear environmental target to reduce air traffic related CO₂ by an average 10% per flight by 2020 (from a 2006 baseline) with a challenging interim target to achieve a 4% per flight reduction by 2015.

In 2011 NATS Services established local environmental action plans for the 16 airports where it provides the air traffic control service. These include targets to improve the fuel efficiency of aircraft arrivals and departures and reduce emissions by delivering continuous climb departures (CCDs), continuous descent approaches (CDAs) and reviewing flight profiles. Many targets also include ways to improve ground taxiing efficiency.

During 2012 we will complete this work and create a baseline figure for environmental performance at each airport. This will enable us to quantify, for the first time, the contribution that airports collectively can make to NATS' overall 10% CO₂ reduction target.

Growing our business

NATS Services continued to seek growth opportunities in the year and streamlined its business to be able to respond flexibly and speedily to market demands.

The company made excellent progress this year with our strategy of defending and maintaining its existing business, identifying the opportunities and markets in which to grow its business, and ensuring that it has the capabilities and skills to enable that growth. Overall we renewed eight airport contracts and secured orders worth £495m in the year, in the UK and 20 other countries.

Importantly, the new growth strategy has captured the imagination of employees across the organisation and I have been greatly encouraged by the enthusiasm with which the growth challenges have been adopted and the desire of many to actively participate in the opportunities this new approach has created.

In maintaining our existing business, we signed a new seven year contract with BAA worth £334m to continue to provide

aerodrome air traffic control and engineering services at five airports: Stansted, Glasgow, Edinburgh (sold to Global Infrastructure Partners in April 2012), Aberdeen and Southampton. We also reached agreement with Gatwick airport on a new two-year contract which runs from April 2013, secured a further six year contract from Farnborough and extended our service to Gibraltar airport by a further year.

We have also been successful in new markets. In March 2011 we partnered with Ferrosfer (a company within the Ferrovial group) to form ferroNATS, a new company created to bid for air traffic services at airports in Spain. In September ferroNATS was selected by the Spanish ANSP (AENA) to provide tower air traffic control services to 10 airports: Alicante, Valencia, Ibiza, Sabadell, Seville, Jerez, Vigo, A Coruna, Melilla and Madrid Cuatro Vientos airports. This is the first European market to liberalise the provision of air traffic in this way and represents a significant breakthrough for NATS Services internationally. The contract will generate c. €75m of revenues over five years for ferroNATS. The process of transitioning each airport from AENA began in June 2012 and will be complete next summer.

A consortium of companies led by global services company SRA International, including NATS' American subsidiary, NATS (USA) Inc., has been selected to

bid for task orders within the En Route Technical Assistance Support Services (ETASS) contract from the Federal Aviation Administration (FAA). The SRA consortium is one of three consortia that have been selected to compete for individual tasks within the umbrella ETASS contract.

The ETASS contract will provide a set of engineering support services to the FAA's air traffic organisation. It is designed to support the transition and acceptance of many large FAA change initiatives including the En Route Automation Modernization (ERAM) programme, which will replace the 40-year-old computer and backup system used at the country's 21 en route control centres.

On the consultancy side, we were awarded airspace design contracts for New Doha International Airport in Qatar and for Singapore, and a contract to assess the performance of Singapore's surveillance tracking systems. We are also supporting Hong Kong with consultations on its airport development.

Manchester Airport Group recognised NATS Services' engineering capability by awarding a contract to fit out the airport's new control tower which will enter service in April 2013. We have also completed projects to implement airport systems in Highlands and Islands,

Belfast City, Guernsey and Oxford airports.

We are also pleased that AQUILA Air Traffic Management Services, the consortium of NATS and Thales, has been selected as one of three companies in the final stages of bidding to support the Ministry of Defence (MoD) with air traffic systems and services for its airbases in the UK and overseas.

NATS Services is developing a broader understanding of customer requirements and seeking partnerships to develop local understanding in new markets. The Middle East region has been identified as being critical to our growth strategy. We have appointed John Swift, previously Director Transport Solutions for NATS, to the new role of Director NATS Middle East, based in Abu Dhabi, United Arab Emirates.

In order to deliver further growth we have improved our commercial capabilities by reviewing and restructuring our internal business development functions and implementing revised commercial processes.

Delivering our services

The economic climate this year has proved challenging for all our airport customers and the aviation industry generally. Whereas in the past we had many customers asking us to help them

with their airport re-development and expansion plans, we now have a number of customers (both existing and new) who are seeking our help to maximise their returns on current assets and to improve their cost effectiveness. In both cases NATS Services has demonstrated the value it can add by using its specialist expertise to tailor specific solutions to each customer.

We have also maintained our focus on service delivery. As an example, we delivered a record at Heathrow Airport with 1,389 movements handled in one day, and a record breaking month when movements exceeded 42,000 for the first time, with 42,030 movements in July.

NATS Services continues to introduce Electronic Flight Progress Strips (EFPS) at its airports with Manchester Airport's system being transitioned into operational service in February. EFPS is already in use at eight other NATS Services airports, including Glasgow, Edinburgh, Aberdeen and Heathrow. We were delighted to be recognised for our value as a partner when the NATS Services and NavCanada EFPS project and implementation team were short-listed within the enabling technology category by CANSO in recognition of excellence in the Air Traffic Management industry.

The NATS Heathrow Operational Efficiency Cell (HOEC) began operating in November 2011 from Heathrow control tower. It brings together dedicated team members from the control tower and network management, as well as around-the-clock forecasters from the UK Met Office. Their combined goal is to predict adverse weather up to five days in advance and, combining this data with information gathered from airside teams, provide the major stakeholders at Heathrow with regular updates to aid early and informed decisions.

The HOEC creates a forum for sharing information that aids forward planning and helps Heathrow continue to maintain a good flow of traffic under such adverse conditions. This includes identifying peak demand and, when necessary, accelerating recovery from disruption.

People

NATS Services' people are professional, committed and proud of their roles. In the period since the Public Private Partnership transaction in 2001, they have taken part in a transformational journey from the public sector to today's flexible, responsive and commercially orientated business. We maintain a continuous dialogue with our staff and a constructive and forward-thinking 'Working Together' relationship with our Trade Unions which has been pivotal in achieving today's success.

Our strategic objective is for everyone to understand their own personal contribution, and that of their team, to the business's performance and the value it creates for customers.

We have made significant progress on leadership development and we are developing a transparent competency and capability model to ensure that we develop talent and have in place evidence-based succession plans.

We have continued to review working practices, seeking to introduce more flexibility and responding appropriately to changes in technology, put in place measures to streamline recruitment and selection and we are seeking to develop a more robust means of forecasting operational staffing requirements.

Preparing for the Olympics

Our preparation for the London 2012 Olympics and Paralympics continues to gather momentum and builds on the preparation work that has been underway for the past three years.

During the games, we can expect 700 additional commercial flights, 3,000 additional business aviation flights, 1,500 extra helicopter movements per day, and the arrival and departure of 150 heads of state.

In addition to the preparations by NATS en route operations, each airport unit

Business and financial review

affected has Olympic safety activity in its Airport Safety Plan. The highest risks are associated with infringements, especially in temporary controlled airspace around Southampton and Farnborough, the rapid increase in traffic, and unfamiliar pilots. All these risks have mitigation activity against them and our controllers are trained to mitigate the risks.

Overview of financial performance

The company reported a profit before tax of £39.4m (2011: £35.6m) and a profit after tax of £29.5m (2011: £26.2m).

	2012 £m	2011 £m
Turnover	201.2	193.4
Operating profit		
- Operating profit before exceptional items	38.9	38.2
- Exceptional items	(0.4)	(3.4)
	38.5	34.8
Profit before taxation		
- Profit before tax and exceptional items	39.8	39.0
- Exceptional items	(0.4)	(3.4)
	39.4	35.6
Profit after tax		
- Profit after tax before exceptional items	29.8	28.7
- Exceptional items (net)	(0.3)	(2.5)
	29.5	26.2

The results for 2011 included items which were material in terms of their size and incidence and which have been reported as exceptional items. Similar costs for 2012 have been shown separately for comparison purposes. The results for 2012 included staff redundancy costs at £0.4m (2011: £3.4m).

Profit before tax, before these exceptional items, improved by £0.8m to £39.8m (2011: £39.0m).

