NATS (Services) Limited

Financial statements
for the year ended 31 March 2011

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

Auditors

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 2011.

Introduction

NATS Services provides commercial air traffic control (ATC) and aviation related services to a variety of customers in the UK and overseas. Its organisation is structured around a number of product lines based on air traffic control services, and consultancy, engineering and transport solutions. 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. In addition to the current core contracts, the global drive to improve aviation's efficiency is now providing a broader range of business opportunities for NATS Services to leverage its core competencies including: initial moves in the liberalisation of Europe's airport ATC market; the demand by airlines and airports for real-time traffic information to improve operational efficiency and reduce fuel burn/emissions; major programmes to implement a new generation of air traffic management (ATM) technology in Europe (SESAR) and the USA (NextGen); and military ATC outsourcing as a means to cut hard-pressed defence budgets.

The key issue for NATS Services is the extent to which it can grow its business in such a market, and the level of investment that would be required to deliver such growth. Considerable work has been done over the past year in developing the company's growth strategy. In support of this, a new Business Development Director, Andy Head was appointed, who brings a wealth of experience gained in Fujitsu, Lockheed Martin and Raytheon.

The year has been marked by extraordinary natural events and the resulting disruption caused to air travel. The disruption caused by the eruption of the Eyjafjallajökull volcano in Iceland in April 2010 was unprecedented. NATS Services worked closely with colleagues in the NATS group to develop a new understanding of how to deal with the situation to minimise the impact on our customers whilst ensuring safety. Our staff displayed professionalism at all times and were responsive to the needs of customers once the airspace restrictions were lifted. In the winter, two bouts of snow caused significant disruption to airports around the country, not least at Heathrow. Our staff worked with their airport colleagues to be both pro-active and responsive in managing significant disruption at the airports with a view to minimising the disruption to passengers.

The challenge of the past year has been heightened by the global economic climate. 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.

Despite the challenging market conditions, 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 £35.6m compared to £23.3m for the year to March 2010. Revenues increased by £6.3m to £193.4m (2010: £187.1m) - representing an increase of 3.4% from 2010 and more than 61% over the last 5 years.

NATS Services continues to make progress towards the target it has set itself to reduce its cost base by £10m relative to previously planned levels. It exceeded its £5.2m target for 2010/11 and is working on its plans to further reduce costs through the implementation of new technology changes to working practices.

Overview of business performance

Proactive in safety

Safety is the DNA of our services and we are committed to continually improving safety performance as our services develop. 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. In addition, each airport unit 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.
Our people continue to innovate in safety practice, helicopters in transit to and from oil and gas platforms are now visible to ATC from take-off to landing thanks to a new multilateration system introduced over the past year. This 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. We have been recognised for our safety contribution to the North Sea energy industry winning the Innovation in Safety Award at the 2011 Oil & Gas Industry Safety Awards.

Tuned in to customers and driving efficiency

The year has proved challenging for all our airport customers and the aviation industry generally. Despite this, we helped deliver a daily record at Heathrow Airport with 1,395 movements handled in one day, breaking the record set in 2008.

In addition, building upon its core business NATS Services has developed products in air traffic and engineering services, aviation data services, consulting and training and has won new contracts in Oman, Japan, and Mumbai as well as closer to home in the UK where we have delivered new Instrument Landing Systems at Birmingham.

NATS Services continues to introduce Electronic Flight Progress Strips (EFPS) at its airports with Aberdeen becoming the first NATS Services airport to implement EFPS into Tower, Approach and Area operations. EFPS is already in use at eight other NATS Services airports, including Glasgow, Edinburgh and Heathrow. Manchester airport has now placed a contract with us to install EFPS during 2011.

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

Great partners to work with

We continue to demonstrate our commitment to working in partnership with others. We have partnered with Ferroser (a company within the Ferrovial group) as FerroNATS, a new company created to bid for air traffic services at airports in Spain. FerroNATS will combine NATS' expertise at delivering uncompromising service in liberalised ATC markets with Ferroser's well established credentials as an outsourced service provider both in Spain and globally.

We will be establishing an office in the USA to enable us to partner with organisations bidding for work packages in the NextGen project – the US equivalent of SESAR.

NATS has been selected as one of two training providers qualified by SENASA, Spain's aeronautical training organisation, to supply instructors for air traffic control courses; this allows NATS instructors to train Spanish air traffic controller (ATCO) candidates on an as-needed basis, in Spain. NATS may be called upon to provide training for tower, en route and approach control.

We continued to work with Thales and Babcock in the AQUILA consortium, to build a compelling proposition for the JMATS (Joint Military Air Traffic Services) contract to supply enhanced capability and significant cost savings in military air traffic management. The competitive tender process was launched in April 2011.

We were delighted to be recognised for our value as a partner when NATS Services won the award for 'best business partner' from the AOA (Airport Operators Association) for the work we did with Gatwick on introducing A-CDM.

Liberating and inspiring people

We continue to be committed to a healthy working relationship with the Trade Unions. The 'Working Together' programme is a key part of that.

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

Throughout the year we have embedded a performance-based culture throughout the business in which everyone understands their contribution to business performance and customer value. We are working on developing a flexible workforce which allows us to respond cost effectively to market opportunities and our growth agenda, and which is consistent with our brand values.

Acting responsibly

A highlight of the past year's work was testing a 'Perfect Flight' between Heathrow and Edinburgh. BAA, BA and NATS co-ordinated to ensure every stage of the journey was calibrated to achieve optimal performance. The flight used around 350kg less fuel generating around one tonne less CO_2 (about 11%) on the norm for the route. While the complexity of UK airspace prevents us from doing this every day, it has demonstrated the potential there is for improvement.

