NATS (En Route) plc
Financial statements
for the year ended 31 March 2011

Company Number: 04129273

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Company Secretary

Richard Churchill-Coleman

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Auditors

Deloitte LLP

This review presents a summary of the operating performance and results, financial position and cash flows of NATS (En Route) plc (NERL) for the year ended 31 March 2011.

Highlights

- NERL handled 2.1 million flights (2010: 2.2 million) and maintained its safety record, with no attributable risk-bearing airprox.
- Average delay per flight was 4.3 seconds, exactly in line with the previous year.
- By providing customers with more efficient flight profiles NERL saved them 12,000 tonnes of fuel, equivalent to 38,000 tonnes of CO_2 emissions, worth approximately £7.5m at average fuel prices and exchange rates for 2011.
- The price control review for the economically regulated en route business for the 4 calendar years 2011 to 2014 (control period 3 or CP3) was concluded. It set challenging service performance and operating cost efficiency targets, with a focus on ensuring that good past performance is sustained.
- Revenues increased by £16m to £616m (2010: £600m) mainly reflecting increased regulatory allowances following the outcome of the price control review.
- Profit before tax improved by £16m to £71m (2010: £55m).
- In line with its capital investment plan for the year, the company invested £122m (2010: £138m) in air traffic control infrastructure and systems. Over the last 5 years the en route business invested £675m.
- Net debt at £652m (2010:£624m) was £28m more than previously. The level of gearing was 57% (2010: 55%).
- Shareholders received dividends of £35m (2010: nil).

Volcanic ash disruption

In April 2010, we saw first hand the amazing commitment, professionalism and flexibility of our workforce when the Eyjafjallajökull volcano erupted in Iceland bringing flights to a standstill across Europe. The ash cloud presented an unprecedented situation for aviation, given the unequivocal guidance from the International Civil Aviation Organisation (ICAO) to "Avoid Avoid Avoid". These factors led to the CAA restricting airspace use in the UK for 6 days, with many other European countries following suit. The disruption was extremely costly for the industry and resulted in a 21% reduction in flights in April 2010. The loss of revenue to NERL was £5m.

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

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

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

Regulatory Price Review

The CAA concluded its review of en route charges for the period 2011-14 (Control Period 3). Our customer-centric approach to this review was, in our view, highly successful as it provided deep insights into their requirements and priorities for safety, service quality, fuel efficiency, cost efficiency, airspace capacity, capital investment and European initiatives. It also allowed customers to understand the operational and financial constraints that face the company fulfilling these requirements.

Overall, we believe the review represents a balanced outcome for both us and our customers. It provides us with a £2.2bn contract (expressed by the regulator in 2008/9 prices) which allows the resources to meet our operating and long-term investment plans and sets tough service performance and cost efficiency targets. It also includes provision for an environmental metric, currently being developed.

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

Single European Sky

European coordination is more important than ever in terms of achieving the Single European Sky (SES) which is driving the evolution of Europe's air traffic management (ATM) industry. With new network performance measurements being introduced across Europe in 2012, UK performance may increasingly be influenced by actions taken across the rest of the European network. Over the past year, approximately 80% of the delay to flights operating to/from the UK was generated from outside the UK.

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

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

The UK/Ireland FAB is the most mature in existence. We have a high level of customer, military and Trades Unions involvement and we are delivering tangible operational and financial benefits. Work this year included the creation of a route-free block of upper air space allowing airlines to fly optimal flight paths, night-time fuel-saving routes and the introduction of North Atlantic continuous descent approaches for Manchester arrivals. We estimate that over the next five years some 50,000 tonnes of CO_2 will have been saved annually through these projects, saving some £48 million at average fuel prices and exchange rates for 2011 – four times the target.

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

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

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

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

Investment

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

Projects such as Electronic Flight Data (EFD) and interim Future Area Control Tools (iFACTS) will help reduce controller workload enabling them to handle more traffic and increase system capacity.

The first stage of a two-stage transition to EFD at Prestwick was completed in January. This is a highly complex project replacing handwritten paper flight progress strips and providing the right environment for future tools developments. We continue to make improvements to the system during this financial year to ensure that the performance of the system will meet summer traffic peaks. During this coming summer, controllers will still be able to operate in parallel on paper flight strips so as to ensure our service is as efficient as possible.

iFACTS is expected to be fully operational at Swanwick area control in the 2011/12 financial year. It will provide controllers with an advanced set of support tools in order to reduce workload and so increase the amount of traffic that can be handled safely. These tools, based on trajectory prediction and medium term conflict detection, provide decision making support and facilitate the early detection of potential conflicts.

Environment

In 2008, the company became the first air traffic management company in the world to calculate the baseline CO_2 performance of its airspace and to set a clear target to reduce air traffic related CO_2 by an average of 10% per flight, compared to 2006 levels, by 2020 even with the predicted increase in traffic.

Customers have confirmed their very high priority for flight profiles that reduce fuel burn and emissions and we are developing with them and the CAA a flight efficiency metric to incentivise our environmental performance from 2012.

In the past year we enabled fuel savings of 12,000 tonnes from delivering more efficient route profiles, and other joint initiatives with airlines, equivalent to 38,000 tonnes of CO_2. At average fuel prices and exchange rates for 2011, this equates to around £7.5m in savings for customers. For the 2012 financial year, we have targeted savings of 23,000 tonnes of fuel (73,000 tonnes of CO_2), worth around £14.0m.

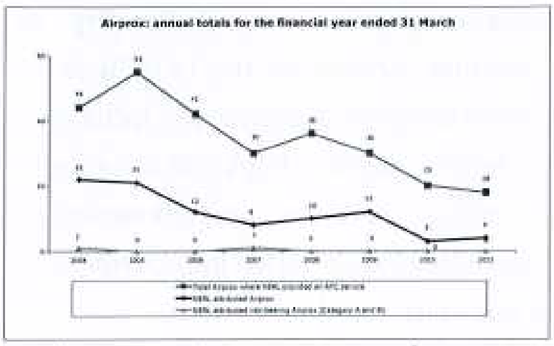
A highlight of last year through our work with the cross-industry initiative Sustainable Aviation, was testing a "Perfect Flight" between Heathrow and Edinburgh. BAA, British Airways and NATS coordinated to ensure every stage of the journey was calibrated to achieve optimal performance. The flight used around 350kg less fuel generating around one tonne less CO_2 (about 11%) than would be typical for the route. While the complexity of UK airspace prevents us from doing this every day, it has demonstrated the potential for improvement.

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

Proactive in Safety

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

Our high level safety objectives for the last two years have been to achieve zero NERL attributable risk bearing airprox (see table) and a 36% (roughly 20% each year) reduction in our safety risk index. Against these challenging objectives we have achieved zero NERL attributable risk bearing airprox and a 31% (28% in 2010 and 5% in 2011) reduction in our safety risk index.



Note: an Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.

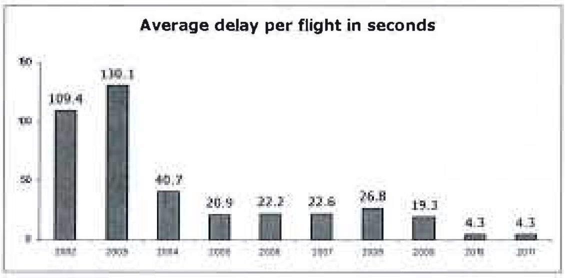
Our performance is evidence of our systematic and ongoing programme of safety improvement covering human performance, technical systems, airspace procedure and design, and a focus on key operational risks.

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

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

Tuned in to Customers

We continue to engage our customers and embed customer focus throughout our business. Our objective is to provide consistent service performance to customers and minimise the impact of implementing our capital programme. Overall for 2011 we maintained our excellent delay performance, which averaged 4.3 seconds per flight (2010: 4.3 seconds). Of this, 0.5 seconds was attributable to the introduction of new technology.



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

We have also continued to develop our contingency capability to ensure that service recovers quickly to be capable of handling 85% of peak pre-incident demand within ten days of a catastrophic incident at either our Swanwick or Prestwick centres.
Customer engagement is centred around the Operational and Safety Partnership Agreements (OPA and SPA) where we work together towards delivering operational improvements and collaboratively agreeing priorities. These are regarded as best practice in terms of engagement with customer airlines.
The results of our latest Customer Survey, to establish how well we meet customer priorities and expectations, indicate that our performance is getting better with a satisfaction index of 81% compared with 77% previously.

Driving Efficiency

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

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

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

Liberating and Inspiring People

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

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

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

Acting Responsibly

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

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

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

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

Great Partners to Work With

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

We are now seen as a partner of choice, whether by other ANSPs in areas such as alliance and technology work, or by commercial partners seeing opportunities with a forward-thinking, creative company.

Overview of financial performance

The company's results are summarised in the table below:

	2011 £m	2010 £m
Turnover	**615.7**	599.7
Operating profit		
- Operating profit before exceptional items	131.5	112.5
- Exceptional operating costs (net)	(8.0)	(20.2)
	123.5	92.3
Profit before taxation		
- Profit before tax and exceptional items	78.8	75.1
- Exceptional items (net)	(8.0)	(20.2)
	70.8	54.9
Profit after tax		
- Profit after tax before exceptional items	66.9	55.6
- Exceptional items (net)	(5.8)	(14.5)
	61.1	41.1

Significant factors impacting this year's results included:

- the new price control for UK en route services from January 2011;
- the benefit of achieving operating cost savings targets, and a lower pension accrual rate;
- lower staff redundancy and site relocation costs, which are material in terms of their size and incidence and reported as exceptional items; and
- the impact on the market value of the index-linked swap contract from an increase in interest payable.