NATS (Services) Limited

Revenues increased by 4.0% or £7.8m to £201.2m (2011: £193.4m), principally reflecting an increase in revenues from airport contracts and from engineering and consultancy services.

Underlying operating costs (excluding exceptional items), increased by £7.1m to £162.3m (2011: £155.2m).

	2012 £m	2011 £m
Before exceptional items:		
Employee costs	(95.0)	(90.4)
Services and materials	(29.6)	(26.8)
Repairs and maintenance	(7.2)	(6.4)
External research and development	(0.1)	(0.1)
Other operating charges	(26.7)	(28.1)
	(158.6)	(151.8)
Depreciation, amortisation and impairment	(4.3)	(3.7)
Deferred grants	0.4	0.3
Gain on disposal of non-current assets	0.2	-
Operating costs	(162.3)	(155.2)

Staff costs at £95.0m (2011: £90.4m) increased by £4.6m, mainly reflecting an increase in pension costs and the impact of the pay award. Pension costs (excluding redundancy-related past service cost) increased by £2.3m to £19.7m (2011: £17.4m) primarily as a result of an increase in the accrual rate for the defined benefit pension scheme (before salary sacrifice) from 21.8% in 2011 to 24.1% in 2012. Non staff costs excluding asset related charges increased by £2.2m from £61.4m in 2011 to £63.6m with higher property and leasing costs and an increase in contract related costs associated with additional revenues. Depreciation (net of deferred grants released) increased to £3.9m (2011: £3.4m).

Tax at £9.9m (2011: £9.4m) reflected an effective rate of 25.1% (2011: 26.4%).

Airport air traffic services

	2012	2011
	£m	£m
Turnover	162.1	159.0
Operating costs	(122.9)	(123.1)
Depreciation, amortisation, impairment and deferred grants	(3.0)	(3.1)
Exceptional items	(0.3)	(3.0)
Operating profit	<u>35.9</u>	<u>29.8</u>

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

Revenue from these services improved by £3.1m to £162.1m (2011: £159.0m). This mainly reflected improved revenues from airport contract renewals, an increase in the earned value assessed on certain airport contracts and to indexation uplifts on contracts. This was partially offset by reduced revenues following the economic regulator's decision to transfer the Luton and London City approach services within the scope of economic regulation provided by NATS (En Route) plc, the company's fellow subsidiary.

Operating costs (excluding depreciation and exceptional items) were in line with previous years at £122.9m (2011: £123.1m). Costs for 2012 included higher charges for labour, property and leasing, and benefited from lower

intercompany charges following the transfer of approach services as explained above. The prior year's costs included a one-off charge of £2.6m associated with the de-recognition of revenues. Asset-related charges for depreciation and amortisation were £0.1m lower at £3.0m (2011: £3.1m).

Exceptional charges for redundancy costs of £0.3m (2011: £3.0m) were £2.7m lower than previously.

Overall, the operating profit of airport air traffic services at £35.9m (2011: £29.8m) was £6.1m better than the prior year, mainly reflecting better revenues and lower redundancy costs.

Other revenues

	2012	2011
	£m	£m
Turnover	39.1	34.4
Operating costs	(35.5)	(28.7)
Depreciation, amortisation, impairment and deferred grants	(0.9)	(0.3)
Exceptional items	(0.1)	(0.4)
Operating profit	<u>2.6</u>	<u>5.0</u>

NATS Services provides other engineering, consultancy, training and airport data management services to customers in the UK and overseas. In addition to this, NATS Services provided services to other group companies (as set out in note 2). Revenues from these services grew by £4.7m to £39.1m (2011: £34.4m), principally due to an increase in revenues from engineering and consultancy services.

Operating profit on these activities at £2.6m (2011: £5.0m) was £2.4m lower with higher staff costs (the impact of higher pension charges and the pay award), and additional charges for impairment relating to electronic cartography systems.

Balance sheet

The company's balance sheet can be summarised as follows:

	2012 £m	2011 £m
Intangible assets	3.5	1.6
Property, plant and equipment	13.6	19.0
Investments	0.4	0.1
Loan to fellow subsidiary	22.5	23.4
Other non-current assets	0.9	-
Cash and short-term deposits	110.6	95.3
Other net current (liabilities)/assets	(0.3)	1.2
Pension scheme (deficit)/surplus	(7.3)	9.6
Other non-current liabilities	(4.5)	(11.9)
Net assets	<u>139.4</u>	<u>138.3</u>

Shareholders' funds increased by £1.1m (2011: £138.3m) to £139.4m. This reflects total comprehensive income for the year attributable to equity shareholders (see page 19) less dividends of £5.7m.

The company invested £1.2m in investments, intangible and tangible fixed assets in the year (2011: £1.0m). This included £0.3m in subsidiary and joint venture companies; and heating and ventilation systems, electronic cartography systems and air traffic control systems.

Other non-current assets also increased to reflect the deferred taxation asset arising on the pension deficit.

The movement in other net current assets reflected the reduction in trade and other receivables.

Other non-current liabilities of £4.5m (2011: £11.9m) decreased by £7.4m, reflecting the movement on deferred tax as noted above and a reduction in deferred income.

Pensions

At 31 March 2012, measured under international accounting standards, the company's share of the NATS defined benefit pension scheme was a deficit with liabilities exceeding assets by £7.3m (2011: £9.6m surplus). This mainly reflects the reduction in discount rates due to market conditions from 5.45% to 5.05%, which resulted in an increase in pension liabilities offsetting asset growth.

The scheme actuary's last triennial valuation of the NATS scheme was performed as of 31 December 2009. 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 Services' share of this deficit is c. 25% or £88m. NATS agreed a schedule of contribution with Trustees such that normal contributions for the year were paid at a rate of 36.7% of staff pensionable pay and deficit recovery payments at £2m

per month (the company's share being £0.5m), increasing by 3.5% in January 2012. Overall the company paid contributions to the scheme of £33.0m (2011: £27.8m), including £3.5m (2011: £3.4m) of pay sacrificed by employees. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 45.5% (2011: 38.4%) of pensionable pay.

Cash flow

Overall, the company's cash balances increased by £15.3m in the year to £110.6m (2011: £95.3m).

Net cash from operating activities at £19.8m was £6.0m lower than 2011 (2011: £25.8m) mainly reflecting higher cash contributions to the pension scheme as explained above, settlement of last year's redundancy costs owed to NATS and higher tax payments.

There was a net cash inflow from investing activities of £0.3m (2011: outflow of £0.6m) and outflows of £4.8m from financing activities, which included dividends paid of £5.7m.

Outlook

Our vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance. We will continue to be 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 (JVs) and acquisitions. The strategy to achieve this vision can be summarised as Defend – Grow – Enable:

Defend

Seven of the company's 16 ATC contracts are due for renewal by 2015, making retention of the existing contract portfolio absolutely fundamental to the business. To do this we must make our airport offering more attractive to airport customers by focussing on service levels, improving price propositions and increasing the value we offer.

Grow

We are focussing our growth within the aviation sector because of the significant opportunities potentially available in an industry where our reputation and capability set is very strong. We are developing new business opportunities primarily in international ATC towers, technology and infrastructure integration and real time operational information; facilitated by expanding consulting services and the company's international presence to build relationships and extend our reach into target markets.

Enable

We are enhancing the company's commercial capabilities (in proportion to growth targets) in order to manage an expanding international business, underpinned by its ongoing commitment

to safety, people, environment, operational and technical excellence and cost efficiency.

In delivering our vision to be acknowledged as the global leader in innovative air traffic solutions and airport performance, our priorities will remain the same, ensuring and improving safety, driving down delay and reducing our impact on the environment, together with creating and delivering innovative customer focussed solutions.

Paul Reid

Managing Director, Services

Report of the directors

The directors present their report and audited accounts for the year ended 31 March 2012.

Principal activities and business review

The company's principal activities are the provision of airport air traffic services at UK and overseas airports and the sale of its expertise and capabilities to UK and overseas customers. The latter includes air traffic consultancy, training services and airport data management.

The directors consider that the year end financial position was satisfactory and that the company is well placed to develop its activities in the foreseeable future.

A description of the company's principal activities and business and financial review is set out above.