Innovating for growth

Innovation is key to future growth. Our new brand value will tap into the talent and the creativity of our people and harness it to deliver solutions that add value to existing and new customers, and to shareholders, growing the business into new markets.

We have made a good start. NATS Services is developing a broader understanding of customer requirements and seeking partnerships to develop local understanding in new markets. We are strengthening our commercial team with new skills designed to capitalise on the enormous potential there is within the NATS business and we are confident that in a year's time we will have further success to report.

Overview of financial performance

The company reported a profit before tax of £35.6m (2010: £23.3m) and a profit after tax of £26.2m (2010: £16.8m).

	2011 £m	2010 £m
Turnover	**193.4**	187.1
Operating profit		
- Operating profit before exceptional items	38.2	24.6
- Exceptional items	(3.4)	(2.1)
	34.8	22.5
Profit before taxation		
- Profit before tax and exceptional items	39.0	25.4
- Exceptional items	(3.4)	(2.1)
	35.6	23.3
Profit after tax		
- Profit after tax before exceptional items	28.7	18.3
- Exceptional items	(2.5)	(1.5)
	26.2	16.8

The results for the years 2011 and 2010 included items which were material in terms of their size and incidence and which have been reported as exceptional items. The results for 2011 included restructuring costs at £3.4m (2010: £2.1m).

Exceptional items	2011 £m	2010 £m
Redundancy costs	**(3.4)**	(2.1)

Underlying operating profit, before these exceptional items, improved by £13.6m to £38.2m (2010: £24.6m).

Revenues increased by 3.4% or £6.3m to £193.4m (2010: £187.1m), principally reflecting an increase in earned value assessed on airport contracts and to indexation uplifts on airport contracts.

Underlying operating costs (excluding exceptional items), decreased by £7.3m to £155.2m (2010: £162.5m).

	2011 £m	2010 £m
Before exceptional items:		
Employee costs	**(90.4)**	(98.6)
Services and materials	**(26.8)**	(26.7)
Repairs and maintenance	**(6.4)**	(7.5)
External research and development	**(0.1)**	-
Other operating charges	**(28.1)**	(26.3)
	(151.8)	(159.1)
Depreciation, amortisation and impairment	**(3.7)**	(3.4)
Deferred grants	**0.3**	0.3
Gain/(Loss) on disposal of non-current assets	-	(0.3)
Operating costs	**(155.2)**	(162.5)

Staff costs at £90.4m (2010: £98.6m) decreased by £8.2m, mainly reflecting a reduction in pension costs and lower staff numbers. Pension costs reduced by £7.1m to £18.0m (2010: £25.1m) with the accrual rate (before salary sacrifice) reducing from 31.6% in 2010 to 21.8% in 2011. Non staff costs excluding asset related charges increased by £0.9m from £60.5m in 2010 to £61.4m. The increase included a charge of £2.6m associated with the de-recognition of revenues following a change in customer contract terms. Depreciation (net of deferred grants released) increased to £3.4m (2010: £3.1m) and there was no loss on disposal of fixed assets (2010: £0.3m).

Tax on underlying activities (before exceptional items) at £10.3m (2010: £7.1m) reflected an effective rate of 26.4% (2010: 28.0%). Tax including exceptional items at £9.4m (2010: £6.5m) reflected an effective rate of 26.4% (2010: 27.9%)

Airport air traffic services

	2011 £m	2010 £m
Turnover	159.0	152.1
Operating costs	(123.1)	(128.7)
Depreciation, amortisation, impairment and deferred grants	(3.1)	(2.7)
Exceptional items	(3.0)	(1.9)
Operating profit	29.8	18.8

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 £6.9m to £159.0m (2010: £152.1m). This mainly reflected improved revenues from certain airport contracts arising from an increase in the earned value assessed and to indexation uplifts on other contracts.

Operating costs (excluding depreciation and exceptional items) decreased by £5.6m to £123.1m (2010: £128.7m), mainly reflecting lower staff costs (the impact of reduced pension charges and lower staff numbers), partially offset by a charge of £2.6m associated with the de-recognition of revenues following a change in customer contract terms.

Asset-related charges for depreciation and amortisation were £0.4m higher at £3.1m (2010: £2.7m).

Exceptional charges of £3.0m (2010: £1.9m) related to redundancy costs.

Overall, the operating profit of airport air traffic services at £29.8m (2010: £18.8m) was £11.0m better than the prior year, mainly reflecting better revenues, and lower staff costs.

Other revenues

	2011 £m	2010 £m
Turnover	34.4	35.0
Operating costs	(28.7)	(30.7)
Depreciation, amortisation, impairment and deferred grants	(0.3)	(0.4)
Exceptional items	(0.4)	(0.2)
Operating profit	5.0	3.7

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 were £0.6m lower than prior year, mainly due to lower revenue from services to other group companies.

Operating profits on these activities at £5.0m (2010: £3.7m) was £1.3m higher mainly reflecting lower staff costs (the impact of reduced pension charges) and higher margins.

Balance sheet

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

	2011 £m	2010 £m
Intangible assets	1.6	1.7
Property, plant and equipment	19.0	21.6
Other non-current assets	0.1	2.4
Cash and short-term deposits	95.3	75.5
Loan to fellow subsidiary	23.4	23.0
Other net current assets	1.2	3.0
Provisions	-	(0.2)
Pension scheme surplus	9.6	16.5
Other non-current liabilities	(11.9)	(14.0)
Net assets	138.3	129.5

Shareholders' funds increased by £8.8m from £129.5m last year to £138.3m. This increase was primarily due to retained profit of £26.2m, less a dividend payment of £5.0m and actuarial losses on the defined benefit pension scheme of £12.5m (net of deferred tax) as measured on an accounting basis – see below.

