NATS (Services) Limited

Financial statements
for the year ended 31 March 2010

Company Number: 04129270

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Company Secretary

Andrew Picton

Registered office

5th Floor, Brettenham House South,
Lancaster Place, London WC2E 7EN

Registered in England and Wales
Company No. 04129270

Auditors

Deloitte LLP

This review presents a summary of the operating performance and results, financial position and cash flows of NATS (Services) Limited (NATS Services) for the year ended 31 March 2010.

Introduction

NATS Services is the company within the NATS Group that is not subject to economic regulation. The company's principal activities are the provision of airport air traffic services at UK and overseas airports and the sale of NATS expertise and capabilities to UK and overseas customers.

During the year we launched a new campaign aimed at clearly communicating the value we offer to the market-place. As part of this campaign we are now using the brand NATS Services rather than NSL. This enables us to capitalise on the strength of the NATS brand, as well as distinguishing the products and services sold through the commercial arm of NATS.

Lawrence Hoskins led the business until his retirement at the end of April 2010. Under Lawrence's tenure the business improved its performance, setting a firm base from which to continue its evolution. I would like to take this opportunity to thank Lawrence for the significant contribution he made to NATS Services.

NATS Services operates in market-places that are commercially competitive and are not economically regulated. Its organisation is structured around a number of product lines based on air traffic control services, engineering, consultancy, training and aviation data. As well as working closely with customers in our home market – UK air traffic control – we are making good progress in leveraging our ATC related capabilities to develop services that add value to customers in adjacent market sectors such as the wider aviation and other critical infrastructure services market, both in the UK and in selected overseas markets. In these areas we are growing organically but are also looking for product line specific partnerships and joint ventures to enable us to accelerate this expansion and to access new markets in the UK and overseas.

The challenge of the past year has been heightened by the global economic climate. Whereas in the past we had many customers asking us to help them with their airport re-development and expansion plans, we now have a number of customers (both existing and new) who are seeking our help to maximise their returns on current assets and to improve their cost effectiveness.

In both cases NATS Services has demonstrated the value it can add by using its specialist expertise to tailor specific solutions to each customer.

The disruption caused by the eruption of the Eyjafjallajökull volcano in Iceland in April 2010 was unprecedented. Through this period, NATS Services worked closely with colleagues in the NATS Group, the Civil Aviation Authority, the Met. Office, the airlines, the government and the rest of Europe to learn more about the cloud which had covered the continent's airspace. In doing so a new understanding was developed of how to deal with the situation to minimise the impact on our customers whilst ensuring safety. Our staff displayed professionalism at all times and were responsive to the needs of customers.

Despite the challenging market conditions, NATS Services has had another successful year. Its safety performance remained strong and it delivered a good set of financial results with a profit before tax of £23.3m compared to £68.4m for the year to 31 March 2009 (these results included an exceptional profit of £43.5m from the disposal of the old Heathrow Control Tower Building). Revenues increased by £15.1m to £187.1m (2009: £172.0m), representing an increase of 8.8% from 2009 and more than 79% over the last 5 years.

Overview of Business Performance

Safety remains our first priority and we continue to be proactive in maintaining and enhancing safety in everything we do. NATS Services' Strategic Plan for Safety is now in place and is delivering real improvements in safety performance whilst at the same time ensuring we do not become complacent.

Our people continue to innovate in safety practice. In 2010 we successfully launched multilateration to aid helicopter navigation in the far reaches of the North Sea. The system uses signal transmitters and receivers fitted to offshore oil and gas platforms in the central area of the North Sea, to track and identify individual helicopters once they are offshore beyond the reach of our land-based radars.

The year has proved challenging for all our airport customers and the aviation industry generally. However, I am pleased to report that NATS Services secured an extension to its contract with Manchester airport, the only dual runway operations airport in the UK other than Heathrow, through to 2015 along with a new 2 year contract with Luton Airport.

In addition, building upon its core business NATS Services has developed products in air traffic and engineering services, aviation data services, consulting and training and has won new contracts in Hong Kong, Oman, Romania and Norway as well as closer to home in the UK.

During the year, NATS Services has also teamed up with Thales and VT Group to form the AQUILA consortium, in order to bid for the JMATS (Joint Military Air Traffic Services) contract to supply enhanced capability and significant cost savings in military air traffic management.

NATS Services continues to introduce Electronic Flight Progress Strips at its airports, with Edinburgh and London City being the latest to be upgraded from paper strips.

A new virtual control facility was launched for Heathrow airport that will enable air traffic to be controlled remotely. The facility is the first of its kind in the world and through established procedures can deliver up to 70% of Heathrow's capacity in the event of a loss of service at the airport's control tower. The confidence demonstrated in NATS Services by both BAA and the Regulators means that it is well placed to deliver this kind of innovation both to other UK airports and internationally.

Following the agreement between the CAA Directorate of Airspace Policy and NATS on the provision of UK charting services, the CAA charting function transferred to NATS and is now combined with the NATS Services Aeronautical Information Service operation. This was a long standing goal of both NATS and the CAA, allowing clear separation between service provision and regulation and is a significant step to achieving the data integrity required to meet European and International standards and to NATS Services' plans to have a commercially saleable integrated Aeronautical Information Management (AIM) system.

NATS Services has also launched an aeronautical database management system, Nucleus, which was well received at the ATC Global trade show in Amsterdam.

We continue to be committed to a healthy working relationship with the Trade Union. The 'Working Together' programme is a key part of that. Alongside our Trade Union colleagues, we developed and rolled out a 'Working Together' training programme which has been delivered to managers across the business and ensures they understand and adhere to the principles of 'Working Together'. We have also jointly established a key performance indicator that allows us to monitor the strength of this important relationship.

NATS Services continues to develop its products and competitiveness in the commercial market-place and to build relationships both in the UK and internationally. Both of these are essential to sustaining and growing the business independently but in a way that is consistent with NATS heritage and reputation.

Looking ahead, NATS Services plans to reduce further its cost base, whilst continuing the dialogue with existing customers to optimise contract performance, without prejudicing safety or service. With both new and existing customers, NATS Services is seeking to demonstrate value for money propositions as well as reviewing innovative proposals for ATC, engineering and other airport solutions.