The headline profit figure of £70.8m (2010: £54.9m) includes exceptional items in this year and the last.
The underlying result, before these items, was a profit before tax of £78.8m (2010: £75.1m), £3.7m higher than last year.

Features of the price control review

As noted in the business review above, the outcome of the price control review secures £2.2bn (expressed by the regulator in 2008/9 prices) of revenue for the next four years and so maintains NERL's long term financial stability and allows it to focus on service delivery, including the introduction of new technology. The revenue allowances assume a pre-tax weighted average cost of capital of 7.0%, compared with 6.75% for CP2. The review provides three key risk mitigations: traffic volume risk sharing, a pension pass through mechanism and a gearing target and cap. It also provides NERL with opportunities to grow its business by relaxing the limit on non-regulated income from 3% to 4.5% of revenues.

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

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

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

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

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

Revenues

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

In 2011 we handled 2.1 million flights (2010: 2.2 million). Turnover increased by £16.0m to £615.7m (2010: £599.7m) and included the effect of the new price control for UK en route services from January 2011. Revenues are explained in more detail by business segment below.

Operating costs

Before exceptional items and asset-related charges, operating costs decreased by £15.6m to £387.2m (2010: £402.8m). Operating costs for the year are analysed as follows:

	2011 £m	2010 £m
Before exceptional items:		
Employee costs	**(261.9)**	(278.4)
Services and materials	**(49.1)**	(44.7)
Repairs and maintenance	**(26.3)**	(29.0)
External research and development	**(0.1)**	(0.3)
Other operating charges (net)	**(49.8)**	(50.4)
	(387.2)	(402.8)
Depreciation, amortisation and impairment	**(98.1)**	(86.1)
Deferred grants	**1.4**	1.7
Loss on disposal of non-current assets	**(0.3)**	-
Operating costs	**(484.2)**	(487.2)
Exceptional operating items (net)	**(8.0)**	(20.2)

Employee costs of £261.9m (2010: £278.4m) decreased by 5.9% on the previous year and accounted for 54% (2010: 57%) of the company's total operating costs.

Pension charges were £21.5m lower at £57.8m (2010: £79.3m) mainly due to a reduction in the accrual rate to 21.8%, before salary sacrifice (2010: 31.6%). This reflected the scheme's financial position at the start of the year and actuarial assumptions.

The average number of staff employed during the year was 3,539 (2010: 3,741) and those in post at 31 March 2011 fell by 96 (2.7%) to 3,514 (2010: 3,610). This is evidence of the significant progress that we have made in reducing non-controller staff, saving salary costs of £11m. However, pay increases, including an allowance for the January 2011 pay round that is currently being negotiated, added £5.6m to the payroll and a higher valuation for employee shares, overtime payments associated with developing EFD and iFACTS, and lower levels of labour capitalisation also increased staff costs by £9.9m.

Non-staff costs at £125.3m (2010: £124.4m) increased by £0.9m or 0.7%. However, this included the write-off of bad debts of £1.1m that the company had expected to be able to recover through the price control review under the conditions set 5 years ago by the CAA.

Depreciation, amortisation and impairment charges of £98.1m (2010: £86.1m) were £12.0m higher than the previous year. This included the impairment of £12.9m of work undertaken to develop the next generation of the company's flight data processing systems following a review of the delivery strategy for this technology.

Exceptional items

The results included exceptional staff redundancy costs of £6.1m (2010: £19.0m) and £1.9m (2010: £6.3m) for the costs of relocating staff, including moving Hurn training college to the company's Corporate and Technical Centre in August 2011. Prior year balances included the benefit of a one-off refund of business rates.

	2011 £m	2010 £m
Redundancy and related costs	(6.1)	(19.0)
Relocation costs	(1.9)	(6.3)
Swanwick rates rebate relating to prior years	-	5.1
	(8.0)	(20.2)
Tax effect of the items above	2.2	5.7
	(5.8)	(14.5)

Net finance costs

Net finance costs at £52.7m (2010: £37.4m) were £15.3m higher than last year. This is mainly accounted for by the movement in the market value liability of the index-linked swap contract. This movement increased by £15.9m to £22.2m (2010: £6.3m) primarily due to an increase in interest payable over the remaining life of the swap contract due to the credit rating downgrade of the swap guarantor.

Taxation

The tax charge, before exceptional items, of £11.9m (2010: £19.5m) represents an effective rate of 15.1% (2010: 26.0%). This is lower than the headline rate of corporation tax of 28% due to the deferred tax impact of a reduction in the corporation tax rate to 26% from April 2011. After exceptional items, the tax charge of £9.7m (2010: £13.8m) represents an effective rate of 13.7% (2010: 25.1%).

Dividends

The Board declared a first interim dividend of £15m in May 2010, which was paid to shareholders in June 2010, and a second interim dividend of £20m that was paid to shareholders in November 2010.

In May 2011 the Board declared an interim dividend for the year ending 31 March 2012 of £37.2m that was paid to its parent company in May 2011.

UK air traffic services

	2011 £m	2010 £m
Turnover	594.6	577.5
Operating costs	(371.6)	(385.3)
Depreciation, amortisation, impairment and deferred grants	(93.3)	(80.6)
Exceptional items	(7.8)	(19.5)
Operating profit	121.9	92.1
Chargeable Distance (millions km)	676.1	693.7
Chargeable Service Units (000)	9,377	9,564

UK air traffic services comprise UK en route services, services provided under contract with the MoD, London Approach services and services to North Sea helicopter operators. Revenues from these sources can be analysed as follows:

	2011 £m	2010 £m
UK en route services	504.0	494.1
Support services to MoD	44.6	44.0
London approach services	8.4	8.3
North Sea helicopters	8.3	7.1
Other external	12.9	7.9
	578.2	561.4
Services to other group companies	16.4	16.1
	594.6	577.5

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

UK en route revenues increased by £9.9m in the year to £504.0m (2010: £494.1). Prices were increased in January 2011 following the price control review to take account of significantly reduced traffic volumes than previously forecast and higher pension contributions. The company also earned a bonus for service performance of £10.4m (2010: £6.4m), the increase on 2010 reflecting the discount provided to customers previously (of c. £4m). These two factors offset the impact of a reduction in the volume of air traffic handled (down 2.5% to 676.1m kilometres flown) and the effect of deflation on prices levied through to December 2010.

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

NERL has a contract to provide services and support infrastructure to the MoD for military air traffic services. Revenues generated under the contract amounted to £44.6m (2010: £44.0m) with the inflation uplift to charges offsetting rebates under operating cost sharing arrangements.

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

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

The costs of UK air traffic services, including asset-related charges and exceptional items, fell by £12.7m to £472.7m (2010: £485.4m) mainly due to headcount savings, lower pension charges and lower redundancy costs.. Depreciation charges were higher due to the impairment charge explained above. Overall, UK air traffic services generated an operating profit of £121.9m (2010: £92.1m), £29.8m higher than the prior year.

North Atlantic air traffic services

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

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

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

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

Balance sheet

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

	2011 £m	2010 £m
Goodwill	**351.0**	351.0
Tangible and intangible fixed assets	**840.5**	817.0
Other non-current assets	**46.7**	1.0
Pension scheme surplus	**36.2**	59.7
Cash and short-term deposits	**83.7**	79.6
Other net current assets/(liabilities)	**1.6**	28.4
Provisions	**(6.7)**	(12.2)
Derivatives	**(113.0)**	(87.3)
Borrowings	**(735.3)**	(703.8)
Other non-current liabilities	**(125.2)**	(137.3)
Net assets	**379.5**	396.1

Shareholders' funds decreased by £16.6m to £379.5m during the year following distributions of £35.0m to shareholders from the retained profit of £61.1m and the effect of the reduction in the pension scheme asset.

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

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

Capital expenditure

The company invested £121.9m in the year, £15.8m less than the previous year, in the following areas:

	2011 £m	2010 £m
Airspace development	**3.0**	5.4
Business systems	**7.6**	4.5
Future centres programme	**44.9**	55.0
Communications, navigation and surveillance	**9.7**	6.5
Radar site services	**12.8**	12.2
Current software systems	**38.6**	29.2
Prestwick/Manchester programme	**4.2**	24.4
Other	**1.1**	0.5
Total	**121.9**	137.7

The company continued to invest in its future centres systems which include: the development of the next generation flight data processing system which will be compatible with European systems; the interim future area control tools based on trajectory prediction and conflict detection; and Electronic Flight Data which replaces paper flight data strips with electronic strips. The investment in this area declined in the year, while a review of the full architectural solution for the next generation flight data processing system was performed. Expenditure in current software systems increased with the project to deliver the new centre for training air traffic controllers nearing completion. The new Prestwick centre became operational in the last financial year following the closure of the Manchester control centre.