Other non-current assets decreased by £2.3m to £0.1m (2010: £2.4m) principally reflecting a reduction in income due after more than one year.

Other net current assets decreased to £1.2m from £3.0m in 2010 with an increase in current liabilities and a reduction in trade and other receivables.

Other non-current liabilities of £11.9m (2010: £14.0m) decreased by £2.1m with deferred tax reducing by £2.5m, other non-current liabilities increasing by £0.4m.

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

Capital expenditure

The company invested £1.0m on intangible and tangible assets in the year (2010: £4.3m). The key area of investment, totalling £0.4m related to the EFPS project (Electronic Flight Progress Strips); EFPS is now live across a number of airports. Other areas of investment were in the development of aeronautical information systems and development of air traffic control systems and equipment.

Pensions

At 31 March 2011, measured under international accounting standards, the pension scheme was in surplus with assets exceeding liabilities by £9.6m (2010: £16.5m). The reduction in the scheme's valuation included the impact of aligning the company's mortality assumptions for accounting purposes with more prudent assumptions adopted by Trustees for the purpose of the 31 December 2009 triennial valuation, which was approved during the financial year. This factor offset the increase in the pension scheme's assets.

The pension scheme actuary's triennial valuation performed as of 31 December 2009 was approved by Trustees on 27 April 2010. This valuation, which is for funding purposes, uses assumptions which include a margin for prudence and leads to a lower valuation than under international accounting standards. The valuation reported a deficit of £351.1m in scheme assets to liabilities (equivalent to a funding ratio of 89%) and a future service cost of 36.7%. NSL's share of this deficit is c.25% or £88m. NATS agreed a schedule of contributions with Trustees that resulted in an increase in cash contributions from May 2010 to 36.7%, from 30% previously. In addition, an 11-year deficit recovery plan has been agreed with payments by NATS of £2m per month from January 2011, NSL's share being £0.5m. These deficit contributions will increase by 3.5% from January 2012.

During the year the company paid cash contributions to the scheme of £27.8m (2010: £22.5m) at a rate of 38.4% (2010: 27.5%) of pensionable pay, excluding the effect of staff salary sacrifice

Cash flow

Overall, the company's cash balances increased by £19.8m in the year to £95.3m (2010: £75.5m).

Net cash from operating activities at £25.8m was £3.8m higher than 2010 (2010: £22.0m) reflecting the increase in profit, which was partly offset by higher cash contributions to the pension scheme explained above.

There was a net cash outflow from investing activities of £0.6m (2010: inflow of £6.5m) and outflows of £5.4m from financing activities reflecting dividends paid of £5.0m and an increase in loans to a fellow subsidiary company of £0.4m (2010: inflow of £2.9m reflecting loans repaid by a fellow subsidiary company).

Outlook

Our vision is to deliver significant additional shareholder value by growing NATS Service's business in the aviation industry. The vision is for a company which has a strong core UK business that achieves some organic growth, but with major growth being delivered in new business areas through innovation, partnerships, joint ventures (JVs) and acquisitions.

The strategy to achieve this vision can be summarised as Defend - Grow - Enable:

Defend

Twelve of the company's 16 ATC contracts are due for renewal by March 2013, making retention of the existing contract portfolio absolutely fundamental to the business. The strategy to retain and grow the core ATC business has three dimensions: 1) ensuring that service levels expected by airport customers are delivered; 2) creating an improved price proposition for airport customers for core ATC and related engineering services to support retention of existing contracts; and 3) increasing the value proposition of NATS Services, for example by developing command and control centre services for high traffic/capacity constrained airports.

Grow

We are developing new business opportunities primarily in international ATC towers, technology/infrastructure integration and real time operational information; facilitated by expanding consulting services and the company's international presence to build relationships and extend reach into target markets.

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/technical excellence and cost efficiency.

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

In delivering this vision, our priorities will remain the same, ensuring and improving safety, driving down delay and reducing our impact on the environment, together with pressing forward with innovation.

Paul Reid

Managing Director, NATS Services

Report of the directors

The directors present their report and audited accounts for the year ended 31 March 2011.

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 16. An interim dividend for the year ended 31 March 2011 was approved and paid in May 2010 of £50.00 per share (totalling £5.0m) to its parent company (2010: £nil). The Board recommends a final dividend for the year of £nil (2010: £nil).

In May 2011, the Board declared an interim dividend for the year ending 31 March 2012 of £53.0 per share (totalling £5.3m).

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. 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 Trade 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 23 days (2010: 25 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 (appointed 1 April 2010)
Nigel Fotherby
Lawrence Hoskins (resigned 30 April 2010)
Paul Reid (appointed 27 May 2010)

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 disclosed in the accounts of that company.