The way in which NATS Services responds to the opportunities resulting from changing airport ownership in the UK market-place will also be critical to its long term success.

Overview of financial performance

The company reported a profit before tax of £23.3m (2009: £68.4m) and a profit after tax of £16.8m (2009: £60.7m).

	2010 £m	2009 £m
Turnover	**187.1**	172.0
Operating profit		
- Operating profit before exceptional items	24.6	22.9
- Exceptional items	(2.1)	42.8
	22.5	65.7
Profit before taxation		
- Profit before tax and exceptional items	25.4	25.6
- Exceptional items	(2.1)	42.8
	23.3	68.4
Profit after tax		
- Profit after tax before exceptional items	18.3	18.3
- Exceptional items (net)	(1.5)	42.4
	16.8	60.7

The results for the years 2010 and 2009 included items which were material in terms of their size and incidence and which have been reported as exceptional items. The results for 2010 included restructuring costs at £2.1m and the results for 2009 included restructuring costs at £0.7m and a gain of £43.5m arising from the disposal of the old Heathrow control tower building.

Exceptional items	**2010 £m**	2009 £m
Redundancy costs	**(2.1)**	(0.7)
Profit on disposal of non-current assets	**-**	43.5
	(2.1)	42.8

Underlying operating profit, before these exceptional items, improved by £1.7m to £24.6m (2009: £22.9m).

Revenues increased by 8.8% or £15.1m to £187.1m (2009: £172.0m), principally reflecting an increase in earned value assessed on airport contracts and a growth in engineering business.

	2010 £m	2009 £m
Before exceptional items:		
Employee costs	**(98.6)**	(88.5)
Services and materials	**(26.7)**	(25.8)
Repairs and maintenance	**(7.5)**	(5.7)
External research and development	**-**	(0.1)
Other operating charges	**(26.3)**	(26.6)
	(159.1)	(146.7)
Depreciation, amortisation and impairment	**(3.4)**	(2.3)
Deferred grants	**0.3**	-
Loss on disposal of non-current assets	**(0.3)**	(0.1)
Operating costs	**(162.5)**	(149.1)
Exceptional operating items (net)	**(2.1)**	42.8

Underlying operating costs (excluding exceptional items), increased by £13.4m to £162.5m (2009: £149.1m). Staff costs at £98.6m (2009: £88.5m) increased by £10.1m, mainly reflecting the impact of an increased charge for pensions of £9.1m (see below), due to a higher accrual rate (2010: 31.6% before salary sacrifice, 2009: 18.3%), and the costs of a below inflation pay award and salary progression. Non staff costs excluding asset related charges increased by £2.3m to £60.5m (2009: £58.2m). This included an increase in leasing costs at airports and higher hardware costs associated with engineering projects for customers. Depreciation (net of deferred grants released) increased to £3.1m (2009: £2.3m) which included impairment charges of £0.5m (2009: £nil).The underlying loss on disposal of fixed assets, increased to £0.3m (2009: £0.1m).

Income from investments decreased to £0.8m (2009: £2.8m) reflecting the lower interest rates available during the period.

Tax on underlying activities (before exceptional items) at £7.1m (2009: £7.3m) reflected an effective rate of 28.0% (2009: 28.5%).Tax including exceptional items at £6.5m (2009: £7.7m) reflected an effective rate of 27.9% (2009: 11.3%). The increase in effective rate reflects the tax treatment of the capital gain on the disposal of the old Heathrow control tower building in 2009.

Further analysis of NATS Services financial performance is presented below.

Airport air traffic services

	2010 £m	2009 £m
Turnover	**152.1**	138.7
Operating costs	**(128.7)**	(118.1)
Depreciation, amortisation, impairment and deferred grants	**(2.7)**	(2.1)
Exceptional items	**(1.9)**	42.8
Operating profit	**18.8**	61.3

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

Revenue from these services improved by £13.4m to £152.1m (2009: £138.7m). This mainly reflected improved revenues from airport contracts arising from an increase in the earned value assessed and to re-negotiation or indexation uplifts on contracts.

Operating costs (excluding asset related charges and exceptional items) increased by £10.6m to £128.7m (2009: £118.1m), mainly reflecting higher staff costs (the impact of higher pension charges and pay) and higher asset leasing costs. Asset-related charges and amortisation were £0.6m higher at £2.7m (2009: £2.1m).

Net exceptional charges of £1.9m related to redundancy costs. 2009 exceptional gains arose from the property sale of £43.5m net of redundancy costs of £0.7m.

Operating profit at £18.8m (2009: £61.3m) was £42.5m lower than the prior year mainly reflecting the benefit of exceptional gains in 2009. Excluding exceptional items, operating profit at £20.7m increased by £2.2m (2009 £18.5m) mainly reflecting the increase in the earned value assessed on contracts.

Other revenues

	2010 £m	2009 £m
Turnover	**35.0**	33.3
Operating costs	**(30.7)**	(28.7)
Depreciation, amortisation, impairment and deferred grants	**(0.4)**	(0.2)
Exceptional items	**(0.2)**	-
Operating profit	**3.7**	4.4

NATS Services provides other engineering, consultancy, training and airport data management services to customers in the UK and overseas. In addition to this, NATS Services provided services to other Group companies (as set out in note 2). Revenues from all of these services at £35.0m (2009: £33.3m) were £1.7m higher than prior year, mainly due to higher revenue from engineering contracts.

Operating profits on these activities at £3.7m (2009: £4.4m) was £0.7m lower mainly reflecting higher staff costs (the impact of higher pension charges and pay) and higher hardware costs associated with engineering projects.

Balance sheet

The company's Balance Sheet can be summarised as follows:

	2010 £m	2009 £m
Intangible assets	**1.7**	0.4
Property, plant and equipment	**21.6**	22.2
Other non-current assets	**2.4**	6.3
Cash and short term deposits	**75.5**	54.1
Loan to fellow subsidiary	**23.0**	25.9
Other net current assets	**2.8**	-
Pension scheme surplus/(deficit)	**16.5**	(14.3)
Provisions and other non-current liabilities	**(14.0)**	(5.7)
Net assets	**129.5**	88.9

Shareholders' funds increased by £40.6m from £88.9m last year to £129.5m. This increase was primarily due to retained profit of £16.8m and the improvement in the pension scheme's financial position by £22.1m (net of deferred tax) as measured on an accounting basis – see below.