Results and dividends

The results for the year are shown in the income statement on page 19. Two interim dividends for the year ended 31 March 2012 were approved and paid in May 2011 and November 2011, the equivalent of £57.00 per share (totalling £5.7m), to its parent company (2011: £5.0m). The Board recommends a final dividend for the year of £nil (2011: £nil).

In May 2012, the Board declared and paid an interim dividend for the year ending 31 March 2013 of £15.00 per share (totalling £1.5m).

Charitable donations

The company made aggregate donations of £4,401 (2011: £4,582).

Use of financial instruments

The company uses financial instruments to manage financial risk. The accounting policies and notes to the financial statements, set out below, explain the financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Employees

Contracts of employment with staff are held by the company's parent company, NATS Limited. NATS 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 unit and corporate performance and

business plans. The NATS CEO and NATS Services Managing Director maintain visibility with staff through visits to NATS locations where they talk to them about current business issues and take questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the 'Working Together' programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trades Unions.

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

NATS is an equal opportunities employer. Its policy is designed to ensure that no applicant or employee receives less favourable treatment than any other on the grounds of sex, 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. NATS 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.

NATS 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.

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 2006 is 25 days (2011: 23 days).

Directors and their interests

The directors of the company who served during the year and to the date of this report are set out below:

John Devaney
Richard Deakin
Nigel Fotherby
Paul Reid

None of the directors had any interests in the share capital of the company. The interests of the directors in the ordinary shares of the company's ultimate parent undertaking, NATS Holdings are as follows:

Richard Deakin - 400
Nigel Fotherby - 2,377
Paul Reid - 2,377

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 financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are 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
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 auditor is 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 auditor is 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

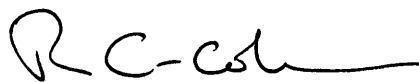
may differ from legislation in other jurisdictions.

The financial statements have been prepared on a going concern basis, as explained in note 3 to the accounts.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint Deloitte 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

28 June 2012

Registered office
4000 Parkway, Whiteley, Fareham,
Hampshire, PO15 7FL

Registered in England and Wales

Company number: 04129270

Independent auditor's report to the members of NATS (Services) Limited

We have audited the financial statements of NATS (Services) Limited for the year ended 31 March 2012 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 25. 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 auditor's 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 auditor

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 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

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- ◆ give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- ◆ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ◆ have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Independent auditor's report

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements 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 Auditor
Southampton, United Kingdom

28 June 2012

Income statement

for the year ended 31 March 2012

	Notes	Year ended 31 March 2012			Year ended 31 March 2011		
		Before Exceptional items	Exceptional items (Note 6a)	Total	Before Exceptional items	Exceptional items (Note 6a)	Total
		£m	£m	£m	£m	£m	£m
Revenue	4	201.2	-	201.2	193.4	-	193.4
Staff costs	7	(95.0)	(0.4)	(95.4)	(90.4)	(3.4)	(93.8)
Services and materials		(29.6)	-	(29.6)	(26.8)	-	(26.8)
Repairs and maintenance		(7.2)	-	(7.2)	(6.4)	-	(6.4)
External research and development		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Depreciation, amortisation and impairment	6	(4.3)	-	(4.3)	(3.7)	-	(3.7)
Gain on disposal of non-current assets		0.2	-	0.2	-	-	-
Other operating charges		(26.7)	-	(26.7)	(28.1)	-	(28.1)
Deferred grants released	6	0.4	-	0.4	0.3	-	0.3
Net operating costs		(162.3)	(0.4)	(162.7)	(155.2)	(3.4)	(158.6)
Operating profit	6	38.9	(0.4)	38.5	38.2	(3.4)	34.8
Investment revenue	8	0.9	-	0.9	0.8	-	0.8
Profit before tax		39.8	(0.4)	39.4	39.0	(3.4)	35.6
Tax	9	(10.0)	0.1	(9.9)	(10.3)	0.9	(9.4)
Profit for the year attributable to equity shareholders		29.8	(0.3)	29.5	28.7	(2.5)	26.2

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

Statement of comprehensive income

for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Profit for the year		29.5	26.2
Other comprehensive (expense)/income for the year net of tax			
Actuarial loss on defined benefit pension scheme	21	(30.5)	(16.9)
Change in fair value of hedging derivatives		-	0.1
Deferred tax relating to components of other comprehensive (expense)/income	17	7.8	4.4
		(22.7)	(12.4)
Total comprehensive income for the year attributable to equity shareholders		6.8	13.8

Balance sheet

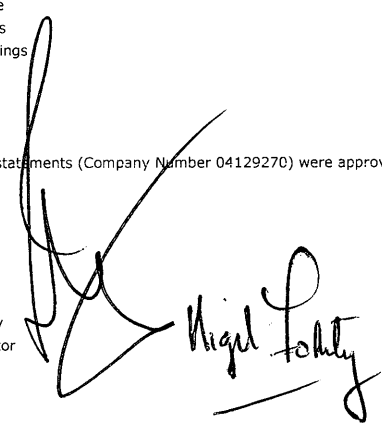
at 31 March 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets	11	3.5	1.6
Property, plant and equipment	12	13.6	19.0
Investments	23	0.4	0.1
Retirement benefit asset	21	-	9.6
Trade and other receivables	13	22.5	22.5
Deferred tax asset	17	0.9	-
		<u>40.9</u>	<u>52.8</u>
Current assets			
Financial assets	14	0.1	0.1
Trade and other receivables	13	33.3	37.5
Cash and cash equivalents	15	110.6	95.3
		<u>144.0</u>	<u>132.9</u>
		<u>184.9</u>	<u>185.7</u>
Total assets			
Current liabilities			
Trade and other payables	16	(30.2)	(30.8)
Current tax liabilities		(3.5)	(4.7)
		<u>(33.7)</u>	<u>(35.5)</u>
		<u>110.3</u>	<u>97.4</u>
Net current assets			
Non-current liabilities			
Trade and other payables	16	(4.5)	(7.8)
Retirement benefit obligations	21	(7.3)	-
Deferred tax liability	17	-	(4.1)
		<u>(11.8)</u>	<u>(11.9)</u>
		<u>(45.5)</u>	<u>(47.4)</u>
		<u>139.4</u>	<u>138.3</u>
Net assets			
Equity			
Called up share capital	18	0.1	0.1
Hedge reserve		0.1	0.1
Other reserves		0.6	0.9
Retained earnings		138.6	137.2
		<u>139.4</u>	<u>138.3</u>

The financial statements (Company Number 04129270) were approved by the Board of directors and authorised for issue on 28 June 2012 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director



Statement of changes in equity

for the year ended 31 March 2012

	Equity attributable to equity holders of the company				Total £m
	Share capital £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	
At 1 April 2010	0.1	-	1.2	128.2	129.5
Profit for the year	-	-	-	26.2	26.2
Other comprehensive income/(expense) for the year	-	0.1	(0.3)	(12.2)	(12.4)
Total comprehensive income/(expense) for the year	-	0.1	(0.3)	14.0	13.8
Dividends paid	-	-	-	(5.0)	(5.0)
At 31 March 2011	0.1	0.1	0.9	137.2	138.3
At 1 April 2011	0.1	0.1	0.9	137.2	138.3
Profit for the year	-	-	-	29.5	29.5
Other comprehensive expense for the year	-	-	(0.3)	(22.4)	(22.7)
Total comprehensive (expense)/income for the year	-	-	(0.3)	7.1	6.8
Dividends paid	-	-	-	(5.7)	(5.7)
At 31 March 2012	0.1	0.1	0.6	138.6	139.4

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

Cash flow statement

for the year ended 31 March 2012

	Year ended 31 March 2012	Year ended 31 March 2011
Notes	£m	£m
Net cash flow from operating activities	19	25.8
Cash flows from investing activities		
Interest received	0.9	0.8
Purchase of property, plant and equipment and other intangible assets	(0.3)	(1.3)
Investment in joint venture	(0.3)	(0.1)
Net cash inflow/(outflow) from investing activities	0.3	(0.6)
Cash flows from financing activities		
Loans repaid by/(advanced to) fellow subsidiary	0.9	(0.4)
Dividends paid	(5.7)	(5.0)
Net cash outflow from financing activities	(4.8)	(5.4)
Increase in cash and cash equivalents during the year	15.3	19.8
Cash and cash equivalents at 1 April	95.3	75.5
Cash and cash equivalents at 31 March	110.6	95.3

1. General information

NATS (Services) Limited (NATS Services) is a private 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 16. The nature of the company's operations and its principal activities are set out in the Report of the directors.