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

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Accounts. The directors have prepared the accounts for the company in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

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

Auditors

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

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

Richard Churchill-Coleman
Secretary

30 June 2011

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

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

We have audited the financial statements of NATS (Services) Limited for the year ended 31 March 2011 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 26. The financial reporting that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion:

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

Separate opinion in relation to IFRS as issued by the IASB

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

In our opinion the 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the company; or
- the company's 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 Auditors
Southampton, United Kingdom

30 June 2011

Income statement
for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 Before Exceptional items £m	Exceptional items (Note 6a) £m	Total £m	Year ended 31 March 2010 Before Exceptional items £m	Exceptional items (Note 6a) £m	Total £m
Revenue	4	193.4	-	193.4	187.1	-	187.1
Staff costs	7	(90.4)	(3.4)	(93.8)	(98.6)	(2.1)	(100.7)
Services and materials		(26.8)	-	(26.8)	(26.7)	-	(26.7)
Repairs and maintenance		(6.4)	-	(6.4)	(7.5)	-	(7.5)
External research and development		(0.1)	-	(0.1)	-	-	-
Depreciation, amortisation and impairment	6	(3.7)	-	(3.7)	(3.4)	-	(3.4)
Loss on disposal of non-current assets		-	-	-	(0.3)	-	(0.3)
Other operating charges		(28.1)	-	(28.1)	(26.3)	-	(26.3)
Deferred grants released	6	0.3	-	0.3	0.3	-	0.3
Net operating costs		(155.2)	(3.4)	(158.6)	(162.5)	(2.1)	(164.6)
Operating profit	6	38.2	(3.4)	34.8	24.6	(2.1)	22.5
Investment revenue	8	0.8	-	0.8	0.8	-	0.8
Profit before tax		39.0	(3.4)	35.6	25.4	(2.1)	23.3
Tax	9	(10.3)	0.9	(9.4)	(7.1)	0.6	(6.5)
Profit for the year attributable to equity shareholders		28.7	(2.5)	26.2	18.3	(1.5)	16.8

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

Statement of comprehensive income
for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the year		26.2	16.8
Other comprehensive (expense)/income for the year			
Actuarial (loss)/gain on defined benefit pension scheme	22	(16.9)	33.4
Change in fair value of hedging derivatives		0.1	(0.3)
Deferred tax relating to components of other comprehensive income/(expense)	18	4.4	(9.3)
		(12.4)	23.8
Total comprehensive income for the year attributable to equity shareholders		13.8	40.6

Balance sheet
at 31 March 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Intangible assets	11	1.6	1.7
Property, plant and equipment	12	19.0	21.6
Investments	24	0.1	-
Retirement benefit asset	22	9.6	16.5
Trade and other receivables	13	22.5	24.9
		52.8	64.7
Current assets			
Financial assets	14	0.1	-
Trade and other receivables	13	37.5	38.4
Cash and cash equivalents	15	95.3	75.5
		132.9	113.9
Total assets		185.7	178.6
Current liabilities			
Trade and other payables	16	(30.8)	(31.3)
Provisions	17	-	(0.2)
Current tax liabilities		(4.7)	(3.6)
		(35.5)	(35.1)
Net current assets		97.4	78.8
Non-current liabilities			
Trade and other payables	16	(7.8)	(7.4)
Deferred tax liability	18	(4.1)	(6.6)
		(11.9)	(14.0)
Total liabilities		(47.4)	(49.1)
Net assets		138.3	129.5
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		0.1	-
Other reserves		0.9	1.2
Retained earnings		137.2	128.2
Total equity		138.3	129.5

The financial statements (Company Number 04129270) were approved by the Board of directors and authorised for issue on 30 June 2011 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Statement of changes in equity
for the year ended 31 March 2011

	Share capital £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
	Equity attributable to equity holders of the company				
At 1 April 2009	0.1	0.2	1.5	87.1	88.9
Profit for the year	-	-	-	16.8	16.8
Other comprehensive (expense)/income for the year	-	(0.2)	(0.3)	24.3	23.8
Total comprehensive (expense)/income for the year	-	(0.2)	(0.3)	41.1	40.6
Dividends paid	-	-	-	-	-
At 31 March 2010	0.1	-	1.2	128.2	129.5
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

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

Cash flow statement
for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Net cash flow from operating activities	20	25.8	22.0
Cash flows from investing activities			
Interest received		0.8	0.8
Purchase of intangible assets, property, plant and equipment		(1.3)	(4.1)
Costs on disposal of property, plant and equipment		-	(0.2)
Changes in short-term investments		-	10.0
Investment in joint venture		(0.1)	-
Net cash (outflow)/inflow from investing activities		(0.6)	6.5
Cash flows from financing activities			
Loans (advanced to)/repaid by fellow subsidiary		(0.4)	2.9
Dividends paid		(5.0)	-
Net cash (outflow)/inflow from financing activities		(5.4)	2.9
Increase in cash and cash equivalents during the year		19.8	31.4
Cash and cash equivalents at 1 April		75.5	44.1
Cash and cash equivalents at 31 March		95.3	75.5

1. General information

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 13. The nature of the company's operations and its principal activities are set out in the directors' report.

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 28. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

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

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

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

The following amendments were made as part of the *Improvements to IFRSs (2009)*: Amendments to IFRS 2: *Share-based Payment*, which confirms that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2; Amendments to IAS 17: *Leases*, which clarifies that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17; Amendments to IAS 39: *Financial Instruments: Recognition and Measurement*; and IAS 32 (Amended): *Classification of Rights Issues*. The adoption of these Standards has not had any significant impact on the amounts reported or disclosed in these financial statements.