Cash balances and short term investments increased by £21.4m from £54.1m to £75.5m, mainly reflecting the operating result for the year.
Other net current assets increased to £2.8m from £nil in 2009 due mainly to an increase in trade and other receivables, and a reduction in trade and other payables and current tax liabilities.

Provisions and other non-current liabilities of £14.0m (2009: £5.7m) include deferred tax provisions at £6.6m (2009: deferred tax asset of £2.0m). This is due mainly to the movement on the pension scheme.

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

Capital expenditure

The company invested £1.3m in the year on intangible assets (2009: £0.2m) and £3.0m on property plant and equipment (2009: £7.0m). Key areas of investment included £1.4m on the development of aeronautical information systems, £0.5m on the development of the Virtual Control Facility, £1.9m on the introduction of Electronic Flight Progress Strips and £0.5m on other air traffic control systems and equipment.

Pensions

At 31 March 2010, measured under international accounting standards requiring best estimate assumptions, the company's share of the NATS group's pension scheme was a surplus with assets exceeding liabilities by £16.5m. This compared with a deficit of £14.3m at 31 March 2009. The increase in the scheme's valuation was mainly due to the performance of the company's share of the scheme's investments which were £163.4m higher, reflecting the rise in global stock markets over the year. This effect was partly offset by an increase in pension obligations of £132.6m due to a reduction in the discount rate to 5.65% from 6.4%.

The pension scheme actuary's triennial valuation performed as of 31 December 2009 was approved by the Trustees on 27 April 2010. This valuation, which is for funding purposes, uses assumptions which include a margin for prudence and leads to a lower valuation than under international accounting standards. The valuation reported a deficit of £351.1m in scheme assets to liabilities (equivalent to a funding ratio of 89%) and a future service cost of 36.7%. NATS Services' share of this deficit is c.25% or £87.8m. The future service cost represents a reduction on the rate reported at the 31 December 2006 valuation (of 37.3%), reflecting the benefit of pension reforms introduced in 2009 which included limiting increases in pensionable pay to RPI plus 0.5%.

During the year the company paid cash contributions to the scheme of £22.5m (2009: £14.9m). This amount included £3.6m (2009: £nil) 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 27.5% (2009: 22.0%) of pensionable pay. The company is increasing these cash contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost. In response to the triennial valuation, the company has also agreed a deficit recovery plan with Trustees and from January 2011 it will make further contributions of c.£0.5m per month (for calendar year 2011), increasing these by 3.5% each January thereafter.

Cash flow

Overall, the company's cash balances (excluding short term investments) increased by £31.4m in the year to £75.5m (2009: £44.1m).

Net cash from operating activities at £22.0m was £0.9m lower than 2009 (2009: £22.9m). Operating cashflows before movements in working capital increased by £6.4m to £28.7m (2009: £22.3m) reflecting revenue growth net of higher cash contributions to the pension scheme. Working capital generated £1.0m (2009: £4.9m) and tax paid increased to £7.7m (2009: £4.3m).

There was a net cash inflow from investing activities of £6.5m (2009: £31.4m including £43.6m from the disposal of assets). There was a net cash inflow of £2.9m from financing activities reflecting loans repaid by a fellow subsidiary company (2009: £27.9m net cash outflow including dividends paid of £24.4m).

Outlook

In order to deliver sustainable growth, NATS Services will be focusing on consolidating its position in the UK as the number one aerodrome air navigation and technical services provider as well as providing training and consultancy services internationally and providing aeronautical data services in the UK and internationally.

We plan to expand our offerings into the wider transport market as well as to other critical services where we can apply our core competences of safety management, capacity enhancement, control centre operations and programme management skills. As overseas markets open up we plan to offer core ATC services and solutions to smaller airports using virtual / remote technology and shared facilities.

The disruption caused by the eruption of the Eyjafjallajökull volcano will have an impact on our financial results for 2011, however we are doing all we can to limit what remains an unpredictable risk to the company operationally and financially.

The coming year will be challenging for NATS Services as our customers cope with traffic down turns and the impact of the disruption caused by the volcanic ash cloud and we plan to respond by further improving costs and efficiency whilst continuing to develop innovative offerings to new and existing customers.

Paul Reid
Managing Director, NATS Services

Report of the directors

The directors present their report and audited accounts for the year ended 31 March 2010.

Principal activities and business review

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

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 NATS. The PPP transaction was completed on 26 July 2001 between the Airline Group and the Secretary of State. The company commenced trading on 1 August 2001. Further details of the PPP transaction are contained in the accounts of NATS Holdings Limited the company's ultimate parent.

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

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

Results and dividends

The results for the year are shown in the Income Statement on page 15. No interim dividend was approved in the year (2009: £24.4m) and the Board recommends a final dividend for the year of £nil (2009: £nil).

In May 2010 the Board approved and paid an interim dividend for 2011 of £50 per share (totalling £5m) to its parent company, NATS Limited.

Use of financial instruments

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

Employees

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

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

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

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

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

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 2006 is 25 days (2009: 32 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
Paul Barron (resigned 31 March 2010)
Richard Deakin (appointed 1 April 2010)
Nigel Fotherby
Lawrence Hoskins (resigned 30 April 2010)
Paul Reid (appointed 27 May 2010)

None of the directors had any interests in the share capital of the company. The following directors held interests in ordinary shares of the company's ultimate parent undertaking, NATS Holdings Limited at 31 March 2010: Nigel Fotherby - 1,977, Lawrence Hoskins – 200, Paul Reid – 1,977.

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

Directors' responsibilities

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

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

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions,

other events and conditions on the entity's financial position and financial performance; and

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

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

Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and 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.