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

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company'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 32. 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 company 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. Their adoption has not had any significant impact on the amounts reported in these financial statements.

IAS 1 (2011): *Presentation of Financial Statements* - this amendment clarified the position in circumstances where additional information is provided within the financial statements, requiring this information to be presented in accordance with IFRSs.

IAS 16 (2011): *Property, plant and Equipment* - the amendment clarifies that any servicing equipment should be classified as property, plant and equipment when it is used during more than one period or as inventory otherwise. Within NATS Services' financial statements, all servicing equipment is classified within property, plant and equipment.

IAS 32 (2011): *Financial Instruments:*

Presentation - the amendment states that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12: *Income Taxes*.

As part of the Improvements to IFRSs (2010) the following amendments to Standards have been adopted:

Amendment to IFRS 3: *Business Combinations* - IFRS 3 has been amended such that only those non-controlling interests which are current ownership interests and which entitle their holders to a proportionate share of net assets upon liquidation can be measured at either fair value or the proportionate share of net identifiable assets. Other non-controlling interests are measured at fair value, unless another measurement basis is required by IFRSs. This will apply to the investment in FerroNATS. This investment will be measured at the proportionate share of net identifiable assets if it meets the requirements of the amended Standard, therefore the adoption of this amendment has not had any significant impact on the amounts reported in these financial statements.

Amendment to IFRS 7: *Financial Instruments:*

Disclosures - the amendment clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated financial assets.

Amendments to IFRS 1: *Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters* - provides a limited exemption for first-

time adopters from providing comparative fair value hierarchy disclosures under IFRS 7.

Amendments to IAS 1: *Presentation of Financial Statements* - the amendment clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. Within these financial statements, the analysis of other comprehensive income is presented within the statement of changes in equity.

IAS 24 (2009): *Related Party Disclosures* - the revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed.

The following Standards have been adopted early in the current year and have had no significant impact on these financial statements and are not expected to significantly impact on the financial statements of the group in future periods:

IFRS 7: *Financial Instruments: Disclosures* - this amendment requires additional disclosures around transactions with financial assets, where an entity retains an interest in the financial asset. The company does not hold any retained interest in financial assets, so no additional disclosure is required.

Amendment to IAS 24: *Related Party Disclosures* - the revision provides an exemption for government controlled or joint government controlled entities from disclosing related party transactions with other government controlled entities. The ultimate controlling party of the company is The Airline Group, hence the company is not able to apply the exemption.

At the date of authorisation of these financial statements, the following Standards and Interpretations 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 1 (Amended): *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
 IFRS 9: *Financial Instruments*
 IFRS 10: *Consolidated Financial Statements*
 IFRS 11: *Joint Arrangements*
 IFRS 12: *Disclosures of Interests in Other Entities*
 IFRS 13: *Fair Value Measurement*
 IAS 1 (Amended): *Presentation of Items of Other Comprehensive Income*
 IAS 12 (Amended): *Deferred Tax: Recovery of Underlying Assets*
 IAS 19 (Revised): *Employee Benefits*
 IAS 27 (Revised): *Separate Financial Statements*
 IAS 28 (Revised): *Investments in Associates and Joint Ventures*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods, except as follows:

IFRS 9: *Financial Instruments* – this will impact both the measurement and disclosures of the financial instruments within the company.

IFRS 12: *Disclosure of Interests in Other Entities* – will increase the disclosures documenting the basis of control conclusions around company entities.

IAS 1: *Presentation of Financial Statements* – will result in separate disclosure for other comprehensive income items that will be reclassified as profit and loss in the future and those items that will not affect future profit and loss and the relative separate deferred tax impact of these items.

IAS 19 (Revised): *Employee Benefits* – will require disaggregation of defined benefit costs into components within operating and finance costs, recognition of re-measurements in other comprehensive income and enhanced disclosures about the defined benefit scheme.

At completion of the PPP transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air

Traffic Services Limited (now NATS Limited (NATS)) to this company.

In addition, the company entered into a Management Services Agreement (MSA) with NATS on 25 July 2001. This agreement provides for the provision by NATS of personnel and central services to the company. The cost of central services is recharged on the basis of a fair allocation of costs taking into account the most important drivers for the services provided. The company is responsible for paying to NATS an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company also entered into an Intercompany Services Agreement (ICA) on 25 July 2001 with NATS (En Route) plc (NERL). Under this agreement this company provides NERL with the following services:

- ◆ North Sea helicopter advisory service;
- ◆ Air traffic services in certain sectors;
- ◆ Accommodation and support services to NERL units sited on NATS Services Heathrow premises; and
- ◆ Miscellaneous other services.

The range of services provided by NERL to NATS Services under the agreement includes:

- ◆ Training services;
- ◆ Radar data services at NATS Services airports;
- ◆ Engineering and software support services;
- ◆ Research and development for NATS Services airports division and business development division; and
- ◆ Other services to NATS Services business development division (for example - consultancy and engineering services).

The company commenced trading from 26 July 2001.

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

Operating profit

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

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 Services 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 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. Assets and liabilities are presented to the Executive team on a company level basis. Unallocated assets and liabilities comprise balances relating to taxation, cash and cash equivalents, borrowings, derivative financial instruments, interest receivable, interest payable and dividends.

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

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;
- ◆ Sales of goods are recognised when they are delivered and title has passed;
- ◆ Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts (see below);
- ◆ 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; and
- ◆ Dividend income is recognised when the shareholder's rights to receive payment have been established.

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 company does not have any finance leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Property, plant and equipment

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

straight-line basis to write off the cost, less estimated residual value, of property plant and equipment over their estimated useful lives as follows:

- ◆ Leasehold land: over the term of the lease;
- ◆ Freehold buildings: 10 – 40 years;
- ◆ Leasehold buildings: over the remaining life of the lease to a maximum of 20 years;
- ◆ Air traffic control systems: 8 – 15 years;
- ◆ Plant and other equipment: 3 – 15 years;
- ◆ Furniture, fixtures and fittings: 10 years; and
- ◆ 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 Services this assumes qualifying assets relate to any additions to new projects that begin after 31 March 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 Services the percentage rate for interest capitalisation is calculated as a proportion of the interest costs to the average level of borrowings in the period that relate to qualifying capital expenditure. All qualifying capital expenditure is then inflated by this percentage which has the effect of capitalising related interest costs.

Deferred grants and other contributions to property, plant and equipment

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

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

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 company's development activities is recognised only if all of the following conditions are met:

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 12 years. Assets in the course of construction are not amortised. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets

At each balance sheet date, the company 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 company 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 an appropriate discount rate.

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 in the income statement immediately.

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

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 payment

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

In 2001, the company's parent established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings.

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 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 company provides finance to NESL (NATS Employee Sharetrust Limited) to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The company'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.

On 26 March 2012 under the Provisional Collection of Taxes Act, the corporation tax rate was reduced to 24% with effect from 1 April 2012. The Government has also indicated that it intends to enact future reductions in the main UK tax rate of 1% each year down to 22% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate. As the further reductions in UK corporate tax rates have not been substantively 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.

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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Foreign currency translation

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

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

Retirement benefit costs

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

In January 2009, the group introduced a number of pension reforms, as explained in note 21. This included closing the defined benefit scheme to new entrants with effect from 1 April 2009, introducing a limit on increases in pensionable pay and establishing a defined contribution scheme for new entrants effective from 1 April 2009.

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

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

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

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, and it is probable that the company 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 company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 13 to 16.

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.

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

Financial liabilities

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

Fair value through the profit and loss

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

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

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the

income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Effective interest method

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

Equity

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

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward exchange contracts to hedge these exposures. These are disclosed in note 14 and 15 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 NATS group's policies approved by the Board of directors of NATS Holdings, which provides written principles on the use of financial derivatives. The company 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 company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If a hedge of a forecast transaction subsequently results in the recognition of 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 net profit or loss.

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.