Pensions

At 31 March 2011, measured under international accounting standards requiring best estimate assumptions, the company's share of the NATS group's defined benefit pension scheme was a surplus, with assets exceeding liabilities by £36.2m (2010: £59.7m). The lower valuation follows the adoption of more prudent mortality assumptions consistent with those used by the Trustees for their triennial valuation, which offset asset growth.

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%. NERL's share of this deficit is c.75% or £263m. 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, NERL's share being £1.5m. These deficit contributions will increase by 3.5% from January 2012.

During the year the company paid cash contributions to the scheme of £94.0m (2010: £79.5m). This amount included £11.5m (2010: £12.0m) of pay sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 38.4% (2010: 27.5%) of pensionable pay.

Treasury management

The gross borrowings of the company at £735.3m were £31.5m higher than the previous year (2010: £703.8m). Cash and short-term investments increased by £4.1m to £83.7m (2010: £79.6m). Overall, net debt increased by £27.4m to £651.6m (2010: £624.2m).

Movements in net debt

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2010	79.6	(703.8)	(624.2)
Cash flow	3.2	(30.6)	(27.4)
Short-term investments	0.9	-	0.9
Non-cash movements	-	(0.9)	(0.9)
Balance at 31 March 2011	**83.7**	**(735.3)**	**(651.6)**

Cash flow

Overall, the company's balance of cash and cash equivalents increased by £3.2m in the year to £67.3m (2010: £64.1m).

	2011 £m	2010 £m
Cash generated from operations	163.4	158.0
Taxation	(4.9)	(0.1)
Net cash from operating activities	**158.5**	157.9
Interest received	0.9	1.1
Capital expenditure	(119.7)	(139.1)
Sales of property, plant and equipment	-	0.1
Changes in short-term investments	(0.9)	0.1
Net cash outflow from investing activities	**(119.7)**	(137.8)
Interest paid	(34.0)	(34.8)
Interest received on derivative financial instruments	2.8	3.4
Bank drawings and other loans	30.2	10.6
Intercompany loan	0.4	(3.0)
Dividends paid	(35.0)	-
Net cash outflow from financing activities	**(35.6)**	(23.8)
Increase/(decrease) in cash and cash equivalents	**3.2**	(3.7)

Net cash from operating activities at £158.5m, £0.6m higher than 2010 (2010: £157.9m), enabled the company to finance its capital investment, service its debt obligations and pay dividends to shareholders. Drawings on bank loans of £30.2m ensured that the company maintained its cash holding levels, in accordance with its liquidity risk management policy.

Principal risks and uncertainties

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

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

The company carries out detailed risk management reviews to ensure that the risks are mitigated where possible. The principal operational risks and uncertainties of the company are:

The risk of aircraft collision

A loss of separation attributable to NERL that results in a collision in the air or on the ground would significantly impact on NERL's reputation as a provider of safe air traffic services. This could result in a loss of revenue in the short-term as investigations take place and the loss of future contracts. If notice was given by the Secretary of State requiring NERL to take action as a result of the collision and NERL was unable or failed to comply with the notice then ultimately this could result in revocation of NERL's air traffic services licence. To mitigate this risk the company has developed a strategic plan for safety and maintains a safety risk management system.

Loss of service from an air traffic control centre

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

Environmental impacts on the provision of air traffic services

External environmental events such as a volcanic ash cloud create areas of airspace in which aircraft may not wish or may not be permitted to fly. Such events could increase the air traffic management complexity in managing uncertain traffic flows and impact on NERL's revenues resulting from changes in flight planning behaviour. NERL is working closely with the regulator, airlines and other key stakeholders in the mitigation of this risk.

Pension scheme funding

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

Industry outlook

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

Key programme and project risks

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

External and electronic threats

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

Employee relations

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

Olympics 2012

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

Financial risks

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

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

- currency risk: the company's objective is to reduce the effect of exchange rate volatility on short-term profits. Transactional currency exposures that could significantly impact the income statement are hedged, typically using forward sales of foreign currencies. The company's most significant currency exposure arises because UK en route charges, which contribute 82% (2010: 83%) of total turnover, are set in sterling but are billed and collected in euros by applying a conversion rate determined monthly by Eurocontrol, which administers the UK en route revenue collection. The resultant currency risk is materially eliminated by entering into forward foreign exchange contracts. At the year end, forward foreign currency transactions entered into to buy and sell sterling, designated as cash flow hedges, equivalent to £104.6m (net) were outstanding (2010: £83.0m net) as detailed in note 18.
- interest rate and inflation risk: the group's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. NERL's strategy is to hedge net debt in order to reduce its exposure to interest rate risk on its cash holdings.

Throughout the last two five-year price control periods (2001-2010 calendar years), NERL's revenues were linked to the movement in the retail price index ("RPI") on an RPI-X basis. To achieve an economic hedge of NERL's regulated revenue, an index-linked swap with a notional principal of £200m was entered into in August 2003 whereby NERL receives fixed interest and pays interest at a rate adjusted for the movement in RPI. From 2011, under the CP3 price control, these revenues are linked to movements in the consumer price index ("CPI"). For CP3, the CAA provided NERL with a hedging allowance to compensate for the change in inflation base from RPI to CPI. The swap does not qualify for hedge accounting under international accounting standards and is classified as held for trading. As such, movements in the fair value are taken to the income statement.

As at 31 March 2011 (after derivatives), approximately 90.9% (2010: 94.7%) of NERL's net debt was either at fixed rates or at rates indexed to inflation. counterparty risk: as at 31 March 2011 the company had cash and deposits (shown as short-term investments) totalling £83.7m (2010: £79.6m). To minimise risk, funds may only be invested in high quality liquid investments. Credit risk associated with the investment of surplus funds (and from the use of interest rate and currency hedging derivatives) is managed by setting limits for counterparties based on their credit rating. An aggregate limit has also been established for each counterparty.

- liquidity risk: in addition to undrawn committed bank facilities totalling £85.7m, as at 31 March 2011 the company had cash and short-term deposits totalling £83.7m. Included in cash of £67.3m is a liquidity reserve account balance of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short-term deposit of £16.4m represents a debt service reserve account to fund interest and fees scheduled for payment in the 6 months ending 30 September 2011. The company's policy is to hold free cash equivalent to between one and two months' of projected UK en route services revenue (of between £47m and £94m) for the year ending 31 March 2012 and to use surplus cash to reduce borrowings.
- funding risk: the policy of the company is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long-term funding to finance its long-term assets. Hence, the company's borrowings include a £600m amortising bond issued by NERL with a final maturity date of 2026 and bank facilities totalling £205.2m of which £34.25m matures in 2011 and £170.95m in 2012.

Outlook

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

Our forecast is for a recovery to these levels by March 2015, representing annual growth of 3.6%. The UK recovery is expected to be slightly lower than the European average reflecting the UK's slower economic recovery, Government austerity measures and recent changes in air travel taxation – all affecting demand for air travel.
In many ways, this has been a landmark year – the conclusion of our regulatory review and preparations for alignment with the European performance scheme; unprecedented events in an unprecedented economic downturn; major advances in technology and a new focus on the European project.

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

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, liquidity position and borrowings are set out above. In addition, note 18 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 significant undrawn committed bank facilities, the majority of which do not expire until 2012, and adequate levels of cash holdings. The company's forecasts and projections, which reflect the outcome of the CP3 review, taking account of reasonably possible changes in trading performance show that the company should be able to operate within the level of its existing facilities for the foreseeable future. The UK en route business also benefits from some protections against traffic volume risk afforded by its regulatory charge control conditions. Other sources of income are generated mainly from long-term contracts. The company is also actively seeking to reduce its operating cost base to meet the regulator's operating cost efficiency targets and 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.

Ian Mills
Managing Director, NERL

Report of the directors

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

Principal activities and business review

The company's principal activity is the provision of air traffic services in the UK.

On 26 July 2001, the company's parent, National Air Traffic Services Limited, now NATS Limited, (NATS) hived down certain of its assets and liabilities to the company under a statutory transfer scheme established under the Transport Act 2000 to implement the Public Private Partnership (PPP) of the NATS group. The company commenced trading on 1 August 2001.

The company is subject to regulation in accordance with the Air Traffic Services Licence which was originally issued in March 2001 and has been modified on a number of occasions.

A review of the company's activities and performance during the year, including principal risks and uncertainties, is contained in the Business and Financial Review on pages 1–20.

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.

Results and dividends

The results for the year are shown in the income statement on page 27.

The Board declared a first interim dividend of £1.50 per share (totalling £15m) in May 2010, which was paid to its parent in June 2010, and a second interim dividend of £2.00 per share (totalling £20m) which was paid to its parent in November 2010. The board recommends a final dividend of £nil (2010: £nil).

In May 2011 the Board declared an interim dividend for the year ended 31 March 2012 of £3.72 per share (totalling £37.2m) which was paid to its parent company in May 2011.

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

It is 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 company 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 64 days (2010: 44 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
Ian Hall (resigned 24 March 2011)
Lawrence Hoskins (resigned 30 April 2010)
Ian Mills

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 parent undertaking are explained in the accounts of NATS Holdings Limited.

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 comply with the requirements of the Companies Act 2006.