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

At the date of authorisation of these financial statements the following Standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU): IFRS 9: *Financial Instruments*; IAS 24 (Amended): *Related Party Disclosures*; *Improvements to IFRSs (May 2010)*; IFRS 10: *Consolidated Financial Statements*; IFRS 11: *Joint Arrangements*; IFRS 12: *Disclosure of Interests in Other Entities*; IFRS 13 *Fair Value Measurement* and IAS 19 (Amended): *Employee benefits*. The adoption of IFRS 9 and IFRS 13, which will be effective for the year beginning on 1

April 2013, will impact both the measurement and disclosures of financial instruments. The adoption of IFRS 10, IFRS 11 and IFRS 12, which will be effective for the year beginning 1 April 2013, may impact the disclosures of the company's investments in NATSNav and FerroNATS. The principal impact of the adoption of IAS 19 (Amended) will be to require disaggregation of defined benefit costs into components, recognition of re-measurements in other comprehensive income and enhance disclosures about the defined benefit scheme. This standard will be effective for the year beginning 1 April 2013. The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the group in future periods.

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

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;
- Services to London Approach service (engineering services and use of communications facilities);
- 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:

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

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

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.

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 are the actual costs 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.

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 the 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 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 agreed with the customer.

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

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

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

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 29 March 2011 under the Provisional Collection of Taxes Act, the corporation tax rate was reduced to 26% with effect from 1 April 2011. The Government has also indicated that it intends to enact future reductions in the main UK tax rate of 1% each year down to 23% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the 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 substantially enacted at the balance sheet date, this is considered a non-adjusting event in accordance with IAS 10 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

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 22. 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 assets: 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.

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 22 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. 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 2011.

4. Revenue

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

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Airport air traffic services	159.0	152.1
Miscellaneous services	18.0	18.2
Intercompany income	16.4	16.8
	193.4	187.1

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 2011	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue			
Revenue from external customers	159.0	18.0	177.0
Revenue from internal customers	-	16.4	16.4
Total revenue	159.0	34.4	193.4
Segmental result	29.8	5.0	34.8
Operating profit			34.8
Investment revenue			0.8
Profit before tax			35.6
Tax			(9.4)
Profit for the year			26.2
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	52.5	14.4	66.9
Unallocated assets			118.8
Total assets			185.7
Liabilities			
Segmental liabilities	(32.1)	(6.5)	(38.6)
Unallocated liabilities			(8.8)
Total liabilities			(47.4)

5. Business and geographical segments (continued)

Year ended 31 March 2010	Airport air traffic services	Miscellaneous services	Total
	£m	£m	£m
Revenue			
Revenue from external customers	152.1	18.2	170.3
Revenue from internal customers	-	16.8	16.8
Total revenue	152.1	35.0	187.1
Segmental result	18.8	3.7	22.5
Operating profit			22.5
Investment revenue			0.8
Profit before tax			23.3
Tax			(6.5)
Profit for the year			16.8
Other information			
Exceptional items (net charge)	1.9	0.2	2.1
Capital expenditure	2.8	1.5	4.3
Depreciation and amortisation	2.6	0.3	2.9
Impairment losses recognised in income	0.4	0.1	0.5
Deferred grants released	(0.3)	-	(0.3)
Balance sheet			
Assets			
Segmental assets	52.2	27.9	80.1
Unallocated assets			98.5
Total assets			178.6
Liabilities			
Segmental liabilities	(32.0)	(6.9)	(38.9)
Unallocated liabilities			(10.2)
Total liabilities			(49.1)

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 2011	Year ended 31 March 2010
	£m	£m
UK	190.2	174.9
Rest of Europe	1.7	3.6
Other	1.5	8.6
Total	193.4	187.1

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

Major customers
Included in revenues arising from airport air traffic services are revenues of £99.5m (2010: £107.9m) 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 2011 £m	Year ended 31 March 2010 £m
Voluntary redundancy costs (including pension augmentation costs, see note 7a)	3.4	2.1

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

b) Other items

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
CAA regulatory charges	2.8	2.7
Depreciation, amortisation and impairments	3.4	3.4
Amortisation of internally generated intangible assets	0.3	-
Deferred grants released	(0.3)	(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 2011 £m	Year ended 31 March 2010 £m
Net charges for services provided by parent undertaking	3.1	3.0
Charges for services provided by other group companies	15.5	15.2

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 for all other staff related costs which it incurs on behalf of the employees seconded to NATS Services. Under the Intercompany Services Agreement (ICA) NERL provides certain services to NATS Services. The MSA and ICA are explained in more detail in note 2.

7. Staff costs

a) Staff costs

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	69.7	69.3
Social security costs	6.3	6.7
Pension costs (note 7b)	18.0	25.1
	94.0	101.1
Less: amounts capitalised	(0.2)	(0.4)
	93.8	100.7

Wages and salaries includes redundancy costs of £2.8m (2010: £1.6m), share-based payment charges, other allowances and holiday pay. Pension costs include £0.6m (2010: £0.5m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

NATS, 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. NATS Services 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 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 2011 £m	Year ended 31 March 2010 £m
Defined benefit pension scheme costs (note 22)	17.8	25.1
Defined contribution pension scheme costs	0.2	-
	18.0	25.1

c) Staff numbers

The monthly average number of employees (including executive directors) was:	Year ended 31 March 2011 Number	Year ended 31 March 2010 Number
Air traffic controllers	569	578
Air traffic service assistants	191	215
Engineers	132	154
Others	162	173
	1,054	1,120

8. Investment revenue

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest on bank deposits	0.4	0.4
Interest receivable from intercompany loans	0.3	0.4
Other	0.1	-
	0.8	0.8

9. Tax

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Current tax (including a charge of nil in respect of prior years, 2010: £0.3m charge)	(7.5)	(7.2)
Deferred tax (See note 18. Including a credit of £0.3m in respect of prior years, 2010: £0.3m credit)	(1.9)	0.7
	(9.4)	(6.5)