Auditors

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

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

Andrew Picton
Secretary

1 July 2010

Registered office
5th Floor, Brettenham House South, Lancaster Place, London WC2E 7EN

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

We have audited the financial statements of NATS (Services) Limited for the year ended 31 March 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 26. The financial reporting that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit 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 2010 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the company's financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS as issued by the IASB

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

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

The information given in the Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

John Clennett, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom

1 July 2010

Income statement
for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 Before Exceptional items £m	Exceptional items (Note 6a) £m	Total £m	Year ended 31 March 2009 Before Exceptional items £m	Exceptional items (Note 6a) £m	Total £m
Revenue	4	187.1	-	187.1	172.0	-	172.0
Staff costs	7	(98.6)	(2.1)	(100.7)	(88.5)	(0.7)	(89.2)
Services and materials		(26.7)	-	(26.7)	(25.8)	-	(25.8)
Repairs and maintenance		(7.5)	-	(7.5)	(5.7)	-	(5.7)
External research and development		-	-	-	(0.1)	-	(0.1)
Depreciation, amortisation and impairment	6	(3.4)	-	(3.4)	(2.3)	-	(2.3)
(Loss)/profit on disposal of non-current assets		(0.3)	-	(0.3)	(0.1)	43.5	43.4
Other operating charges		(26.3)	-	(26.3)	(26.6)	-	(26.6)
Deferred grants released		0.3	-	0.3	-	-	-
Net operating costs		(162.5)	(2.1)	(164.6)	(149.1)	42.8	(106.3)
Operating profit	6	24.6	(2.1)	22.5	22.9	42.8	65.7
Investment revenue	8	0.8	-	0.8	2.8	-	2.8
Finance costs	9	-	-	-	(0.1)	-	(0.1)
Profit before tax		25.4	(2.1)	23.3	25.6	42.8	68.4
Tax	10	(7.1)	0.6	(6.5)	(7.3)	(0.4)	(7.7)
Profit for the year attributable to equity shareholders		18.3	(1.5)	16.8	18.3	42.4	60.7

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

Statement of comprehensive income
for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Profit for the year		16.8	60.7
Other comprehensive income/(expense) for the year net of tax			
Actuarial gain/(loss) on defined benefit pension scheme	22	33.4	(100.4)
Change in fair value of hedging derivatives		(0.3)	0.2
Deferred tax relating to components of other comprehensive income/(expense)	18	(9.3)	28.1
		23.8	(72.1)
Total comprehensive income/(expense) for the year attributable to equity shareholders		40.6	(11.4)

Balance sheet

at 31 March 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Intangible assets	12	1.7	0.4
Property, plant and equipment	13	21.6	22.2
Retirement benefit asset	22	16.5	-
Trade and other receivables	14	24.9	30.2
Deferred tax asset	18	-	2.0
		64.7	54.8
Current assets			
Financial assets	15	-	0.3
Trade and other receivables	14	38.4	35.9
Short term investments	16	-	10.0
Cash and cash equivalents	16	75.5	44.1
		113.9	90.3
Total assets		178.6	145.1
Current liabilities			
Trade and other payables	17	(31.5)	(32.1)
Current tax liabilities		(3.6)	(4.1)
		(35.1)	(36.2)
Net current assets		78.8	54.1
Non-current liabilities			
Trade and other payables	17	(7.4)	(5.7)
Retirement benefit obligations	22	-	(14.3)
Deferred tax liability	18	(6.6)	-
		(14.0)	(20.0)
Total liabilities		(49.1)	(56.2)
Net assets		129.5	88.9
Equity			
Called up share capital	19	0.1	0.1
Hedging reserve		-	0.2
Other reserves		1.2	1.5
Retained earnings		128.2	87.1
Total equity		129.5	88.9

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 1 July 2010 and signed on its behalf by:

Chairman John Devaney

Finance Director Nigel Fotherby

Statement of changes in equity

for the year ended 31 March 2010

	Equity attributable to equity holders of the company				
	Share capital £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2008	0.1	-	1.9	122.7	124.7
Profit for the year	-	-	-	60.7	60.7
Other comprehensive income/(expense) for the year	-	0.2	(0.4)	(71.9)	(72.1)
Total comprehensive income/(expense) for the year	-	0.2	(0.4)	(11.2)	(11.4)
Dividends paid	-	-	-	(24.4)	(24.4)
At 31 March 2009	0.1	0.2	1.5	87.1	88.9
At 1 April 2009	0.1	0.2	1.5	87.1	88.9
Profit for the year	-	-	-	16.8	16.8
Other comprehensive (expense)/income for the year	-	(0.2)	(0.3)	24.3	23.8
Total comprehensive (expense)/income for the year	-	(0.2)	(0.3)	41.1	40.6
At 31 March 2010	0.1	-	1.2	128.2	129.5

Cash flow statement

for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Net cash flow from operating activities	20	22.0	22.9
Cash flows from investing activities			
Interest received		0.8	2.8
Purchase of intangible assets, property, plant and equipment		(4.1)	(6.8)
(Costs)/proceeds on disposal of property, plant and equipment		(0.2)	43.6
Contributions to property, plant and equipment		-	1.8
Changes in short term investments		10.0	(10.0)
Net cash inflow from investing activities		6.5	31.4
Cash flows from financing activities			
Interest paid		-	(0.1)
Loans repaid by/(advanced) to fellow subsidiary		2.9	(3.4)
Dividends paid		-	(24.4)
Net cash inflow/(outflow) from financing activities		2.9	(27.9)
Increase in cash and cash equivalents during the year		31.4	26.4
Cash and cash equivalents at 1 April		44.1	17.7
Cash and cash equivalents at 31 March		75.5	44.1

1. General information

NATS (Services) Limited, referred to in the notes to the accounts as NATS Services is a private company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 12. The nature of the company's operations and its principal activities are set out in the directors' report.

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

2. Accounting policies

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

Basis of preparation and accounting

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

Two interpretations issued by the International Financial Reporting Interpretations Committee become effective for this period. These are: IFRIC 13: *Customer Loyalty Programmes* and*;* IFRIC 15: *Agreements for the Construction of Real Estate.* The adoption of these Interpretations has not led to any changes in the company's accounting policies.

In addition, the company adopted IAS 1 (Revised): *Presentation of Financial Statements* for the first time. This has resulted in a number of changes in presentation and disclosure. The revised presentation requirements of IAS 1 permit a choice of presenting one or two performance statements; the company has elected to present two statements. The Statement in Changes in Equity is now presented as a primary statement. The revised standard has no impact on the reported results or financial position of the company. The company also adopted IFRS 7 (Revised): *Financial instruments: Disclosures*. The effect of the revised standard is additional disclosures on fair value measurement and liquidity risk within notes 16 and 17. The company also adopted IAS 23 (Revised): *Borrowing Costs.* Previously the company adopted the option to expense borrowing costs on qualifying capital assets. The revised standard has removed this option, therefore, the company has capitalised all qualifying borrowing costs in the year. The impact of this change has been to capitalise £nil of borrowing costs in the current year.