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

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

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

The financial statements have been prepared on a going concern basis, as explained in note 2 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.

By order of the Board

R C-Col

Richard Churchill-Coleman
Secretary
30 June 2011

Registered office

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

Registered in England and Wales
Company Number: 041292

Independent auditors' report to the members of NATS (En Route) plc

We have audited the financial statements of NATS (En Route) plc 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 28. 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
- 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	Year ended 31 March 2011 Exceptional items (Note 6a) £m	Year ended 31 March 2011 Total £m	Year ended 31 March 2010 Before exceptional items £m	Year ended 31 March 2010 Exceptional items (Note 6a) £m	Year ended 31 March 2010 Total £m
Revenue	4	615.7	-	615.7	599.7	-	599.7
Staff costs	7	(261.9)	(6.1)	(268.0)	(278.4)	(19.0)	(297.4)
Services and materials		(49.1)	-	(49.1)	(44.7)	5.1	(39.6)
Repairs and maintenance		(26.3)	-	(26.3)	(29.0)	-	(29.0)
External research and development		(0.1)	-	(0.1)	(0.3)	-	(0.3)
Depreciation, amortisation and impairment	6b	(98.1)	-	(98.1)	(86.1)	-	(86.1)
Loss on disposal of non-current assets		(0.3)	-	(0.3)	-	-	-
Other operating charges		(49.8)	(1.9)	(51.7)	(50.4)	(6.3)	(56.7)
Deferred grants released	6b	1.4	-	1.4	1.7	-	1.7
Net operating costs		(484.2)	(8.0)	(492.2)	(487.2)	(20.2)	(507.4)
Operating profit	6	131.5	(8.0)	123.5	112.5	(20.2)	92.3
Investment revenue	8	2.1	-	2.1	1.2	-	1.2
Finance costs	9	(54.8)	-	(54.8)	(38.6)	-	(38.6)
Profit before tax		78.8	(8.0)	70.8	75.1	(20.2)	54.9
Tax	10	(11.9)	2.2	(9.7)	(19.5)	5.7	(13.8)
Profit for the year attributable to equity shareholders		66.9	(5.8)	61.1	55.6	(14.5)	41.1

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

Statement of comprehensive income

for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the year after tax		61.1	41.1
Other comprehensive (expense)/income for the year			
Actuarial (loss)/gain on defined benefit pension scheme	25	(56.3)	119.8
Change in fair value of hedging derivatives		(3.6)	1.5
Transfer to income statement on cash flow hedges		2.3	(1.1)
Deferred tax relating to components of other comprehensive (expense)/income	21	14.9	(33.7)
		(42.7)	86.5
Total comprehensive income for the year attributable to equity shareholders		18.4	127.6

Balance sheet
at 31 March 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	229.1	199.8
Property, plant and equipment	14	611.4	617.2
Retirement benefit asset	25	36.2	59.7
Trade and other receivables	15	46.7	1.0
		1,274.4	1,228.7
Current assets			
Trade and other receivables	15	111.4	129.8
Short term investments	18	16.4	15.5
Cash and cash equivalents	18	67.3	64.1
Derivative financial instruments	17	0.2	0.8
		195.3	210.2
Total assets		1,469.7	1,438.9
Current liabilities			
Trade and other payables	19	(105.6)	(100.9)
Provisions	20	(5.4)	(5.9)
Borrowings	16	(14.2)	(0.5)
Current tax liabilities		(4.2)	(0.5)
Derivative financial instruments	17	(113.2)	(88.1)
		(242.6)	(195.9)
Net current (liabilities)/assets		(47.3)	14.3
Non-current liabilities			
Borrowings	16	(721.1)	(703.3)
Trade and other payables	19	(7.8)	(6.1)
Provisions	20	(1.3)	(6.3)
Deferred tax liability	21	(117.4)	(131.2)
		(847.6)	(846.9)
Total liabilities		(1,090.2)	(1,042.8)
Net assets		379.5	396.1
Equity			
Called up share capital	22	10.0	10.0
Hedge reserve		(0.5)	0.5
Special reserves		33.7	33.7
Other reserves		20.1	24.8
Retained earnings		316.2	327.1
Total equity		379.5	396.1

The financial statements (Company Number 04129273) were approved by the Board of directors and authorised for issue on 30 June 2011 and signed on its behalf by:

Chairman John Devaney

Finance Director Nigel Fotherby

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

	Share capital £m	Special reserve £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
	Equity attributable to equity holders of the Company					
At 1 April 2009	10.0	33.7	0.2	31.0	193.6	268.5
Profit for the year	-	-	-	-	41.1	41.1
Other comprehensive income/(expense) for the year net of tax	-	-	0.3	(6.2)	92.4	86.5
Total comprehensive income/(expense) for the year	-	-	0.3	(6.2)	133.5	127.6
At 31 March 2010	10.0	33.7	0.5	24.8	327.1	396.1
At 1 April 2010	10.0	33.7	0.5	24.8	327.1	396.1
Profit for the period	-	-	-	-	61.1	61.1
Other comprehensive expense for the year net of tax	-	-	(1.0)	(4.7)	(37.0)	(42.7)
Total comprehensive (expense)/income for the year	-	-	(1.0)	(4.7)	24.1	18.4
Dividends paid	-	-	-	-	(35.0)	(35.0)
At 31 March 2011	10.0	33.7	(0.5)	20.1	316.2	379.5

Other reserves arose on completion of the PPP transaction in July 2001. The special reserve arose from a capital reduction in May 2003.

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 inflow from operating activities	23	158.5	157.9
Cash flows from investing activities			
Interest received		0.9	1.1
Purchase of property, plant and equipment and other intangible assets		(119.7)	(139.1)
Sales of property, plant and equipment		-	0.1
Changes in short term investments		(0.9)	0.1
Net cash outflow from investing activities		(119.7)	(137.8)
Cash flows from financing activities			
Interest paid		(34.0)	(34.8)
Interest received on derivative financial instruments		2.8	3.4
Bank and other loans		30.2	10.6
Loans advanced by/(repaid to) fellow subsidiary		0.4	(3.0)
Dividends paid		(35.0)	-
Net cash outflow from financing activities		(35.6)	(23.8)
Increase/(decrease) in cash and cash equivalents during the year		3.2	(3.7)
Cash and cash equivalents at 1 April		64.1	67.8
Cash and cash equivalents at 31 March		67.3	64.1
Net debt (representing borrowings net of cash and short term investments)		(651.6)	(624.2)

1 General information

NATS (En Route) plc (NERL) is a 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 24. The nature of the company's operations and its principal activities are set out in the Report of the Directors and in the business and financial review.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the 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 (see page 20). The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union and therefore the 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 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 Public Private Partnership (PPP) transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Ltd (now NATS Limited) to this company.

In addition, the company entered into a Management Services Agreement with NATS Limited on 25 July 2001. This agreement provides for the provision by NATS Limited 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 Limited an amount equal to the aggregate of all costs incurred by NATS Limited in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

NERL also entered into an Inter-company Services Agreement on 25 July 2001 with NATS (Services) Limited (NATS Services). Under this agreement this company provides NATS Services with the following services:

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

- 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 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.

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

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

- Sales of goods are recognised when they are delivered and title has passed.
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.

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 NERL 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.

Goodwill

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

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

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
- Vehicles: 5-8 years

Freehold land and assets in the course of construction and installation are not depreciated. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

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

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

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

For NERL, 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.

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 (such as software and new processes)
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

Impairment of tangible and intangible assets, excluding goodwill
At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets, including those in the course of construction, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss on an intangible or tangible asset, excluding goodwill, subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

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

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 in note 10, 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying value 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 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.

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 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 and expense.

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

The retirement benefit obligation recognised in the balance sheet represents the fair value of scheme assets as reduced by the present 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 15 to 19.

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

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

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

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

Loans and receivables
Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Receivables are measured at amortised cost using the effective interest method, less any impairment.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of 3 months or less) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

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

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

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

Equity
Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the 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 interest rates, inflation and foreign currency exchange rates. The company uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in note 18 to the accounts.

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

The use of financial derivatives is governed by the company's policies approved by the board of directors, 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 a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recycled to the income statement in the same period in which the hedged item affects the income statement.

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

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

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

3 Critical judgements and key sources of estimation uncertainty

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset base, market premiums for regulated businesses and the outcome of the regulatory price control determination for Control Period 3. If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. A reduction in net realisable value of 20% (2010: value in use of 6%) or a reduction in market premium by 7% (2010: 3%) would result in the recoverable amount being equal to the carrying amount of goodwill. Refer to notes 12, 13 and 14.

Retirement benefits

The 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 that economic benefit will arise, at least to the extent shown, from contributions to the pension scheme at a rate below the future cost of pension benefits.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 25 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.

Capital investment programme

The company is undertaking a significant capital investment programme to upgrade existing air traffic control infrastructure. This programme requires the company to enter into substantial contracts for the development of infrastructure assets and information systems. Whilst covered by contractual arrangements, it is in the nature of such complex projects that, from time to time, variations to the original specifications may necessitate the renegotiation of original contract scope or price and affect amounts reported in these accounts.