Corporation tax is calculated at 28% (2010: 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 2011 £m	%	Year ended 31 March 2010 £m	%
Profit on ordinary activities before tax	35.6		23.3	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2010: 28%)	(10.0)	(28%)	(6.5)	(28%)
Tax effect of group relief	0.1	0%	0.1	0%
Tax effect of corporation tax rate reduction to 26% from 1 April 2011	0.5	1%	-	0%
Other permanent differences	-	0%	(0.1)	(0%)
Tax charge for year at the effective tax rate of 26.4% (2010: 28.0%)	(9.4)	(26%)	(6.5)	(28%)
Deferred tax (credit)/charge taken directly to equity (see note 18)	(4.4)		9.3	

10. Dividends

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year of £50.00 (2010: £nil) per ordinary share	5.0	-

In May 2011, the Board declared and paid an interim dividend for the year ending 31 March 2012 of £53.00 per share (totalling £5.3m) 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 2009	-	0.3	0.1	0.4
Additions internally generated	-	-	0.2	0.2
Additions externally acquired	0.1	-	1.0	1.1
Other transfers	-	0.1	-	0.1
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 31 March 2011	1.6	0.4	-	2.0
Accumulated amortisation				
At 1 April 2009	-	-	-	-
Charge for the year	-	0.1	-	0.1
At 1 April 2010	-	0.1	-	0.1
Charge for the year	0.2	0.1	-	0.3
At 31 March 2011	0.2	0.2	-	0.4
Carrying amount				
At 31 March 2011	1.4	0.2	-	1.6
At 31 March 2010	0.1	0.3	1.3	1.7

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 2009	0.7	10.0	28.7	3.1	8.0	50.5
Additions during the year	-	-	0.7	-	2.3	3.0
Disposals during the year	-	-	(2.5)	(0.1)	(0.6)	(3.2)
Other transfers during the year	-	-	5.2	-	(5.3)	(0.1)
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 31 March 2011	0.7	9.5	31.4	2.9	3.6	48.1
Accumulated depreciation and impairment						
At 1 April 2009	0.7	8.8	18.0	0.8	-	28.3
Provided during the year	-	0.2	2.3	0.3	-	2.8
Provisions for impairment	-	-	-	-	0.5	0.5
Utilisation of impairment provision	-	-	-	-	(0.5)	(0.5)
Disposals during the year	-	-	(2.4)	(0.1)	-	(2.5)
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 31 March 2011	0.7	8.6	18.6	1.2	-	29.1
Carrying amount						
At 31 March 2011	-	0.9	12.8	1.7	3.6	19.0
At 31 March 2010	-	1.0	14.2	2.0	4.4	21.6

13. Financial and other assets

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

Trade and other receivables

	2011 £m	2010 £m
Non-current		
Intercompany loan (interest bearing)	22.5	22.5
Accrued income	-	2.4
	22.5	24.9
Current		
Receivable from customers gross	8.6	7.1
Allowance for doubtful debts	(0.8)	(0.7)
	7.8	6.4
Amounts recoverable under contracts	5.4	8.0
Other debtors	-	0.3
Prepayments	4.3	4.5
Intercompany loan (interest bearing)	0.9	0.5
Accrued income	19.1	18.7
	37.5	38.4

The average credit period taken on sales of services is 28 days (2010: 28 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.8m (2010: £0.7m). 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

	2011 £m	2010 £m
30 - 90 days	0.6	0.2
91 - 150 days	0.6	0.4
	1.2	0.6

Movement in the allowance for doubtful debts	2011 £m	2010 £m
Balance at the beginning of the period	0.7	0.5
Increase in allowance recognised in the income statement	0.1	0.2
Balance at end of year	0.8	0.7

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 (2010: £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.

Ageing of impaired receivables	2011 £m	2010 £m
Current	-	0.2
30 - 90 days	-	-
90 - 365 days	0.8	0.5
	0.8	0.7

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 2011, NATS Services provided unsecured loans totalling £22.5m to NERL (2010: £22.5m). These loans are subordinate to NERL's senior debt and, as such, may not be repaid until such debt is discharged. The loan bears interest at a rate equal to six month LIBOR plus an agreed margin, the current interest rate is 1.40% (2010: 1.59%). In addition, at 31 March 2011, NATS Services provided unsecured loans of £0.9m (2010: £0.5m) to NERL. These are 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 £151.0m (2010: £134.3m).

14. Derivative financial instruments

Fair value asset of derivative financial instruments

	2011 £m	2010 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	-

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

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:

	2011 £m	2010 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	36.6	37.7
Cash and cash equivalents and short-term investments	95.3	75.5
Derivative financial instruments in designated hedge accounting relationships	0.1	-
	132.0	113.2
Financial liabilities		
Amortised cost	20.9	19.9

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

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 2011.

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

15. Financial instruments (continued)

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	
	2011	2010	2011	2010
	£m	£m	£m	£m
Euro	0.8	1.3	-	-
US Dollar	-	0.4	-	(1.5)
Canadian Dollar	-	0.5	(0.1)	(0.9)
Norwegian Krone	0.2	-	(0.1)	-
	1.0	2.2	(0.2)	(2.4)

Foreign currency sensitivity analysis
NATS Services held foreign currency cash balances in Euro and Norwegian Krone at 31 March 2011.

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.