3. Critical judgements and key sources of estimation uncertainty

Retirement benefits

The company 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 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 company's defined benefit pension scheme which affects the balance sheet position and the company's reserves and income statement. Refer to note 21 of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Going concern

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the business and financial review section above and in the accounts of NATS Holdings. In addition, note 15 to the financial statements describes the company'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 company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long-term contracts, many of which were renewed in the year. The company is also actively seeking to reduce its operating cost base through a cost saving programme to provide mitigation for future revenue shortfalls and cost pressures from legacy pension arrangements. As a result, the directors believe that the company 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 company, 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 2012.

4. Revenue

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Airport air traffic services	162.1	159.0
Miscellaneous services	21.9	18.0
Intercompany income	17.2	16.4
	<u>201.2</u>	<u>193.4</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.

5. Business and geographical segments**Business segments**

For management reporting purposes, the company is currently organised into two business areas.

Principal activities are as follows:

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

Segmental information about these businesses is presented below.

Year ended 31 March 2012	Airport air traffic services £m	All other segments £m	Total £m
Revenue			
Revenue from external customers	162.1	21.9	184.0
Revenue from internal customers	-	17.2	17.2
Total revenue	<u>162.1</u>	<u>39.1</u>	<u>201.2</u>
Segmental result	<u>35.9</u>	<u>2.6</u>	<u>38.5</u>
Operating profit			38.5
Investment revenue			<u>0.9</u>
Profit before tax			39.4
Tax			<u>(9.9)</u>
Profit for the year			<u>29.5</u>
Other information			
Exceptional items	0.3	0.1	0.4
Capital expenditure	0.7	0.2	0.9
Depreciation and amortisation	3.3	0.4	3.7
Impairment losses recognised in income	0.1	0.5	0.6
Deferred grants released	(0.4)	-	(0.4)
Balance sheet			
Assets			
Segmental assets	<u>41.2</u>	<u>9.6</u>	50.8
Unallocated assets			<u>134.1</u>
Total assets			<u>184.9</u>
Liabilities			
Segmental liabilities	<u>(30.1)</u>	<u>(11.9)</u>	(42.0)
Unallocated liabilities			<u>(3.5)</u>
Total liabilities			<u>(45.5)</u>

5. Business and geographical segments (continued)**Year ended 31 March 2011**

	Airport air traffic services	All other segments	Total
	£m	£m	£m
Revenue			
Revenue from external customers	159.0	18.0	177.0
Revenue from internal customers	-	16.4	16.4
Total revenue	<u>159.0</u>	<u>34.4</u>	<u>193.4</u>
Segmental result	<u>29.8</u>	<u>5.0</u>	<u>34.8</u>
Operating profit			34.8
Investment revenue			<u>0.8</u>
Profit before tax			35.6
Tax			<u>(9.4)</u>
Profit for the year			<u><u>26.2</u></u>
Other information			
Exceptional items	3.0	0.4	3.4
Capital expenditure	0.8	0.2	1.0
Depreciation and amortisation	3.4	0.3	3.7
Deferred grants released	(0.3)	-	(0.3)
Balance sheet			
Assets			
Segmental assets	<u>52.5</u>	<u>14.4</u>	66.9
Unallocated assets			<u>118.8</u>
Total assets			<u><u>185.7</u></u>
Liabilities			
Segmental liabilities	<u>(32.1)</u>	<u>(6.5)</u>	(38.6)
Unallocated liabilities			<u>(8.8)</u>
Total liabilities			<u><u>(47.4)</u></u>

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

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

Geographical segments

The following table provides an analysis of the company's revenue by geographical area, based on the geographical location of its customers:

	Year ended 31 March 2012	Year ended 31 March 2011
	£m	£m
UK	197.3	190.2
Rest of Europe	1.0	1.7
Other	2.9	1.5
Total	<u>201.2</u>	<u>193.4</u>

Capital expenditure and company assets are all located within the UK, with the exception of investments of £0.4m (2011: £0.1m) which the company holds in overseas entities (see note 23). These investments have been established to enable the company to undertake business abroad.

Major customers

Included in revenues arising from airport air traffic services are revenues of £100.7m (2011: £99.5m) which arose from the company's largest customer.

6. Operating profit for the year

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

Redundancy costs

During the year voluntary redundancy was offered to staff in some areas of the business.

a) Exceptional items

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Voluntary redundancy costs (including pension augmentation costs, see note 7a)	0.4	3.4

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

b) Other items

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
CAA regulatory charges	2.8	2.8
Depreciation and impairment of property, plant and equipment	3.2	3.4
Amortisation and impairment of intangible assets	1.1	0.3
Deferred grants released	(0.4)	(0.3)

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose the audit fees on a consolidated basis.

c) Transactions with group companies

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Net charges for services provided by parent undertaking	2.7	3.1
Charges for services provided by other group companies	14.8	15.5

In addition to the staff costs referred to in note 7a below, NATS Services is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NATS Services. Under the Intercompany Services Agreement (ICSA) NERL provides certain services to NATS Services. The MSA and ICSA are explained in more detail in note 2.

7. Staff costs**a) Staff costs**

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	68.5	69.7
Social security costs	7.1	6.3
Pension costs (note 7b)	19.9	18.0
	<u>95.5</u>	<u>94.0</u>
Less: amounts capitalised	(0.1)	(0.2)
	<u>95.4</u>	<u>93.8</u>

Wages and salaries includes redundancy costs of £0.2m (2011: £2.8m), share-based payment charges, other allowances and holiday pay. Pension costs include £0.2m (2011: £0.6m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NATS Services. Under the terms of the MSA dated 25 July 2001 the services of certain employees are seconded to NATS Services by NATS Limited. NATS Services is responsible for paying to NATS Limited an amount equal to the aggregate of all costs incurred by NATS Limited in connection with the employment of the seconded employees (including all taxes and social security and pension costs) together with appropriate staff related costs and expenses and disbursements.

7. Staff costs (continued)**b) Pension costs**

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Defined benefit pension scheme costs (note 21)	19.4	17.8
Defined contribution pension scheme costs	0.5	0.2
	<u>19.9</u>	<u>18.0</u>

c) Staff numbers

	Year ended 31 March 2012 Number	Year ended 31 March 2011 Number
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	571	569
Air traffic service assistants	159	191
Engineers	130	132
Others	174	162
	<u>1,034</u>	<u>1,054</u>

8. Investment revenue

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Interest on bank deposits	0.6	0.4
Interest receivable from intercompany loans	0.3	0.3
Other	-	0.1
	<u>0.9</u>	<u>0.8</u>

9. Tax

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Current tax	(7.2)	(7.5)
Prior year adjustment relating to current tax	0.1	-
Deferred tax (See note 17. 2011 included a credit of £0.3m in respect of prior years)	(2.8)	(1.9)
	<u>(9.9)</u>	<u>(9.4)</u>

Corporation tax is calculated at 26% (2011: 28%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 March 2012 £m	%	Year ended 31 March 2011 £m	%
Profit on ordinary activities before tax	<u>39.4</u>		<u>35.6</u>	
Tax on profit on ordinary activities at standard rate in the UK of 26% (2011: 28%)	(10.2)	(26.0)	(10.0)	(28.0)
Tax effect of group relief	0.2	0.6	0.1	0.3
Tax effect of corporation tax rate reduction from 26% to 24% from 1 April 2012	(0.1)	(0.3)	-	-
Tax effect of corporation tax rate reduction from 28% to 26% from 1 April 2011	-	-	0.5	1.5
Tax effect of prior year adjustments	0.1	0.3	-	-
Other permanent differences	0.1	0.3	-	-
Tax charge for year at the effective tax rate of 25.1% (2011: 26.4%)	<u>(9.9)</u>	<u>(25.1)</u>	<u>(9.4)</u>	<u>(26.4)</u>
Deferred tax credit taken directly to equity (see note 17)	<u>(7.8)</u>		<u>(4.4)</u>	

10. Dividends

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend for the year of £53.00 (2011: £50.00) per ordinary share	5.3	5.0
Second interim dividend for the year of £4.00 (2011: Nil) per ordinary share	0.4	-
	<u>5.7</u>	<u>5.0</u>

In May 2012, the Board declared and paid an interim dividend for the year ending 31 March 2013 of £15.00 per share (totalling £1.5m) to its parent company.