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
UK air traffic services	578.2	561.4
North Atlantic air traffic services	21.1	22.2
Inter-company income	16.4	16.1
	615.7	599.7

All revenue is derived from continuing operations. Note 5 summarises the source of revenues by business and geographical segment. Other revenue is described on the face of the income statement and is included in note 8.

A portion of the company's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £2.3m gain (2010: £1.1m loss).

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:

UK air traffic services represent the provision of en route air traffic services within UK air space, including air traffic services for helicopters operating in the North Sea, approach services for London airports, services to the Ministry of Defence and miscellaneous activity connected to the en route business. North Atlantic air traffic services provide en route air traffic services for the North Atlantic, including an altitude calibration service.

Inter-segment transfers are allocated to business areas on the basis of a fair allocation of costs taking into account the most important drivers for the services provided.

Information about each business area is presented below.

Year ended 31 March 2011	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue			
Revenue from external customers	578.2	21.1	599.3
Revenue from internal customers	16.4	-	16.4
	594.6	21.1	615.7
Segmental operating profit	121.9	1.6	123.5
Investment revenue			2.1
Finance costs			(54.8)
Profit before tax			70.8
Tax			(9.7)
Profit for the period			61.1
Other information			
Exceptional costs	7.8	0.2	8.0
Capital expenditure	119.4	2.5	121.9
Depreciation and amortisation	81.6	3.4	85.0
Impairment losses recognised in income	13.1	-	13.1
Deferred grants released	(1.4)	-	(1.4)
Balance sheet			
Segmental assets	1,354.8	31.0	1,385.8
Unallocated corporate assets			83.9
Total assets			1,469.7
Segmental liabilities	(116.4)	(3.6)	(120.0)
Unallocated corporate liabilities			(970.2)
Total liabilities			(1,090.2)

5 Business and geographical segments (continued)

Year ended 31 March 2010	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue			
Revenue from external customers	561.4	22.2	583.6
Revenue from internal customers	16.1	-	16.1
	577.5	22.2	599.7
Segmental operating profit	92.1	0.2	92.3
Investment revenue			1.2
Finance costs			(38.6)
Profit before tax			54.9
Tax			(13.8)
Profit for the period			41.1
Other information			
Exceptional costs	19.5	0.7	20.2
Capital expenditure	135.0	2.7	137.7
Depreciation and amortisation	79.9	3.8	83.7
Impairment losses recognised in income	2.4	-	2.4
Deferred grants released	(1.7)	-	(1.7)
Balance sheet			
Segmental assets	1,324.5	34.1	1,358.6
Unallocated corporate assets			80.3
Total assets			1,438.9
Segmental liabilities	(115.1)	(3.9)	(119.0)
Unallocated corporate liabilities			(923.8)
Total liabilities			(1,042.8)

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

All liabilities are allocated to reportable segments with the exception of taxation, borrowings, 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 £m	Year ended 31 March 2010 £m
UK	266.6	262.0
Rest of Europe	207.5	199.5
North America	102.2	100.6
Other	39.4	37.6
Total	615.7	599.7

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

Information about major customers

Included in revenues arising from UK air traffic services are revenues of £58.1m (2010: £51.9m) 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):

a Exceptional items

Redundancy and relocation costs

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

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Voluntary redundancy costs (including pension augmentation costs, see note 7a)	6.1	19.0
Relocation of staff and offices to Swanwick area	2.7	5.3
Relocation of staff to the Prestwick area	(2.6)	(0.1)
Relocation of staff from Hurn to the Corporate Technical Centre	1.8	1.1
Swanwick business rates rebate relating to prior years	-	(5.1)
	8.0	20.2

6 Operating profit for the year (continued)

b Other items

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

	Year ended 31 March 2011 £m	Year ended March 2010 £m
CAA regulatory charges	5.0	5.8
Depreciation of property, plant and equipment	74.1	73.8
Impairment of property, plant and equipment	(0.1)	0.7
Amortisation of internally generated intangible assets	10.9	9.9
Impairment of internally generated intangible assets	13.2	1.7
Deferred grants released	(1.4)	(1.7)
Research and development costs	12.4	8.5
Auditors remuneration for audit services (see below)	-	-

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 such fees on a consolidated basis.

Government grants relating to the purchase of property, plant and equipment and Ministry of Defence (MoD) contributions received prior to 1 April 2001 are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful lives of the related assets.

Transactions with group companies	Year ended 31 March 2011 £m	Year ended March 2010 £m
Net charges for services provided by parent undertaking	11.2	10.9
Charges for services provided by other group companies	15.8	15.7

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

7 Staff costs

a Staff costs

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Salaries and staff costs were as follows:		
Wages and salaries	218.2	225.4
Social security costs	20.8	21.5
Pension costs (note 7b)	62.0	88.0
	301.0	334.9
Less: amounts capitalised	(33.0)	(37.5)
	268.0	297.4

Wages and salaries includes redundancy costs of £1.9m (2010: £10.3m), share-based payment charges, other allowances and holiday pay. Pension costs include £4.2m (2010: £8.7m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

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

b Pension costs

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Defined benefit pension scheme costs (note 25)	61.2	87.8
Defined contribution pension scheme costs	0.8	0.2
	62.0	88.0

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

c Staff numbers

	Year ended 31 March 2011 No.	Year ended March 2010 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,383	1,421
Air traffic service assistants	671	748
Engineers	829	894
Others	656	678
	3,539	3,741

8 Investment revenue

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Interest on bank deposits	0.9	1.1
Other	1.2	0.1
	2.1	1.2

9 Finance costs

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Interest on bank overdrafts, loans and hedging instruments	1.5	1.4
Bond and related costs including financing expenses	30.8	30.3
Other	-	0.2
Interest payable on intercompany loans	0.3	0.4
	32.6	32.3
Loss on derivatives not qualifying for hedge accounting	22.2	6.3
	54.8	38.6

10 Tax

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Current tax (including a charge of £0.1m in respect of prior years, 2010: £3.0m credit)	(8.6)	2.4
Deferred tax (see note 21)	(1.1)	(16.2)
	(9.7)	(13.8)

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	70.8		54.9	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2010:28%)	(19.8)	(28.0%)	(15.4)	(28.0%)
Deferred tax effect of change in corporation tax rate from 28% to 26% from April 2011	10.3	14.6%	-	0.0%
Tax effect of prior year adjustments	0.1	0.1%	0.4	0.7%
Tax effect of other permanent differences	(0.3)	(0.4%)	1.2	2.2%
Tax charge for year at an effective tax rate of 13.7% (2010: 25.1%)	(9.7)	(13.7%)	(13.8)	(25.1%)
Deferred tax (credit)/charge taken directly to equity (see note 21)	(14.9)		33.7	

11 Dividends

	Year ended 31 March 2011 £m	Year ended March 2010 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend for the year ended 31 March 2011 of £1.50 per share (2010: nil) paid in June 2010	15.0	-
Second interim dividend for the year ended 31 March 2011 of £2.00 per share (2010: nil) paid in November 2010	20.0	-
	35.0	-

In May 2011, the Board declared an interim dividend for 2012 of £3.72 per share (totalling £37.2m), which was paid to the company's parent in May 2011.

12 Goodwill

	£m
At 31 March 2011 and 31 March 2010	351.0

The company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying value is determined by reference to value in use calculations and the net realisable value of the regulated asset bases of the company's business segments, representing the cash generating units, including market premiums for regulated businesses (assumed at 10%, 2010: 10%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of the current regulatory control period (31 December 2014 for UK air traffic services and 31 March 2015 for North Atlantic air traffic services) as assumed in the company's business plans, and a terminal value at that date, reflecting the regulated asset bases and market premiums. The company's business plans reflect the outcome of the latest price control review which included forecasts of traffic volumes reflecting the current economic environment. The discount rate is a pre-tax nominal rate of 10.69% (2010: 10.26%). See note 3.

13 Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2009	38.1	28.7	17.5	112.7	197.0
Additions internally generated	0.6	0.2	0.6	13.4	14.8
Additions externally acquired	1.3	2.5	0.2	42.9	46.9
Disposals during the year	-	-	-	(12.5)	(12.5)
Transfers during the year	8.3	0.4	0.3	(9.1)	(0.1)
At 1 April 2010	48.3	31.8	18.6	147.4	246.1
Additions internally generated	2.3	-	0.1	15.1	17.5
Additions externally acquired	2.6	1.1	-	33.1	36.8
Disposals during the year	(0.5)	(0.3)	(1.0)	-	(1.8)
Transfers during the year	2.0	0.5	1.1	(4.3)	(0.7)
At 31 March 2011	54.7	33.1	18.8	191.3	297.9
Accumulated amortisation					
At 1 April 2009	15.0	9.5	6.5	16.2	47.2
Charge for the year	5.0	3.3	1.6	-	9.9
Impairment provision recognised in income statement	-	-	-	1.7	1.7
Disposals during the year	-	-	-	(12.5)	(12.5)
At 1 April 2010	20.0	12.8	8.1	5.4	46.3
Charge for the year	5.5	3.8	1.6	-	10.9
Impairment provision recognised in income statement	-	-	-	13.2	13.2
Utilisation of impairment provision	(0.5)	(1.0)	-	-	(1.5)
Disposals during the year	0.5	0.9	-	(1.5)	(0.1)
At 31 March 2011	25.5	16.5	9.7	17.1	68.8
Carrying amount					
At 31 March 2011	29.2	16.6	9.1	174.2	229.1
At 31 March 2010	28.3	19.0	10.5	142.0	199.8