The following interpretations, revisions and amendments to IFRSs which are not yet effective but have been adopted early in the current year and have had no effect on the accounting policies of the company: Amendments to IFRS 1 and IAS 27: *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;* Amendments to IFRS 2: *Share-based Payment-vesting Conditions and Cancellations,* IFRS 2: *Group Cash-Settled Share-based Payment Transactions* and Revisions to IFRS 3 and IAS 27: *Business Combinations and Consolidated and Separate Financial Statements;* Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation;* IFRIC 16: *Hedges of a Net Investment in a Foreign Operation;* Amendments to IAS 39: *Eligible Hedged Items;* IFRIC 17: *Distributions of Non-cash Assets to Owners*; Improvements to IFRSs (May 2008)*;* Amendments to IFRIC 9 and IAS 39: *Embedded Derivatives* and Revisions to IAS 39, IFRS 7: *Reclassification of Financial Assets (updated)* and IFRIC 18: *Transfers of Assets from Customers.*

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

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

- North Sea helicopter advisory service;
- Air traffic services in certain sectors;
- Services to London Approach service (engineering services and use of communications facilities);
- Accommodation and support services to NERL units sited on NATS Services Heathrow premises; and
- Miscellaneous other services.

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

- Approach control service for London Luton airport;
- Training services;
- Radar data services at NATS Services airports;
- Engineering and software support services;
- Research and development for NATS Services airports division and business development division; and
- Other services to NATS Services business development division (for example - consultancy and engineering services).

The company commenced trading from 26 July 2001.

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

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

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

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date.
- Sales of goods are recognised when they are delivered and title has passed.
- Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts (see below).
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.

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

The company does not have any finance leases.

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

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

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

- Leasehold land: over the term of the lease.
- Freehold buildings: 10-40 years.
- Leasehold buildings: over the remaining life of the lease to a maximum of 20 years.
- Air traffic control systems: 8-15 years.
- Plant and other equipment: 3-15 years.
- Furniture, fixtures and fittings: 10 years.
- 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 the NATS group this assumes qualifying assets relate to any additions to new projects that begin after 31 March 2009, included in assets under construction, and excludes acquisitions that are acquired in a state ready for use.

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

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

Deferred grants and other contributions to property, plant and equipment
Government grants as contributions to non-current assets are treated as deferred income which is credited to the Income Statement by equal annual instalments over the expected useful economic lives of the related assets.

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

Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Internally-generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development activities is recognised only if all of the following conditions are met:

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

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

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

Recoverable amount is the higher of net realisable value less costs to sell and the value in use. In assessing the value in use the estimated future cash flows are discounted to their present value using an appropriate discount rate.

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

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

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

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

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

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

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

The cost of performance related awards to employees that take the form of rights to acquire or receive shares is recognised over the period of the employees' related performance. Where there are no performance criteria, the cost is recognised over the period from gift or grant to when the employee becomes unconditionally entitled to the shares. In respect of the award schemes and certain share option grants, 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.

In March 2010, employees were offered the option of subscribing to partnership shares at fair value by deductions from gross salary over a 12 month accumulation period. At the end of the accumulation period employees will receive partnership shares at a share price which is the lower of the share price at point of offer or the share price at the end of the accumulation period. In addition, staff will receive one free matching share for every partnership share purchased.
At the end of the accumulation period, and after the shares are awarded, the extent to which the company has a liability to staff for their holdings of partnership and matching shares will be re-assessed in the light of subsequent share valuations.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Foreign currency translation

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

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

Retirement benefit costs

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

In January 2009, the group introduced a number of pension reforms, as explained in note 22. This included closing the defined benefit scheme to new entrants with effect from 1 April 2009, introducing a limit on increases in pensionable pay and establishing a defined contribution scheme for new entrants effective from 1 April 2009.

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme providing benefits based on final pensionable pay from 1 January 2009. The assets of the scheme are held in a separate trustee administered fund. Pension costs are assessed in accordance with the advice of a qualified actuary using the Projected Unit Credit Method. Actuarial valuations are carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Recognised Income and Expense.

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

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the company's Balance Sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 14 to 17.

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 assets: including bank, other borrowings, loan notes and debt securities.

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

Effective interest method

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

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

Derivative financial instruments and hedging activities
The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward exchange contracts to hedge these exposures.

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

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

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

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

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

3. Critical judgements and key sources of estimation uncertainty

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

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affects the Balance Sheet position and the company's reserves and Income Statement. Refer to note 22 of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Going concern
The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the business and financial review section above and in the accounts of NATS Holdings Ltd. In addition, note 16 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long-term contracts. The company is also actively seeking to reduce its operating cost base through a cost saving programme to provide mitigation for future revenue shortfalls and cost pressures from legacy pension arrangements. As a result, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

After making enquiries, 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 2010.

4. Revenue

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

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Airport air traffic services	152.1	138.7
Miscellaneous services	18.2	16.8
Intercompany income	16.8	16.5
	187.1	172.0

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

5. Business and geographical segments

Business segments

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

Principal activities are as follows:

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

Segmental information about these businesses is presented below.

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

5. Business and geographical segments (continued)

Year ended 31 March 2009	Airport air traffic services	Miscellaneous services	Total
	£m	£m	£m
Revenue			
Revenue from external customers	138.7	16.8	155.5
Revenue from internal customers	-	16.5	16.5
Total Revenue	138.7	33.3	172.0
Segmental result	61.3	4.4	65.7
Operating profit			65.7
Investment revenue			2.8
Finance costs			(0.1)
Profit before tax			68.4
Tax			(7.7)
Profit for the year			60.7
Other Information			
Exceptional items (net credit)	(42.8)	-	(42.8)
Capital expenditure	5.7	1.5	7.2
Depreciation and amortisation	2.1	0.2	2.3
Balance Sheet			
Assets			
Segmental assets	46.3	16.5	62.8
Unallocated assets			82.3
Total assets			145.1
Liabilities			
Segmental liabilities	(43.5)	(8.6)	(52.1)
Unallocated liabilities			(4.1)
Total liabilities			(56.2)

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

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

Geographical segments

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

	Year ended 31 March 2010	Year ended 31 March 2009
	£m	£m
UK	174.9	162.8
Rest of Europe	3.6	7.3
North America	-	0.6
Other	8.6	1.3
Total	187.1	172.0

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

Major customers

Included in revenues arising from airport air traffic services are revenues of £107.9m (2009: £99.8m) which arose from the company's largest customer.