11. Intangible assets

	Operational Software £m	Non- operational software £m	Assets in course of construction and installation £m	Total £m
Cost				
At 1 April 2010	0.1	0.4	1.3	1.8
Additions internally generated	0.1	-	-	0.1
Additions externally acquired	0.1	-	-	0.1
Other transfers	1.3	-	(1.3)	-
At 1 April 2011	<u>1.6</u>	<u>0.4</u>	<u>-</u>	<u>2.0</u>
Additions externally acquired	0.1	-	0.1	0.2
Other transfers	2.8	-	-	2.8
At 31 March 2012	<u>4.5</u>	<u>0.4</u>	<u>0.1</u>	<u>5.0</u>
Accumulated amortisation				
At 1 April 2010	-	0.1	-	0.1
Charge for the year	0.2	0.1	-	0.3
At 1 April 2011	<u>0.2</u>	<u>0.2</u>	<u>-</u>	<u>0.4</u>
Charge for the year	0.4	0.1	-	0.5
Provision for impairment	0.6	-	-	0.6
At 31 March 2012	<u>1.2</u>	<u>0.3</u>	<u>-</u>	<u>1.5</u>
Carrying amount				
At 31 March 2012	<u>3.3</u>	<u>0.1</u>	<u>0.1</u>	<u>3.5</u>
At 31 March 2011	<u>1.4</u>	<u>0.2</u>	<u>-</u>	<u>1.6</u>

12. 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 2010	0.7	10.0	32.1	3.0	4.4	50.2
Additions during the year	-	-	0.3	-	0.5	0.8
Disposals during the year	-	(0.5)	(2.3)	(0.1)	-	(2.9)
Other transfers during the year	-	-	1.3	-	(1.3)	-
At 1 April 2011	0.7	9.5	31.4	2.9	3.6	48.1
Additions during the year	-	-	0.1	0.1	0.5	0.7
Disposals during the year	-	-	(0.1)	-	(0.1)	(0.2)
Other transfers during the year	-	-	0.2	-	(3.0)	(2.8)
At 31 March 2012	0.7	9.5	31.6	3.0	1.0	45.8
Accumulated depreciation and impairment						
At 1 April 2010	0.7	9.0	17.9	1.0	-	28.6
Provided during the year	-	0.1	3.0	0.3	-	3.4
Disposals during the year	-	(0.5)	(2.3)	(0.1)	-	(2.9)
At 1 April 2011	0.7	8.6	18.6	1.2	-	29.1
Provided during the year	-	0.2	2.8	0.2	-	3.2
Disposals during the year	-	-	(0.1)	-	-	(0.1)
At 31 March 2012	0.7	8.8	21.3	1.4	-	32.2
Carrying amount						
At 31 March 2012	-	0.7	10.3	1.6	1.0	13.6
At 31 March 2011	-	0.9	12.8	1.7	3.6	19.0

During the year the company completed the construction of an electronic cartography asset, which transferred from assets in the course of construction to intangible operating software totalling £2.8m.

13. Financial and other assets

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

Trade and other receivables

	2012 £m	2011 £m
Non-current		
Intercompany loan (interest bearing)	22.5	22.5
Current		
Receivable from customers gross	10.9	8.6
Allowance for doubtful debts	(0.4)	(0.8)
	<u>10.5</u>	<u>7.8</u>
Amounts recoverable under contracts	4.2	5.4
Other debtors	0.1	-
Prepayments	4.7	4.3
Intercompany loan (interest bearing)	-	0.9
Accrued income	13.8	19.1
	<u>33.3</u>	<u>37.5</u>

The average credit period taken on sales of services is 30 days (2011: 28 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.4m (2011: £0.8m). This amount has been determined by reference to past default experience.

Receivables in respect of 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. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

Ageing of past due but not impaired trade receivables

	2012 £m	2011 £m
30 - 90 days	0.1	0.6
91 - 150 days	0.4	0.6
	<u>0.5</u>	<u>1.2</u>

Movement in the allowance for doubtful debts

	2012 £m	2011 £m
Balance at the beginning of the period	0.8	0.7
Increase in allowance recognised in the income statement	-	0.1
Release of provision	(0.4)	-
	<u>0.4</u>	<u>0.8</u>

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. 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 £0.2m (2011: £0.2m) 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.

	2012 £m	2011 £m
Ageing of impaired receivables		
91 - 365 days	0.4	0.8

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

13. Financial and other assets (continued)

At 31 March 2012, NATS Services provided unsecured loans totalling £22.5m to NERL (2011: £23.4m). These loans are subordinate to NERL's senior debt. The loan bears interest at a rate equal to six month LIBOR plus an agreed margin, the current interest rate is 1.62% (2011: 1.40%). The loan is repayable on 31 May or 30 November on serving notice of no less than five business days.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the company 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 £161.7m (2011: £151.0m).

14. Derivative financial instruments**Fair value asset of derivative financial instruments**

	2012 £m	2011 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	0.1

Further details on derivative financial instruments are provided in note 15.

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).

	2012				2011			
	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 financial instruments in designated hedge accounting relationships	-	0.1	-	0.1	-	0.1	-	0.1

15. Financial instruments**Capital risk management**

The company manages its capital to ensure that it is able to continue as a going concern and to meet its obligations to its customers and fund business opportunities as they arise.

The capital structure of the company consists of cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in the statement of changes in equity.

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:

	2012 £m	2011 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	37.3	36.6
Cash and cash equivalents and short-term investments	110.6	95.3
Derivative financial instruments in designated hedge accounting relationships	0.1	0.1
	<u>148.0</u>	<u>132.0</u>
Financial liabilities		
Amortised cost	<u>13.4</u>	<u>20.9</u>

Amortised cost includes trade and other payables, excluding accruals and deferred income and amounts owed to other group undertakings.

15. Financial instruments (continued)**Financial risk management objectives**

The NATS group treasury function is mandated by the Board of NATS Holdings 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 company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2012.

Market risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk management

NATS Services 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 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 NATS Services foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Euro	0.2	0.8	-	-
US Dollar	0.2	-	(0.1)	-
Canadian Dollar	0.1	-	(0.1)	(0.1)
Qatari Riyal	1.6	-	-	-
Norwegian Krone	0.3	0.2	(0.2)	(0.1)
	<u>2.4</u>	<u>1.0</u>	<u>(0.4)</u>	<u>(0.2)</u>

Foreign currency sensitivity analysis

NATS Services held foreign currency cash balances in Euro, US Dollar, Canadian Dollar, Qatari Riyal and Norwegian Krone at 31 March 2012.

The following table details NATS Services' 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. Sensitivities are shown to the nearest £0.1m

Currency	2012 Impact £m	2011 Impact £m
Euro	-	(0.2)
Qatari Riyal	0.6	-
Norwegian Krone	(0.1)	-
	<u>0.5</u>	<u>(0.2)</u>

15. Financial instruments (continued)**Forward foreign exchange contracts**

The company entered into forward foreign exchange contracts to fund purchases of equipment. The company has designated these forward contracts as cash flow hedges.

At 31 March 2012 the company had the following outstanding forward foreign exchange contracts:

2012				2011			
	€m	£m	Average exchange rate		€m	£m	Average exchange rate
Euro bought				Euro bought			
Over 3 months	-	-	n/a	Over 3 months	1.1	0.9	0.8389
<hr/>				<hr/>			
2012				2011			
	\$m	£m	Average exchange rate		\$m	£m	Average exchange rate
US Dollar bought				US Dollar bought			
0-3 months	0.2	0.1	1.6005	0-3 months	-	-	-
<hr/>				<hr/>			
2012				2011			
	£m	QAR m	Average exchange rate		£m	QAR m	Average exchange rate
QAR sold				QAR sold			
0-3 months	1.1	6.4	5.7572	0-3 months	-	-	n/a
Over 3 months	6.4	36.9	5.7522	Over 3 months	-	-	n/a
<hr/>				<hr/>			
	7.5	43.3	5.7530		-	-	n/a
<hr/>				<hr/>			
2012				2011			
	NOK m	£m	Average exchange rate		NOK m	£m	Average exchange rate
NOK bought				NOK bought			
0-3 months	1.3	0.1	9.2310	0-3 months	-	-	n/a
Over 3 months	2.5	0.3	9.3409	Over 3 months	1.9	0.2	9.4465
<hr/>				<hr/>			
	3.8	0.4	9.3040		1.9	0.2	9.4465
<hr/>				<hr/>			

At 31 March 2012, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.1m (2011: £0.1m). Of these contracts, approximately half by value will mature within the twelve months of the next financial year and the remaining contracts will mature in the following financial year, at which stage the amount deferred in equity will be realised in the income statement for hedges relating to revenue expenditure or capitalised and depreciated for those relating to capital expenditure.