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

14 Property, plant and equipment

	Freehold land & buildings £m	Improvements to leasehold land & buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture & fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2009	220.8	37.6	1,015.9	14.5	152.1	1,440.9
Additions during the year	1.1	0.2	35.2	0.1	39.4	76.0
Disposals during the year	-	-	(16.2)	-	(1.1)	(17.3)
Other transfers during the year	0.9	0.4	66.8	0.1	(68.1)	0.1
At 1 April 2010	222.8	38.2	1,101.7	14.7	122.3	1,499.7
Additions during the year	1.0	0.1	14.1	0.7	51.7	67.6
Disposals during the year	-	(0.1)	(34.3)	(0.1)	-	(34.5)
Other transfers during the year	0.2	-	12.9	0.2	(12.6)	0.7
At 31 March 2011	224.0	38.2	1,094.4	15.5	161.4	1,533.5
Accumulated depreciation and impairment						
At 1 April 2009	77.1	21.9	715.1	7.2	3.9	825.2
Provided during the year	6.9	1.4	64.3	1.2	-	73.8
Provisions for impairment	-	-	0.3	-	0.4	0.7
Utilisation of impairment provision	-	-	-	-	(1.1)	(1.1)
Disposals during the year	-	-	(16.1)	-	-	(16.1)
At 1 April 2010	84.0	23.3	763.6	8.4	3.2	882.5
Provided during the year	6.9	1.3	64.6	1.3	-	74.1
Provisions for impairment	-	-	-	-	(0.1)	(0.1)
Utilisation of impairment provision	-	-	-	-	(0.1)	(0.1)
Disposals during the year	-	(0.1)	(34.2)	-	-	(34.3)
At 31 March 2011	90.9	24.5	794.0	9.7	3.0	922.1
Carrying amount						
At 31 March 2011	133.1	13.7	300.4	5.8	158.4	611.4
At 31 March 2010	138.8	14.9	338.1	6.3	119.1	617.2

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, net impairment charges of £13.1m (2010: £2.4m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

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

15 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		
Other debtors	-	1.0
Accrued income	46.7	-
	46.7	1.0
Current		
Receivable from customers (gross)	54.1	39.6
Allowance for doubtful debts	(5.2)	(5.0)
	48.9	34.6
Other debtors	3.8	2.6
Prepayments	5.5	7.6
Accrued income	53.2	85.0
	111.4	129.8

The average credit period taken on sales of services is 29 days (2010: 32 days). Interest is charged by Eurocontrol to UK en route customers at 11.00% (2010: 11.58%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £5.2m (2010: £5.0m). Full provision is made for receivables from UK en route customers that are overdue. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation which is evidence of a reduction in the recoverability of the cash flows.

15 Financial and other assets (continued)

Ageing of past due but not impaired trade receivables

	2011 £m	2010 £m
30-90 days	0.4	0.1
91 -365 days	0.1	-
	0.5	0.1

Movement in the allowance for doubtful debts

	2011 £m	2010 £m
Balance at the beginning of the year	5.0	5.3
Increase in allowance recognised in the income statement	0.7	-
Amounts written off as irrecoverable	(0.5)	(0.3)
Balance at end of year	5.2	5.0

In determining the recoverability of a trade receivable the group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Credit risk is mitigated in part by regulatory price control conditions that protect NERL's UK en route revenues from losses via a £1m annual revenue allowance. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £4.5m (2010: £4.4m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The company does not hold any collateral over these balances.

Ageing of impaired receivables

	2011 £m	2010 £m
30-90 days	0.3	0.2
90-365 days	1.3	1.0
more than 365 days overdue	3.6	3.8
	5.2	5.0

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

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the 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 £236.3m (2010: £202.8m).

16 Borrowings

	2011 £m	2010 £m
Unsecured loans		
Intercompany loan	23.4	23.0
Secured loans		
£600m 5.25% Guaranteed Secured Amortising Bonds due 2026	597.9	597.6
Bank overdraft	-	1.2
Bank loans (revolving term loan and revolving credit facility expiring 2011-2012)	119.5	88.1
Gross borrowings	740.8	709.9
Unamortised bond issue costs	(5.5)	(6.1)
	735.3	703.8
Amounts due for settlement within 12 months	14.2	0.5
Amounts due for settlement after 12 months	721.1	703.3

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

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

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

16 Borrowings (continued)

Undrawn committed facilities

	2011 £m	2010 £m
Less than one year	34.3	11.0
Between one and two years	51.4	34.3
Expiring in more than two years	-	81.6
	85.7	126.9

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

17 Derivative financial instruments

Fair value of derivative financial instruments

	2011 £m	2010 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.2	0.8
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(4.0)	(1.1)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(109.2)	(87.0)
	(113.2)	(88.1)

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

Fair value measurements recognised in the balance sheet

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

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

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

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

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative instruments in designated hedge accounting relationships	-	0.2	-	0.2	-	0.8	-	0.8
Financial liabilities								
Derivative instruments in designated hedge accounting relationships	-	(4.0)	-	(4.0)	-	(1.1)	-	(1.1)
Derivative financial instruments classified as held for trading	-	(109.2)	-	(109.2)	-	(87.0)	-	(87.0)
	-	(113.2)	-	(113.2)	-	(88.1)	-	(88.1)

There were no transfers between individual levels in the period.

18 Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern, to meet its obligations under its air traffic services licence and to provide returns to stakeholders. The capital structure of the company consists of debt, as disclosed in note 16, cash and cash equivalents and short term investments, as explained in this note and equity attributable to shareholders as disclosed in the statement of changes in equity.

External capital requirements

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

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

Gearing ratio

Consistent with seeking to maintain an investment grade credit rating, the company sets a gearing target measured as the ratio of net debt to the regulatory asset base (RAB). Following the price control review for the four calendar years 2011 to 2014, the CAA has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement if this cap is exceeded for NERL to halt distributions and to remedy the position.

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	52.7	38.2
Cash and cash equivalents and short term investments	83.7	79.6
Derivative instruments in designated hedge accounting relationships	0.2	0.8
	136.6	118.6
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(4.0)	(1.1)
Derivative financial instruments classified as held for trading	(109.2)	(87.0)
Other financial liabilities at amortised cost	(798.3)	(762.7)
	(911.5)	(850.8)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding accruals and deferred income), the £600m bond, bank borrowings and other loans.

The index-linked swap is categorised as held for trading. The movement in its market value of £22.2m has been recorded in the income statement in the year (2010: £6.3m).

Financial risk management objectives

The treasury function is mandated by the Board of NATS Holdings Limited 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 company. 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, cash flow interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk

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

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

Foreign currency risk management

The company's principal exposure to foreign currency transaction risk is in relation to UK en route services revenues, accounting for 82% of turnover (2010: 83%). Charges for this service are set in sterling, but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to the company, forward foreign currency contracts are entered into. The company seeks to hedge 90% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a quarterly basis.

Contracts for the supply of goods and services with overseas suppliers who invoice in foreign currency are also entered into. To mitigate currency risk the contract value is hedged when a firm commitment arises, either through the use of forward foreign currency contracts or by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

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

	Assets		Liabilities	
	2011 £m	2010 £m	2011 £m	2010 £m
Euro	147.5	112.7	(6.2)	(3.3)
US Dollar	-	0.2	(0.1)	-
Canadian Dollars	-	0.1	(0.1)	(0.1)
Danish Krone	-	0.4	-	-
	147.5	113.4	(6.4)	(3.4)

18 Financial instruments (continued)

Foreign currency sensitivity analysis

The company holds foreign currency cash balances at 31 March 2011 in Euro.

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

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

Currency	2011 Impact £m	2010 Impact £m
Euro	(3.6)	(2.6)
US Dollar	-	-
Canadian Dollars	-	-
Danish Krone	(0.1)	-
	(3.7)	(2.6)

The company's sensitivity to the Euro increased during the year reflecting an increase in Euro denominated monetary assets and a net reduction in forward contracts taken out to hedge future receipts and purchase commitments. NERL believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the exposure to foreign exchange risk was broadly constant throughout the reporting period.

Forward foreign exchange contracts

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

2011			Average exchange rate
Euro sold	£m	€m	
0-3 months	113.0	132.4	0.8535
Over 3 months	0.2	0.2	0.8703
	113.2	132.6	0.8537
Euro bought	€m	£m	
0-3 months	2.0	1.8	0.8691
Over 3 months	6.8	5.9	0.8721
	8.8	7.7	0.8714
Canadian Dollar bought	C$m	£m	
0-3 months	0.3	0.2	1.5584
Over 3 months	0.3	0.2	1.5770
	0.6	0.4	1.5437
Danish Krone bought	DKK m	£m	
0-3 months	2.7	0.3	8.7063
Over 3 months	1.4	0.2	8.7056
	4.1	0.5	8.7061

2010			Average exchange rate
Euro sold	£m	€m	
0-3 months	103.3	116.5	0.8867
Over 3 months	1.4	1.5	0.9075
	104.7	118.0	0.8869
Euro bought	€m	£m	
0-3 months	6.3	5.6	0.8870
Over 3 months	17.2	15.2	0.8847
	23.5	20.8	0.8857
Canadian Dollar bought	C$m	£m	
0-3 months	-	-	-
Over 3 months	0.1	0.1	1.792
	0.1	0.1	1.792
Danish Krone bought	DKK m	£m	
0-3 months	5.2	0.6	8.3870
Over 3 months	1.5	0.2	8.4070
	6.7	0.8	8.3914

At 31 March 2011, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.5m (2010: unrealised gains of £0.5m). The bulk of these contracts will mature within the first three 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.