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

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

Profit on disposal of non-current assets
The old Heathrow control tower was sold during the year ended 31 March 2009 resulting in a one-off profit on disposal.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
a. Exceptional items		
Voluntary redundancy costs	2.1	0.7
Profit on disposal of non-current assets	-	(43.5)
	2.1	(42.8)

The tax effect of exceptional items is shown separately on the face of the Income Statement.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
b. Other items		
CAA regulatory charges	2.7	2.7
Depreciation, amortisation and impairments	3.4	2.3
Research and development costs	-	0.1
Auditors remuneration for audit services	-	-

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

c. Transactions with group companies	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Net charges for services provided by parent undertaking	3.0	2.2
Charges for services provided by other group companies	15.2	16.1

In addition to the staff costs referred to in note 7a below, NATS Services is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NATS Services. Under the Inter Company Services Agreement NERL provides certain services to NATS Services. 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 2010 £m	Year ended 31 March 2009 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	69.3	70.1
Social security costs	6.7	6.9
Pension costs (note 7b)	25.1	12.6
	101.1	89.6
Less: amounts capitalised	(0.4)	(0.4)
	100.7	89.2

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

b. Pension costs	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Defined benefit pension scheme costs (note 22)	25.1	12.6
Defined contribution pension scheme costs	-	-
	25.1	12.6

c. Staff numbers

	Year ended 31 March 2010 No.	Year ended 31 March 2009 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	578	577
Air traffic service assistants	215	226
Engineers	154	133
Others	173	171
	1,120	1,107

8. Investment revenue

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest on bank deposits	0.4	1.4
Interest receivable from intercompany loans	0.4	1.4
	0.8	2.8

9. Finance costs

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest payable	-	0.1

10. Tax

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Current tax (including a charge of £0.3m in respect of prior years, 2009: nil)	(7.2)	(6.0)
Deferred tax (See note 18. Including a credit of £0.3m in respect of prior years, 2009: nil)	0.7	(1.7)
	(6.5)	(7.7)

Corporation tax is calculated at 28% (2009: 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 2010 £m	%	Year ended 31 March 2009 £m	%
Profit on ordinary activities before tax	23.3		68.4	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2009: 28%)	(6.5)	(28%)	(19.2)	(28%)
Tax effect of abolition of Industrial Building Allowances	-	0%	(0.6)	(1%)
Other permanent differences (including the disposal of the Heathrow Control Tower Building)	-	0%	12.1	18%
Tax charge for year at the effective tax rate of 28.0% (2009: 11.2%)	(6.5)	(28%)	(7.7)	(11%)
Deferred tax charge/(credit) taken directly to equity (see note 18)	9.3		(28.1)	

11. Dividends

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year of nil (2009: £244) per ordinary share	-	24.4

In May 2010, the Board declared and paid an interim dividend for the year ending 31 March 2011 of £50 per share (totalling £5m) to its parent company.

12. Intangible assets

	Operational Software £m	Non-operational software £m	Assets in course of construction and installation £m	Total £m
Cost				
At 1 April 2008	-	0.1	-	0.1
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.1	-	0.1
Other transfers	-	0.1	-	0.1
At 1 April 2009	-	0.3	0.1	0.4
Additions internally generated	-	-	0.2	0.2
Additions externally acquired	0.1	-	1.0	1.1
Other transfers	-	0.1	-	0.1
At 31 March 2010	0.1	0.4	1.3	1.8
Accumulated Amortisation				
At 1 April 2008	-	-	-	-
At 1 April 2009	-	-	-	-
Charge for the year	-	0.1	-	0.1
At 31 March 2010	-	0.1	-	0.1
Carrying Amount				
At 31 March 2010	0.1	0.3	1.3	1.7
At 31 March 2009	-	0.3	0.1	0.4

13. 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 2008	0.7	10.0	29.6	0.8	4.7	45.8
Additions during the year	-	-	0.3	1.8	4.9	7.0
Disposals during the year	-	-	(2.1)	(0.1)	-	(2.2)
Other transfers during the year	-	-	0.9	0.6	(1.6)	(0.1)
At 1 April 2009	0.7	10.0	28.7	3.1	8.0	50.5
Additions during the year	-	-	0.7	-	2.3	3.0
Disposals during the year	-	-	(2.5)	(0.1)	(0.6)	(3.2)
Other transfers during the year	-	-	5.2	-	(5.3)	(0.1)
At 31 March 2010	0.7	10.0	32.1	3.0	4.4	50.2
Accumulated depreciation and impairment						
At 1 April 2008	0.7	8.6	18.1	0.7	-	28.1
Provided during the year	-	0.2	1.9	0.2	-	2.3
Disposals during the year	-	-	(2.0)	(0.1)	-	(2.1)
At 1 April 2009	0.7	8.8	18.0	0.8	-	28.3
Provided during the year	-	0.2	2.3	0.3	-	2.8
Provisions for impairment	-	-	-	-	0.5	0.5
Utilisation of impairment provision	-	-	-	-	(0.5)	(0.5)
Disposals during the year	-	-	(2.4)	(0.1)	-	(2.5)
At 31 March 2010	0.7	9.0	17.9	1.0	-	28.6
Carrying amount						
At 31 March 2010	-	1.0	14.2	2.0	4.4	21.6
At 31 March 2009	-	1.2	10.7	2.3	8.0	22.2

14. Financial and other assets

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

Trade and other receivables

	2010 £m	2009 £m
Non-current		
Intercompany loan (interest bearing)	22.5	25.9
Accrued income	2.4	4.3
	24.9	30.2
Current		
Receivable from customers gross	7.1	6.4
Allowance for doubtful debts	(0.7)	(0.5)
	6.4	5.9
Amounts recoverable under contracts	8.0	10.6
Other debtors	0.3	1.1
Prepayments	4.5	4.2
Intercompany loan (interest bearing)	0.5	-
Accrued income	18.7	14.1
	38.4	35.9

The average credit period taken on sales of services is 28 days (2009: 32 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.7m (2009: £0.5m). This amount has been determined by reference to past default experience.