Interest rate risk management

The company had no debt at 31 March 2012 or 31 March 2011 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2012			2011		
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days
Sterling	109.9	0.4	5	94.4	0.5	3
Euro	-	-	-	0.7	0.6	5
US Dollar	0.2	-	-	-	-	-
Canadian Dollar	0.1	-	-	-	-	-
Qatari Riyal	0.1	-	-	-	-	-
Norwegian Krone	0.3	-	-	0.2	-	-
	<hr/>			<hr/>		
	110.6			95.3		
	<hr/>			<hr/>		

The economic interest rate reflects the true underlying cash rate that the company was paying on its borrowings or receiving on its deposits at 31 March.

15. Financial instruments (continued)

Details of the company's intercompany loans to NERL are as follows:

Currency	2012 Intercompany loans			2011 Intercompany Loans		
	Amount £m	Economic interest rate %	Weighted average time for which rate is fixed days	Amount £m	Economic interest rate %	Weighted average time for which rate is fixed days
Sterling	22.5	1.5	183	23.4	1.3	183

The movement in the economic interest rate reflects changes in market rates of interest.

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 company's cash deposits and intercompany 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. There would be an equal and opposite impact on profit and equity if interest rates were to fall by 1%.

	2012 Impact £m	2011 Impact £m
Cash on deposit (2012: £110.6m, 2011: £95.3m)	1.1	1.0
Intercompany loans (2012: £22.5m, 2011: £23.4m)	0.2	0.2
	1.3	1.2

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to NATS Services. The company'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 is mitigated through comprehensive credit checks and credit control procedures being enforced. With regard to funds or contracts held with financial institutions, the company'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 NATS group 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 Investors Service and Fitch Rating agencies. Where there is a difference in the rating then the lowest of the ratings is applied.

Currently, NATS Services' 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 company 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 group's limits that are applied to each institution based on credit rating and the balances held at 31 March with those institutions:

Rating (Standard & Poor's/Moody's)	Limit per Institution £m
AAA/Aaa	50.0
AA+/Aa1	40.0
AA/Aa2	30.0
AA-/Aa3	20.0
A+/A1	15.0
A/A2	10.0
A-/A3	7.5

15. Financial instruments (continued)

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

Rating (Standard & Poor's)	Number of institutions	2012		Number of institutions	2011	
		£m	By credit rating (%)		£m	By credit rating (%)
AAA	1	5.0	4.5	-	-	-
AA	-	-	-	1	27.0	28.4
AA-	3	41.2	37.2	-	-	-
A+	4	50.2	45.4	6	67.6	70.9
A	4	14.2	12.9	1	0.7	0.7
		<u>110.6</u>	<u>100.0</u>		<u>95.3</u>	<u>100.0</u>

Liquidity risk management

The responsibility for liquidity risk management rests with the Board of NATS Holdings with oversight provided by the Treasury Committee. The company's policy is to maintain sufficient cash to fund working capital requirements and new business development opportunities in line with targets approved by the Board.

To provide liquidity, NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2012 (31 March 2011: uncommitted overdraft of £1.0m).

Trade and other payables, including current tax liabilities, are expected to mature within one year.

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

	Carrying amount		Fair value	
	2012 £m	2011 £m	2012 £m	2011 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	37.3	36.6	37.3	36.6
Cash and cash equivalents	110.6	95.3	110.6	95.3
Derivative instruments in designated hedge accounting relationships	0.1	0.1	0.1	0.1
	<u>148.0</u>	<u>132.0</u>	<u>148.0</u>	<u>132.0</u>
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	13.4	20.9	13.4	20.9

16. Financial and other liabilities**Trade and other payables**

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

	2012 £m	2011 £m
Current		
Trade payables	1.4	1.1
Amounts due to other group undertakings	9.2	9.6
Other payables	2.8	10.2
Accruals and deferred income	<u>16.8</u>	<u>9.9</u>
	30.2	30.8
Non-current		
Accruals and deferred income (including deferred grants)	4.5	7.8
	<u>34.7</u>	<u>38.6</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 25 days (2011: 23 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the company, 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 2010	2.4	4.6	-	(0.4)	6.6
(Credit)/charge to income	(0.4)	2.3	-	-	1.9
Credit to equity	-	(4.4)	-	-	(4.4)
At 31 March 2011	2.0	2.5	-	(0.4)	4.1
At 1 April 2011	2.0	2.5	-	(0.4)	4.1
(Credit)/charge to income	(0.7)	3.5	-	-	2.8
Credit to equity	-	(7.8)	-	-	(7.8)
At 31 March 2012	1.3	(1.8)	-	(0.4)	(0.9)

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.

	2012 £m	2011 £m
Deferred tax liabilities	(1.3)	(4.5)
Deferred tax assets	2.2	0.4
	0.9	(4.1)

18. Share capital

	Authorised Number of shares	Called up, allotted and fully paid £m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2012 and 31 March 2011	100,000	0.1	100,000	0.1

19. Notes to the cash flow statement

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating profit from continuing operations	38.5	34.8
Adjustments for:		
Depreciation of property, plant and equipment	3.2	3.4
Profit on disposal of property, plant and equipment	(0.2)	-
Amortisation of intangible assets	1.1	0.3
Deferred grants released	(0.4)	(0.3)
Non-cash element of charge for pension costs	(13.6)	(10.0)
Decrease in provisions	-	(0.2)
Operating cash flows before movements in working capital	28.6	28.0
Decrease in contract work in progress	1.2	2.6
Decrease in trade and other receivables	2.1	1.2
Decrease in trade and other payables	(3.4)	(3.2)
(Decrease)/increase in amounts due to other group undertakings	(0.4)	3.6
Cash generated from operations	28.1	32.2
Tax paid	(8.3)	(6.4)
Net cash flow from operating activities	19.8	25.8

Cash and cash equivalents, which are presented as a single class of asset on the face of the balance sheet, comprise cash at bank.

20. Financial commitments

	2012 £m	2011 £m
Capital commitments contracted but not provided for in the accounts.	-	0.2
Minimum lease payments under operating leases recognised in income for the year.	16.9	16.0

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:

	2012 £m	2011 £m
Within one year	16.1	16.1
In the second to fifth years inclusive	21.0	31.0
After five years	7.7	9.2
	<u>44.8</u>	<u>56.3</u>

Operating lease payments represent rentals payable by the company for certain of its properties and equipment used for the provision of air navigation services, and vehicles. Leases are negotiated on varying terms depending on the type of asset leased.

Guarantees

NATS Services has committed to providing its subsidiary NATSNav Limited with financial support. NATSNav had net liabilities at 31 March 2012 of £0.3m (2011: £0.4m).

Bid and performance bonds

As part of the tendering process for new contracts, NATS Services may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2012 was £6.5m (2011: £2.0m).

21. Retirement benefit scheme

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

CAAPS is a defined 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 (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' latest 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.

21. Retirement benefit scheme (continued)

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.

NATS, the immediate parent of the company, is the employer of, and second to the company, all personnel who undertake the company's business. In that capacity, NATS participates in CAAPS and bears the employment (including pension) costs of those personnel.

The company pays fees to NATS for the provision of services, including those of the staff. An element of those fees represents the employment costs (including pension contributions) of staff provided by NATS to NATS Services. In that way, the existence of a pension deficit or surplus may have an indirect impact upon the company through variations in pension contributions and so the level of those fees.

Contributions to the pension scheme

During the year NATS Services paid cash contributions to the scheme of £33.0m (2011: £27.8m). This amount included £3.5m (2011: £3.4m) 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 45.5% (2011: 38.4%) of pensionable pay. The group increased contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost and in response to the triennial valuation, NATS made further contributions of £2.0m per month from January 2011, NATS Services' share being c. £0.5m per month, increasing these by 3.5% each January thereafter, under a deficit recovery plan agreed with Trustees.