In addition to the above, NERL has entered into average rate forward agreements with a contract date after 31 March 2011 to sell Euro anticipated to be received in July and August 2011 totalling £93.0m in respect of UK en route revenues. These contracts are also designated as cash flow hedges. They are not included in the table above.

Interest rate risk management

NERL is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies are kept under continuous review.

The company seeks to limit exposure to movements in interest rates by ensuring that it holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts. The appropriate mix of fixed, floating and index-linked borrowing varies over time and reflects the certainty of future borrowing requirements and the prevailing interest rates. Recognising that long term borrowing forecasts are inherently more uncertain than short term forecasts, the policy is to reduce the proportion of debt that is fixed for borrowings of longer maturity as follows:

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

Exposure to interest rates on financial assets and financial liabilities are detailed below. The company held no interest rate swaps at 31 March 2011 (2010: none).

18 Financial instruments (continued)

Economic interest rate exposure

The company held cash and short term deposits as follows:

2011							
	Cash			Short term deposits			Total
Currency	Amount	Economic interest rate	Average maturity	Amount	Economic interest rate	Average maturity	
	£m	%	days	£m	%	days	£m
Sterling	55.5	0.5	3	16.4	0.8	183	71.9
Euro	11.8	0.5	2	-	-	-	11.8
	67.3			16.4			83.7

2010							
	Cash			Short term deposits			Total
Currency	Amount	Economic interest rate	Average maturity	Amount	Economic interest rate	Average maturity	
	£m	%	days	£m	%	days	£m
Sterling	61.6	0.6	3	15.5	0.8	183	77.1
Euro	2.0	0.2	6	-	-	-	2.0
Canadian Dollar	0.1	-	1	-	-	-	0.1
Danish Krone	0.4	0.3	6	-	-	-	0.4
	64.1			15.5			79.6

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.

The economic interest rate exposure of the loans is presented below with and without the effect of derivatives, as follows:

Excluding derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2011						
Sterling:						
5.25% guaranteed secured bonds	597.9	-	-	597.9	5.27%	9.0
Bank loans	119.5	119.5	-	-	1.34%	0.5
Inter-company loans	23.4	23.4	-	-	1.35%	0.5
Total	740.8	142.9	-	597.9		
At 31 March 2010						
Sterling:						
5.25% guaranteed secured bonds	597.6	-	-	597.6	5.27%	10.0
Bank loans	89.3	89.3	-	-	1.13%	0.5
Inter-company loans	23.0	23.0	-	-	1.16%	0.5
Total	709.9	112.3	-	597.6		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2011						
Sterling:						
5.25% guaranteed secured bonds	397.9	-	-	397.9	5.28%	9.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.40%	0.5
Bank loans	119.5	119.5	-	-	1.34%	0.5
Inter-company loans	23.4	23.4	-	-	1.35%	0.5
Total	740.8	142.9	200.0	397.9		
At 31 March 2010						
Sterling:						
5.25% guaranteed secured bonds	397.6	-	-	397.6	5.28%	10.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.64%	0.5
Bank loans	89.3	89.3	-	-	1.13%	0.5
Inter-company loans	23.0	23.0	-	-	1.16%	0.5
Total	709.9	112.3	200.0	397.6		

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

18 Financial instruments (continued)

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

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

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

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on cash and floating rate bank loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity. There would be an equal and opposite impact on profit and equity if interest rates fell by 1%.

	2011 Impact £m	2010 Impact £m
Cash On Deposit (2011: £83.7m, 2010: £79.6m)	0.8	0.8
Borrowings (2011: £142.9m, 2010: £112.3m)	(1.4)	(1.1)
	(0.6)	(0.3)

Overall the company's sensitivity to interest rates has increased in the year, reflecting increases in borrowing levels.

Inflation rate risk

The regulatory charge control conditions that apply to the company's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation. To achieve an economic hedge of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, the company entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. Under the terms of this swap, NERL receives fixed interest at 5.25% and from December 2010 paid interest at a rate of 3.43% adjusted for the movement in RPI (prior to this date it paid interest at a rate of 2.98%). The index-linked swap cannot be designated as a cash flow hedge under IFRS, although it provides an economic hedge of NERL's inflation-linked revenues.

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

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

Inflation rate sensitivity analysis

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

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

	2011 Impact £m	2010 Impact £m
Change in index-linked swap interest and mark to market value	(29.4)	(31.8)

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

18 Financial instruments (continued)

Credit risk management

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

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

Currently, the company's investments take the form of bank time deposits. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch and A3 and A1 respectively from Moody's. During 2008 the group tightened its investment criteria and currently only places deposits that have a maturity in excess of seven days with banks rated AA- or better.

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

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

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

Rating (Standard & Poor's)	Number of institutions	2011 £m	By credit rating %	Number of institutions	2010 £m	By credit rating %
AA-	1	17.8	21.3	1	16.0	20.1
A+	4	38.8	46.3	3	31.2	39.2
A	2	15.4	18.4	2	18.4	23.1
A-	2	11.7	14.0	2	14.0	17.6
		83.7	100.0		79.6	100.0

Liquidity risk management

The responsibility for liquidity risk management, the risk that the company will have insufficient funds to meet its obligations as they fall due, rests with the Board of NATS Holdings Limited with oversight provided by the Treasury Committee. The company manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost.

The policy is to:
a. maintain free cash equal to between 1 and 2 months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short term investments, excluding a debt service reserve account of £16.4m used to fund interest and fees scheduled for payment in the next six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;

b. ensure access to bank facilities sufficient to meet 110% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. NERL has access to bank facilities totalling c.£205.2m available until November 2011, and c.£170.95m until November 2012. To ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its CP3 business plan, the company anticipates that it will replace these facilities with a new five year facility during the financial year ending 31 March 2012;

c. ensure access to long term funding to finance its long term assets. This is achieved in the form of a £600m amortising sterling bond with a final maturity date of 2026;

d. ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and

e. maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of a £600m sterling bond that starts to amortise in 2012 and has a final maturity date of 2026 and by having available committed bank facilities totalling c.£205.2m, of which £34.25m expires in November 2011 and c.£170.95m in November 2012.

The following table shows the ratio of free cash to average monthly UK en route service income receipts during the year:

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

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

	2011 £m	2010 £m
Bank borrowings	119.5	89.3
Gross borrowings	740.8	709.9
Bank borrowings as a percentage of gross borrowings	16.1%	12.6%

18 Financial instruments (continued)

Maturity of borrowings

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

	2011				2010			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	1.4	49.1	57.5	108.0	1.3	35.2	52.8	89.3
Between one and two years	0.7	182.7	-	183.4	0.9	49.7	-	50.6
Due between two and five years	3.3	171.1	-	174.4	3.7	268.1	-	271.8
Due in more than five years	35.0	607.7	-	642.7	37.4	669.3	-	706.7
	40.4	1,010.6	57.5	1,108.5	43.3	1,022.3	52.8	1,118.4
Effect of interest, discount and unamortised bond issue costs	(17.0)	(298.7)	-	(315.7)	(20.3)	(341.5)	-	(361.8)
	23.4	711.9	57.5	792.8	23.0	680.8	52.8	756.6

In order to manage the liquidity risk arising on the contractual maturity of its borrowings, it is the company's intention to replace bank facilities and bonds with facilities of a similar nature at least 12 months in advance of contractual maturity.

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

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2011					
Net settled:					
Index-linked swap receivable/(payable)	2.9	2.7	6.5	(132.2)	(120.1)
Gross settled:					
Foreign exchange forward contract receivables	121.7	0.2	-	-	121.9
Foreign exchange forward contract payables	(125.7)	(0.2)	-	-	(125.9)
	(1.1)	2.7	6.5	(132.2)	(124.1)
2010					
Net settled:					
Index-linked swap receivable/(payable)	3.3	3.2	8.1	(112.0)	(97.4)
Gross settled:					
Foreign exchange forward contract receivables	121.7	4.8	-	-	126.5
Foreign exchange forward contract payables	(122.2)	(4.7)	-	-	(126.9)
	2.8	3.3	8.1	(112.0)	(97.8)

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 in the majority of cases is expected to be realised within one year. The fair value of the index-linked swap is determined independently by reference to contractual cash flows, forecast RPI inflation rates and is then discounted to its present value. The fair value of the £600m bond has been derived from its externally quoted price. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount 2011 £m	Carrying amount 2010 £m	Fair value 2011 £m	Fair value 2010 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	52.7	38.2	52.7	38.2
Cash and short term investments	83.7	79.6	83.7	79.6
Derivative financial instruments				
Forward foreign exchange contracts	0.2	0.8	0.2	0.8
	136.6	118.6	136.6	118.6
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	(57.5)	(52.8)	(57.5)	(52.8)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.9)	(597.6)	(618.3)	(608.6)
Bank loans	(119.5)	(89.3)	(119.5)	(89.3)
Intercompany loan	(23.4)	(23.0)	(23.4)	(23.0)
Derivative financial instruments				
Forward foreign exchange contracts	(4.0)	(1.1)	(4.0)	(1.1)
Index-linked swap	(109.2)	(87.0)	(109.2)	(87.0)
	(911.5)	(850.8)	(931.9)	(861.8)

19 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	21.2	13.5
Amounts due to other group undertakings	35.9	39.1
Other payables	0.4	0.2
Accruals and deferred income		
- deferred grants	0.6	1.4
- other	47.5	46.7
	105.6	100.9
Non-current		
Accrual and deferred income		
- deferred grants	3.9	4.5
- other	3.9	1.6
	7.8	6.1
	113.4	107.0

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 64 days (2010: 44 days). This increase reflects the reduction in operating costs incurred during the year and the timing of receipt of invoices for services received during the year. The directors consider that the carrying amount of the trade payables approximates to their fair value.