Currency	2011 Impact £m	2010 Impact £m
Euro	(0.2)	(0.2)
US Dollar	-	0.1
Canadian Dollar	-	-
Norwegian Krone	-	-
	(0.2)	(0.1)

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 2011 the company had the following outstanding forward foreign exchange contracts:

2011				2010			
Euro bought	€m	£m	Average exchange rate	Euro bought	€m	£m	Average exchange rate
0-3 months	-	-	-	0-3 months	0.6	0.5	0.8205
Over 3 months	1.1	0.9	0.8389	Over 3 months	-	-	-
	1.1	0.9	0.8389		0.6	0.5	0.8205
US Dollar bought	$m	£m	Average exchange rate	US Dollar bought	$m	£m	Average exchange rate
0-3 months	-	-	-	0-3 months	0.3	0.2	1.4715
NOK bought	NOK m	£m	Average exchange rate	NOK bought	NOK m	£m	Average exchange rate
Over 3 months	1.9	0.2	9.4465	Over 3 months	-	-	-

15. Financial instruments (continued)

At 31 March 2011, 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 (2010: £nil). All of these contracts will mature within the first nine months of the next 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 2011 or 31 March 2010 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure
The company held cash deposits as follows:

Currency	2011 Amount £m	2011 Economic interest rate %	2011 Average maturity days	2010 Amount £m	2010 Economic interest rate %	2010 Average maturity days
Sterling	94.4	0.5	3	73.7	0.5	3
Euro	0.7	0.6	5	0.9	0.1	6
US Dollar	-	-	-	0.4	-	-
Canadian Dollar	-	-	-	0.5	-	-
Norwegian Krone	0.2	-	-	-	-	-
	95.3			75.5		

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

Currency	2011 Intercompany loans Amount £m	2011 Economic interest rate %	2011 Weighted average time for which rate is fixed days	2010 Intercompany Loans Amount £m	2010 Economic interest rate %	2010 Weighted average time for which rate is fixed days
Sterling	23.4	1.3	183	23.0	1.2	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%.

	2011 Impact £m	2010 Impact £m
Cash on deposit (2011: £95.3m, 2010: £75.5m)	1.0	0.8
Intercompany loans (2011: £23.4m, 2010: £23.0m)	0.2	0.2
	1.2	1.0

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.

15. Financial instruments (continued)

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

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

	2011			2010		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating (%)	Number of institutions	£m	By credit rating (%)
AA	1	27.0	28.4	1	20.0	26.5
AA-	-	-	-	-	-	-
A+	6	67.6	70.9	5	48.0	63.6
A	1	0.7	0.7	-	-	-
A-	-	-	-	1	7.5	9.9
		95.3	100.0		75.5	100.0

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 2011 (31 March 2010: uncommitted overdraft of £2.0m).

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	
	2011 £m	2010 £m	2011 £m	2010 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	36.6	37.7	36.6	37.7
Cash and cash equivalents	95.3	75.5	95.3	75.5
Derivative instruments in designated hedge accounting relationships	0.1	-	0.1	-
	132.0	113.2	132.0	113.2
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	20.9	19.9	20.9	19.9

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:

	2011 £m	2010 £m
Current		
Trade payables	1.1	3.0
Amounts due to other group undertakings	9.6	6.0
Other payables	10.2	10.7
Accruals and deferred income	9.9	11.6
	30.8	31.3
Non-current		
Accruals and deferred income (including deferred grants)	7.8	7.4
	38.6	38.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 23 days (2010: 25 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Provisions

	Other £m
At 1 April 2010	0.2
Additional provision in the year	-
Utilisation of provision	(0.2)
At 31 March 2011	-

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

Redundancy costs are recharged by the company's parent through the inter-company charges and are not shown on NSL's Balance sheet.

18. 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 2009	2.4	(4.1)	-	(0.3)	(2.0)
(Credit)/charge to income	-	(0.7)	0.1	(0.1)	(0.7)
Charge/(credit) to equity	-	9.4	(0.1)	-	9.3
At 31 March 2010	2.4	4.6	-	(0.4)	6.6
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

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.

	2011 £m	2010 £m
Deferred tax liabilities	(4.5)	(7.0)
Deferred tax assets	0.4	0.4
	(4.1)	(6.6)

19. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2011 and 31 March 2010	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Operating profit from continuing operations	34.8	22.5
Adjustments for:		
Depreciation of property, plant and equipment	3.5	3.4
Net loss on disposal of property, plant and equipment	-	0.3
Amortisation of intangible assets	0.2	-
Deferred grants released	(0.3)	(0.3)
Non-cash element of charge for pension costs	(10.0)	2.6
(Decrease)/increase in provisions	(0.2)	0.2
Operating cash flows before movements in working capital	28.0	28.7
Decrease in contract work in progress	2.6	2.6
Decrease/(increase) in trade and other receivables	1.2	(2.6)
(Decrease)/increase in trade and other payables	(3.2)	2.2
Increase/(decrease) in amounts due to other group undertakings	3.6	(1.2)
Cash generated from operations	32.2	29.7
Tax paid	(6.4)	(7.7)
Net cash flow from operating activities	25.8	22.0

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

21. Financial commitments

	2011 £m	2010 £m
Capital commitments contracted but not provided for in the accounts.	0.2	0.2
Minimum lease payments under operating leases recognised in income for the year.	16.0	15.4

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:

	2011 £m	2010 £m
Within one year	16.1	15.3
In the second to fifth years inclusive	31.0	38.2
After five years	9.2	10.7
	56.3	64.2

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.

Comparatives have been restated.

Guarantees
NATS Services has committed to providing its subsidiary NATSNav Limited with financial support. NATSNav had net liabilities at 31 March 2011 of £0.4m (2010: £0.4m).