Company's accounting valuation under international accounting standards

The pension cost under IAS19: *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 is updated to 31 March 2012 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:

	2012	2011	2010
Inflation	3.25%	3.45%	3.65%
Increase in:			
- salaries	3.25%	3.95%	4.15%
- deferred pensions	3.25%	3.45%	3.65%
- pensions in payment	3.25%	3.45%	3.65%
Expected return on:			
- equities	7.10%	7.35%	7.55%
- property and other assets	6.60%	7.35%	7.55%
- bonds	3.45%	4.70%	4.90%
Discount rate for scheme liabilities	5.05%	5.45%	5.65%

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% (2011: 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%). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.0 years (2011: 28.9 years) and a female pensioner is 29.0 years (2010: 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 31.2 years (2011: 30.9 years) and for females to 31.4 years (2011: 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 10.9%/increase by 12.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.4%/decrease by 11.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.1%/decrease by 3.7%
Rate of mortality	1 year increase in life expectancy	Increase by 2.0%

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2012 £m	2011 £m
Current service cost	(26.5)	(24.3)
Past service cost	(0.2)	(0.6)
Expected return on scheme assets	42.1	41.0
Interest cost on scheme liabilities	(34.8)	(33.9)
Total defined benefit charge recognised in arriving at operating profit	<u>(19.4)</u>	<u>(17.8)</u>

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

	2012 £m	2011 £m
Actual return less expected return on scheme assets	(50.8)	(26.7)
Experience gains and losses arising on scheme liabilities	30.5	40.6
Changes in assumptions underlying the present value of scheme liabilities	(10.2)	(30.8)
	<u>(30.5)</u>	<u>(16.9)</u>

21. Retirement benefit scheme (continued)

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

	2012 £m	2011 £m
Fair value of scheme assets	651.5	639.6
Present value of defined benefit obligations	(658.8)	(630.0)
(Deficit)/surplus in scheme	<u>(7.3)</u>	<u>9.6</u>
Movements in the fair value of scheme assets during the year were as follows:		
	2012 £m	2011 £m
At 1 April	639.6	610.3
Expected return on scheme assets	42.1	41.0
Actuarial gains and losses	(50.8)	(26.7)
Contributions from scheme members	0.1	0.1
Contributions from company	33.0	27.8
Benefits paid	(12.5)	(12.9)
At 31 March	<u>651.5</u>	<u>639.6</u>
Movements in the present value of the defined benefit obligations were as follows:		
	2012 £m	2011 £m
At 1 April	(630.0)	(593.8)
Current service cost	(26.5)	(24.3)
Past service costs	(0.2)	(0.6)
Interest cost	(34.8)	(33.9)
Actuarial gains and losses	20.3	9.8
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	12.5	12.9
At 31 March	<u>(658.8)</u>	<u>(630.0)</u>

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	
	2012 £m	2011 £m	2012 %	2011 %
Equity instruments	346.8	335.9	7.10	7.35
Property and other assets	91.7	94.3	6.60	7.35
Bonds	195.3	198.0	3.45	4.70
Cash	17.7	11.4	3.45	4.70
	<u>651.5</u>	<u>639.6</u>	<u>5.84</u>	<u>6.48</u>

The overall expected rate of return on assets represents a weighting based on the expected return for each asset class and the value of investments in each asset class.

The scheme assets do not include any investments in the equity of the company or debt instruments or any property occupied by, or other assets used by, the company.

The five year history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	(658.8)	(630.0)	(593.8)	(461.2)	(493.3)
Fair value of scheme assets	651.5	639.6	610.3	446.9	577.1
(Deficit)/surplus in the scheme	<u>(7.3)</u>	<u>9.6</u>	<u>16.5</u>	<u>(14.3)</u>	<u>83.8</u>
Experience adjustments in scheme liabilities					
Amount (£m)	<u>30.5</u>	<u>40.6</u>	<u>41.6</u>	<u>8.2</u>	<u>21.0</u>
Percentage of scheme liabilities	<u>(4.6%)</u>	<u>(6.4%)</u>	<u>(7.0%)</u>	<u>(1.8%)</u>	<u>(4.3%)</u>
Experience adjustments in scheme assets					
Amount (£m)	<u>(50.8)</u>	<u>(26.7)</u>	<u>127.1</u>	<u>(177.0)</u>	<u>(37.7)</u>
Percentage of scheme assets	<u>(7.8%)</u>	<u>(4.2%)</u>	<u>20.8%</u>	<u>(39.6%)</u>	<u>(6.5%)</u>

The actual return on scheme assets for the year ended 31 March 2012 was £8.7m (loss) (2011: £14.3m).

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2013 is £35m, including salary sacrifice contributions estimated at £4m.

22. Related party transactions

Since 26 July 2001, the NATS group has had four major 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 Department for Transport (DfT) and the Ministry of Defence (MoD). In addition there have been transactions with BAA Airports Limited,

AG is a consortium of seven airlines: British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, Monarch Airlines Retirement Benefit Plan Limited, Thomas Cook Airlines Limited, Thomson Airways Limited, and Virgin Atlantic Airways Limited. AG has a 42% stake in NATS Holdings which it purchased through the PPP transaction in July 2001. The directors of NATS Holdings 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.

Contract 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.

Trading transactions

During the year, the company entered into the following transactions with related parties.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£m	£m	£m	£m	£m	£m	£m	£m
BAA Airports Ltd	102.6	100.6	9.4	8.6	9.6	13.6	4.9	7.2
DfT	-	0.1	-	-	-	-	-	-
MoD	4.2	4.0	-	-	0.5	0.7	-	-

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 20. There has been no provision made for doubtful debts in respect of amounts owed by related parties (2011: £0.5m).

The Report of the Directors, on pages 13-16, includes details of the directors of the company. None of these directors received any fees in the year for their services as directors of this company. The consolidated accounts of NATS Holdings include details of the remuneration received by the directors of the group.

Directors remuneration

Remuneration payable to the highest paid director of the company in the year was £360,000 (2011: 285,000).

23. Subsidiaries, joint ventures and associates

The company owns NATSNav Limited whose principal activity is satellite based navigation services. The cost of the investment is stated at £1. NATSNav is a member of a consortium of companies with an investment in European Satellite Services Provider (ESSP) SAS, a corporate entity providing satellite based services to the European Commission, who took over the activities of the European Economic Interest Group (EEIG).

100% of the ordinary share capital and voting rights of NATSNav are held by this company. NATSNav is registered in England and Wales and operates in the United Kingdom. NATSNav has authorised and issued share capital of £1.

The company has provided guarantees in respect of its subsidiary (NATSNav), please refer to note 20 for further details.

On 28 January 2011, NATS Services acquired 50% of the issued share capital of FerroNATS Air Traffic Services for a cash consideration of €0.1m (£0.1m). In June 2011 NATS Services acquired a further €0.4m (£0.3m) of the issued share capital of FerroNATS Air Traffic Services. NATS Services has not presented summarised financial information relating to the period to 31 March 2012, the summary financial information relating to associates of the NATS group are presented in the NATS Holdings Limited consolidated accounts.

Details of the joint venture with Ferroser at 31 March 2012 are:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
FerroNATS Air Traffic Services	Airport air traffic services	28 January	50%	Spain

NATS Services established two 100% owned subsidiaries in the current financial year, NATS Sverige AB and NATS (USA) Inc to enable the company to operate in overseas markets. The summary financial transactions of these subsidiaries have not been disclosed as the companies have not entered into any significant financial transactions to date. The details of these subsidiaries are shown below:

Name of company	Principal activity	Proportion of ordinary shares held	Proportion of voting rights held	Country of registration	Country of operation
NATS (USA) Inc	Engineering and ATM consultancy	100%	100%	USA	USA
NATS Sverige AB	Airport air traffic services	100%	100%	Sweden	Sweden

24. Parent Undertaking

The company's ultimate parent undertaking is NATS Holdings, a private company incorporated in Great Britain and registered in England and Wales.

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

The largest and smallest group in which the results of the company are consolidated is that of which NATS Holdings is the parent company. The consolidated accounts of NATS Holdings can be obtained from the company's secretary, at its registered office, 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL.

25. Events After the Reporting Period

In May 2012, the Board declared and paid an interim dividend for the year ending 31 March 2013 of £15.00 per share (totalling £1.5m) to its parent company.