20 Provisions

	Relocation £m	Other £m	Total £m
At 1 April 2010	10.5	1.7	12.2
Additional provision in the year	1.9	-	1.9
Utilisation of provision	(5.8)	(1.6)	(7.4)
At 31 March 2011	6.6	0.1	6.7

	Total £m
Amounts due for settlement within 12 months	5.4
Amounts due for settlement after 12 months	1.3
	6.7

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

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

Redundancy costs are recharged by the company's parent through inter-company recharges and are not shown in NERL's balance sheet.

21 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	110.8	(14.5)	(12.0)	(3.0)	81.3
Charge/(credit) to income	20.4	(2.4)	(1.6)	(0.2)	16.2
Charge to equity	-	33.6	0.1	-	33.7
At 31 March 2010	131.2	16.7	(13.5)	(3.2)	131.2
At 1 April 2010	131.2	16.7	(13.5)	(3.2)	131.2
(Credit)/charge to income	(5.5)	7.3	(1.6)	0.9	1.1
Credit to equity	-	(14.6)	(0.3)	-	(14.9)
At 31 March 2011	125.7	9.4	(15.4)	(2.3)	117.4

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	(135.1)	(147.9)
Deferred tax assets	17.7	16.7
	(117.4)	(131.2)

22 Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2010 and 31 March 2011	10,000,000	10.0	10,000,000	10.0

23 Notes to the cash flow statement

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Operating profit from continuing operations	123.5	92.3
Adjustments for:		
Depreciation of property, plant and equipment	74.1	73.8
Amortisation of intangible assets	10.9	9.9
Impairment loss	13.1	2.4
Deferred grants released	(1.4)	(1.7)
Loss on disposal of property, plant and equipment	0.3	-
Non-cash element of charge for pension costs	(32.8)	8.3
Operating cash flows before movements in working capital	187.7	185.0
Increase in trade and other receivables	(26.7)	(13.9)
Increase/(decrease) in trade and other payables and provisions	2.4	(13.1)
Cash generated from operations	163.4	158.0
Tax paid	(4.9)	(0.1)
Net cash from operating activities	158.5	157.9

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

24 Financial commitments

	2011 £m	2010 £m
Capital commitments contracted but not provided for in the accounts.	71.1	96.6
Minimum lease payments under operating leases recognised in the income statement for the year.	6.5	6.2

At the balance sheet date the company had outstanding commitments to future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011 £m	2010 £m
Within one year	6.3	6.6
In the second to fifth years inclusive	22.6	21.2
After five years	38.1	42.4
	67.0	70.2

Operating lease payments represent rentals payable by the company for certain of its properties, equipment used for air navigation, office equipment and vehicles. Leases are negotiated on varying terms depending on the type of asset leased. Comparative figures have been re-stated.

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its contract with the MoD.

25 Retirement benefit scheme

NATS Limited, 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 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 will participate for investment purposes.

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

During 2009 the parent company 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 Limited, 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 Limited participates in Civil Aviation Authority Pension Scheme and bears the employment (including pension) costs of those personnel.

The company pays fees to NATS Limited 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 Limited to NERL. 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 the company paid cash contributions to the scheme of £94.0m (2010: £79.5m). This amount included £11.5m (2010: £12.0m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 38.4% (2010: 27.5%) of pensionable pay. The company increased contributions from 30% to 36.7% of pensionable pay in May 2010, equivalent to the future service cost. In response to the triennial valuation, NATS also agreed a deficit recovery plan with Trustees and from January 2011 made further contributions of £2.0m per month for calendar year 2011 (NERL's share being c.£1.5m), increasing these by 3.5% each January thereafter.

25 Retirement benefit scheme (continued)

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

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

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

	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 and a female pensioner is 28.9 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 30.9 years and for females to 30.7 years.

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

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

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

	2011 £m	2010 £m
Current service cost	(82.1)	(73.2)
Past service cost	(4.5)	(8.7)
Expected return on scheme assets	145.7	102.7
Interest cost on scheme liabilities	(120.3)	(108.6)
Total defined benefit charge recognised in arriving at operating profit	(61.2)	(87.8)

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

	2011 £m	2010 £m
Actual return less expected return on scheme assets	79.8	421.4
Experience losses and gains arising on scheme liabilities	(20.9)	164.0
Changes in assumptions underlying the present value of the scheme liabilities	(115.2)	(465.6)
	(56.3)	119.8

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

	2011 £m	2010 £m
Fair value of scheme assets	2,433.8	2,179.8
Present value of defined benefit obligations	(2,397.6)	(2,120.1)
Surplus in scheme	36.2	59.7

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

	2011 £m	2010 £m
At 1 April	2,179.8	1,641.0
Expected return on scheme assets	145.7	102.7
Actuarial gains and losses	79.8	421.4
Contributions from scheme members	-	0.2
Contributions from company	94.0	79.5
Benefits paid	(65.5)	(65.0)
At 31 March	2,433.8	2,179.8

25 Retirement benefit scheme (continued)

Movements in the present value of the defined benefit obligations were as follows:	2011 £m	2010 £m
At 1 April	(2,120.1)	(1,692.8)
Current service cost	(82.1)	(73.2)
Past service costs	(4.5)	(8.7)
Interest cost	(120.3)	(108.6)
Actuarial gains and losses	(136.1)	(301.6)
Contributions from scheme members	-	(0.2)
Benefits paid	65.5	65.0
At 31 March	(2,397.6)	2,120.1

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

	Fair value of assets		Expected return	
	2011 £m	2010 £m	2011 %	2010 %
Equity instruments	1,278.3	1,144.7	7.35	7.55
Property and other assets	358.9	283.0	7.35	7.55
Bonds	753.5	721.3	4.70	4.90
Cash	43.1	30.8	4.70	4.90
	2,433.8	2,179.8	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	(2,397.6)	(2,120.1)	(1,692.8)	(1,825.9)	(1,946.8)
Fair value of scheme assets	2,433.8	2,179.8	1,641.0	2,136.3	2,125.9
Surplus/(deficit) in the scheme	36.2	59.7	(51.8)	310.4	179.1
Experience adjustments in scheme liabilities					
Amount (£m)	(20.9)	164.0	33.1	73.7	34.1
Percentage of scheme liabilities	0.9%	(7.7%)	(2.0%)	(4.0%)	(1.8%)
Experience adjustments in scheme assets					
Amount (£m)	79.8	421.4	(653.6)	(129.8)	(15.5)
Percentage of scheme assets	3.3%	19.3%	(39.8%)	(6.1%)	(0.7%)

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2012 is £106m, including salary sacrifice contributions estimated at £12m.

26 Related party transactions

The NATS group has four shareholders - the Crown, The Airline Group (AG), BAA Airports Limited and the NATS Employee Sharetrust Limited.

AG is a consortium of seven airlines: British Airways, bmi, easyJet, Monarch, Thomas Cook Airlines, Thomson Airways and Virgin Atlantic. AG has a 42% stake in NATS Holdings Limited which it purchased through the PPP transaction in July 2001. The directors of NATS Holdings Limited are satisfied that the seven members of the AG have not exercised undue influence on the group or the company 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.

Trading transactions

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
BAA Airports Ltd	0.2	-	-	0.4	-	-	-	-
Ministry of Defence (MoD)	45.1	44.3	3.5	4.2	4.7	-	4.3	5.3
Department for Transport (DfT)	0.4	0.6	-	-	-	0.1	-	-
Meteorological Office	0.4	0.3	0.7	0.6	-	-	0.1	0.1

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 received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

The Report of the Directors on page 21 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 Limited include details of the remuneration received by the directors of the group.

27 Parent undertaking

The company's ultimate parent undertaking and controlling party is NATS Holdings Limited 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 Limited is the parent company. The consolidated accounts of NATS Holdings Limited can be obtained from the company's secretary, at its registered office, 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL.

28 Events after the reporting period

In May 2011, the Board declared an interim dividend for 2012 of £3.20 per share (totalling £37.2m) which was paid to its parent company in May 2011.