22. 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 fully funded benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Upon transfer of NATS (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.

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 seconds 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 £27.8m (2010: £22.5m). This amount included £3.4m (2010: £3.6m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 38.4% (2010: 27.5%) of pensionable pay. NATS Services increased these cash contributions from 30.0% to 36.7% of pensionable pay, equivalent to the future service cost, in May 2010. In response to the triennial valuation, NATS has also agreed a deficit recovery plan with Trustees and from January 2011 it made additional contributions of £2.0m per month, NATS Services' share being c. £0.5m per month (for calendar year 2011), increasing these by 3.5% each January thereafter.

22. Retirement benefit scheme (continued)

Company's accounting valuation under international accounting standards
The pension cost under International Accounting Standard 19: Employee benefits, relating to the scheme is assessed in accordance with the advice of independent qualified actuaries.

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

A Trustees' funding assessment was carried out as at 31 December 2009 and is updated to 31 March 2011 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

The mortality assumptions have been drawn from actuarial tables 82% S1PMA and 101% S1PFA with future improvements in line with 80%/60% long cohort projections for male/female members, subject to a minimum improvement of 1.25% (2010: 82% S1NMA and 101% S1NFA medium cohort with a 1% underpin). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.9 years (2010: 27.6 years) and a female pensioner is 28.9 years (2010: 28.7 years). Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 30.9 years (2010: 29.3 years) and for females to 30.7 years (2010: 30.2 years).

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

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

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

	2011 £m	2010 £m
Current service cost	(24.3)	(22.8)
Past service cost	(0.6)	(0.6)
Expected return on scheme assets	41.0	28.1
Interest cost on scheme liabilities	(33.9)	(29.8)
Total defined benefit charge recognised in arriving at operating profit	(17.8)	(25.1)

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

	2011 £m	2010 £m
Actual return less expected return on scheme assets	(26.7)	127.1
Experience gains and losses arising on scheme liabilities	40.6	41.6
Changes in assumptions underlying the present value of scheme liabilities	(30.8)	(135.3)
	(16.9)	33.4

22. 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:

	2011 £m	2010 £m
Fair value of scheme assets	639.6	610.3
Present value of defined benefit obligations	(630.0)	(593.8)
Surplus in scheme	9.6	16.5

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

	2011 £m	2010 £m
At 1 April	610.3	446.9
Expected return on scheme assets	41.0	28.1
Actuarial gains and losses	(26.7)	127.1
Contributions from scheme members	0.1	0.1
Contributions from company	27.8	22.5
Benefits paid	(12.9)	(14.4)
At 31 March	639.6	610.3

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

	2011 £m	2010 £m
At 1 April	(593.8)	(461.2)
Current service cost	(24.3)	(22.8)
Past service costs	(0.6)	(0.6)
Interest cost	(33.9)	(29.8)
Actuarial gains and losses	9.8	(93.7)
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	12.9	14.4
At 31 March	(630.0)	(593.8)

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

	Fair value of assets		Expected return	
	2011 £m	2010 £m	2011 %	2010 %
Equity instruments	335.9	320.6	7.35	7.55
Property and other assets	94.3	79.2	7.35	7.55
Bonds	198.0	202.0	4.70	4.90
Cash	11.4	8.5	4.70	4.90
	639.6	610.3	6.48	6.64

The five year history of experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	(630.0)	(593.8)	(461.2)	(493.3)	(525.8)
Fair value of scheme assets	639.6	610.3	446.9	577.1	574.1
Surplus/(deficit) in the scheme	9.6	16.5	(14.3)	83.8	48.3
Experience adjustments in scheme liabilities					
Amount (£m)	40.6	41.6	8.2	21.0	(4.8)
Percentage of scheme liabilities	(6.4%)	(7.0%)	(1.8%)	(4.3%)	0.9%
Experience adjustments in scheme assets					
Amount (£m)	(26.7)	127.1	(177.0)	(37.7)	9.7
Percentage of scheme assets	(4.2%)	20.8%	(39.6%)	(6.5%)	1.7%

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2012 is £33m, including salary sacrifice contributions estimated at £4m.

23. 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).

AG is a consortium of seven airlines: British Airways, bmi, easyJet, Monarch, Thomas Cook, Thomson Airways and Virgin Atlantic. 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. Balances for 2010 include the contract with BAA Airports Limited for Gatwick airport up until its sale to Global Infrastructure Partners on 4 December 2009.

Trading transactions

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

	Sales		Purchases		Amounts owed by related		Amounts owed to related	
	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
BAA Airports Ltd	100.6	109.0	8.6	10.5	13.6	15.9	7.2	3.4
DfT	0.1	-	-	-	-	-	-	-
MoD	4.0	4.4	-	-	0.7	0.4	-	-

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 21. A provision of £0.5m (2010: £0.3m) has been made for doubtful debts in respect of amounts owed by related parties.

The Report of the Directors on page 10 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.

24. 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 European Economic Interest Grouping (EEIG). The EEIG is currently being wound up and the activities are now being carried out through European Satellite Services Provider (ESSP) SAS which is a corporate entity providing satellite based services to the European Commission.

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 21 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). NATS Services has not presented summarised financial information relating to the period to 31 March 2011, as the joint venture has had no significant transactions since incorporation and has not yet prepared statutory financial statements.

25. Parent Undertaking

The company's ultimate parent undertaking and controlling party is NATS Holdings, a private 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.

26. Events After the Reporting Period

In May 2011, the Board declared and paid an interim dividend for the year ending 31 March 2012 of £53.00 per share (totalling £5.3m) to its parent company.