Receivables in respect of customers are provided for where there is an identified loss event, such as administration, receivership or liquidation or where there is evidence of a reduction in the recoverability of the cash flows. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

Ageing of past due but not impaired trade receivables

	2010 £m	2009 £m
30 - 90 days	0.2	0.4
91 - 150 days	0.4	0.1
	0.6	0.5

Movement in the allowance for doubtful debts	2010 £m	2009 £m
Balance at the beginning of the period	0.5	0.6
Increase/(decrease) in allowance recognised in the income statement	0.2	(0.1)
Balance at end of year	0.7	0.5

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £0.2m (2009: £0.5m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables	2010 £m	2009 £m
Current	0.2	-
30 - 90 days	-	0.1
90 - 365 days	0.5	0.4
	0.7	0.5

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

At 31 March 2010, NATS Services provided unsecured loans totalling £22.5m to NATS (En Route) plc (NERL) (2009: £22.5m). These loans are subordinate to NERL's senior debt and, as such, may not be repaid until such debt is discharged. The loan bears interest at a rate equal to 6 month LIBOR plus an agreed margin, the current interest rate is 1.59%. In addition, at 31 March 2010, NATS Services provided unsecured loans of £0.5m (2009: £3.4m) to NERL. These are repayable on 31 May or 30 November on serving notice of no less than 5 business days.

Cash and cash equivalents
Cash and cash equivalents comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets approximates to their fair value.

Overall, the maximum credit risk for the items discussed above would be £134.3m (2009: £120.2m).

15. Derivative financial instruments

Fair value asset of derivative financial instruments

	2010 £m	2009 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	0.3

The fair value of forward forward exchange contracts (cash flow hedges) at 31 March 2010 was £35,000.

Further details on derivative financial instruments are provided in note 16.

16. Financial instruments

Capital risk management

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

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

Significant accounting policies

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

Categories of financial instrument

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

	2010 £m	2009 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	37.7	43.5
Cash and cash equivalents and short term investments	75.5	54.1
Derivative financial instruments in designated hedge accounting relationships	-	0.3
	113.2	97.9
Financial liabilities		
Amortised cost	19.9	18.3

Amortised cost includes trade and other payables and amounts owed to other group undertakings.

Financial risk management objectives

The NATS Group 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 group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2010.

Market risk

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

Foreign currency risk management

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

The carrying amount of the NATS Services foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m
Euro	1.3	1.5	-	(0.5)
US Dollar	0.4	-	(1.5)	(0.7)
Canadian Dollar	0.5	0.1	(0.9)	(0.1)
Hong Kong Dollar	-	0.1	-	-
Norwegian Krone	-	0.6	-	-
	2.2	2.3	(2.4)	(1.3)

16. Financial instruments (continued)

Foreign currency sensitivity analysis
NATS Services holds foreign currency cash balances in Euro, US Dollars and Canadian Dollars.

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

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

Currency	2010 Impact £m	2009 Impact £m
Euro	(0.2)	(0.2)
US Dollar	0.1	(0.3)
Canadian Dollar	-	(0.1)
Hong Kong Dollar	-	-
Norwegian Krone	-	(0.1)
	(0.1)	(0.7)

Forward foreign exchange contracts

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

At 31 March 2010 the company had the following outstanding forward foreign exchange contracts:

2010

Euro bought	€m	£m	Average exchange rate
0-3 months	0.6	0.5	0.82

US Dollar bought	$m	£m	Average exchange rate
0-3 months	0.3	0.2	1.47

2009

Euro bought	€m	£m	Average exchange rate
0-3 months	0.7	0.6	0.80
Over 3 months	1.0	0.8	0.82
	1.7	1.4	0.81

US Dollar bought	$m	£m	Average exchange rate
0-3 months	1.2	0.8	1.47
Over 3 months	3.6	2.4	1.47
	4.8	3.2	1.47

Canadian Dollar bought	CADm	£m	Average exchange rate
Over 3 months	1.5	0.9	1.77

Norwegian Krone bought	NOKm	£m	Average exchange rate
Over 3 months	4.1	0.4	10.49

Interest rate risk management
The company had no debt at 31 March 2010 or 31 March 2009 and therefore was not exposed to any interest rate risk on borrowings.

16. Financial instruments (continued)

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

2010

Currency	Cash Amount	Cash Economic interest rate	Cash Average maturity	Short term deposits Amount	Short term deposits Economic interest rate	Short term deposits Average maturity	Total
	£m	%	days	£m	%	days	£m
Sterling	73.7	0.5	3.0	-	-	-	73.7
Euro	0.9	0.1	5.8	-	-	-	0.9
US Dollar	0.4	-	-	-	-	-	0.4
Canadian Dollar	0.5	-	-	-	-	-	0.5
	75.5			-			75.5

2009

Currency	Cash Amount	Cash Economic interest rate	Cash Average maturity	Short term deposits Amount	Short term deposits Economic interest rate	Short term deposits Average maturity	Total
	£m	%	days	£m	%	days	£m
Sterling	42.4	0.3	4.3	10.0	0.6	70	52.4
Euro	0.9	0.5	6.5	-	-	-	0.9
US Dollar	-	-	1.0	-	-	-	-
Canadian Dollar	0.2	-	1.0	-	-	-	0.2
Norwegian Krone	0.6	1.7	6.9	-	-	-	0.6
	44.1			10.0			54.1

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

Details of the company's intercompany loans to NATS (En Route) plc are as follows:

2010 Intercompany loans

Currency	Amount	Economic interest rate	Weighted average time for which rate is fixed
	£m	%	days
Sterling	23.0	1.2	183

2009 Intercompany Loans

Currency	Amount	Economic interest rate	Weighted average time for which rate is fixed
	£m	%	days
Sterling	25.9	2.3	183

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

16. Financial instruments (continued)

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

The following table shows the effect of a 1% increase in interest rates on the company's cash deposits and inter-company loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity. There would be an equal and opposite impact on profit and equity if interest rates were to fall by 1%.

	2010 Impact £m	2009 Impact £m
Cash on Deposit (2010: £75.5m, 2009: £54.1m)	0.8	0.5
Intercompany loans (2010: £23.0m, 2009: £25.9m)	0.2	0.3
	1.0	0.8

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to NATS Services. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 14. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings.

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

Currently, NATS Services' investments take the form of bank time deposits. Investments in bank time deposits with maturities up to 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 and A3 and A1 respectively from Moody's.
The table below sets out the group's limits that are applied to each institution based on credit rating and the balances held at 31 March with those institutions:

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

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

Rating (Standard & Poor's)	Number of institutions	2010 £m	By credit rating %	Number of institutions	2009 £m	By credit rating %
AA	1	20.0	26.5%	1	30.0	55.4%
AA-	-	-	-	-	-	-
A+	5	48.0	63.6%	3	19.5	36.0%
A	-	-	-	1	4.6	8.6%
A-	1	7.5	9.9%	-	-	-
		75.5	100.0%		54.1	100.0%

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

To provide liquidity, NATS Services has an uncommitted overdraft facility of £2.0m that was undrawn as at 31 March 2010 and 31 March 2009. This facility is due to expire on 7 December 2010. NATS Services will seek to renew this facility prior to expiration.

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

Fair value of financial instruments
The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realised within one year. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount 2010 £m	Carrying amount 2009 £m	Fair value 2010 £m	Fair value 2009 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	37.7	43.5	37.7	43.5
Cash and cash equivalents and short term investments	75.5	54.1	75.5	54.1
Derivative instruments in designated hedge accounting relationships	-	0.3	-	0.3
	113.2	97.9	113.2	97.9
Financial liabilities				
Trade and other payables	19.9	18.3	19.9	18.3

17. 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:

	2010 £m	2009 £m
Current		
Trade payables	3.0	1.3
Amounts due to other group undertakings	6.0	7.2
Other payables	10.9	9.8
Accruals and deferred income	11.6	13.8
	31.5	32.1
Non-current		
Accruals and deferred income (including deferred grants)	7.4	5.7
	38.9	37.8

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 25 days (2009: 32 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

18. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Financial instruments £m	Other £m	Total £m
At 1 April 2008	1.5	23.4	-	(0.5)	24.4
Charge/(credit) to income	0.9	0.7	(0.1)	0.2	1.7
Charge/(credit) to equity	-	(28.2)	0.1	-	(28.1)
At 31 March 2009	2.4	(4.1)	-	(0.3)	(2.0)
At 1 April 2009	2.4	(4.1)	-	(0.3)	(2.0)
(Credit)/charge to income	-	(0.7)	0.1	(0.1)	(0.7)
Charge/(credit) to equity	-	9.4	(0.1)	-	9.3
At 31 March 2010	2.4	4.6	-	(0.4)	6.6

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.

	2010 £m	2009 £m
Deferred tax liabilities	(7.0)	(2.4)
Deferred tax assets	0.4	4.4
	(6.6)	2.0

19. Share capital

	Authorised: Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2010 and 31 March 2009	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Operating profit from continuing operations	22.5	65.7
Adjustments for:		
Depreciation of property, plant and equipment	3.4	2.3
Net loss/(gain) on disposal of property, plant and equipment	0.3	(43.4)
Deferred grants released	(0.3)	-
Non-cash element of charge for pension costs	2.6	(2.3)
Increase in provisions	0.2	-
Operating cash flows before movements in working capital	28.7	22.3
Decrease/(increase) in contract work in progress	2.6	(4.5)
Increase in trade and other receivables	(2.6)	(6.3)
Increase in trade and other payables	2.2	15.7
Decrease in intercompany creditors	(1.2)	-
Cash generated from operations	29.7	27.2
Tax paid	(7.7)	(4.3)
Net cash flow from operating activities	22.0	22.9

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.

21. Financial commitments

	2010 £m	2009 £m
Capital commitments contracted but not provided for in the accounts.	0.2	2.7
Minimum lease payments under operating leases recognised in income for the year.	15.4	12.8
At the balance sheet date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	0.3	0.8
In the second to fifth years inclusive	29.9	10.8
After five years	16.0	39.9
	46.2	51.5

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

Guarantees

NATS Services has committed to providing its subsidiary (NATSNav Limited) with financial support. NATSNav Limited had net liabilities at 31 March 2010 of £0.4m (2009: NATSNav has provided shareholders with a guarantee of £3.0m in respect of its 16.67% shareholding in ESSP SAS.

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

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

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

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

22. Retirement benefit scheme (continued)

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 NATS Services. In that way, the existence of a pension deficit or surplus may have an indirect impact upon the company through variations in pension contributions and so the level of those fees.

Contributions to the pension scheme

During the year the company paid cash contributions to the scheme of £22.5m (2009: £14.9m). This amount included £3.6m (2009: nil) 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 27.5% (2009: 22.0%) of pensionable pay. The company is increasing these cash contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost. In response to the triennial valuation, NATS Limited has also agreed a deficit recovery plan with Trustees and from January 2011 it will make further contributions of £2.0m, NATS Services' share being c.£0.5m per month (for calendar year 2011), increasing these by 3.5% each January thereafter.

Company's accounting valuation under international accounting standards

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

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

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

	2010	2009	2008
Inflation	3.65%	3.40%	3.60%
Increase in:			
- salaries	4.15%	3.90%	4.80%
- deferred pensions	3.65%	3.40%	3.60%
- pensions in payment	3.65%	3.40%	3.60%
Expected return on:			
- equities	7.55%	7.05%	7.60%
- property and other assets	7.55%	7.05%	7.60%
- bonds	4.90%	4.40%	4.95%
Discount rate for scheme liabilities	5.65%	6.40%	6.20%

The company moderated the salary growth assumption in the first half of the 2009 financial year in line with a general lowering of expectations and its business plan assumptions.

The mortality assumptions have been drawn from actuarial tables 82% S1NMA and 101% S1NFA medium cohort with a 1% underpin (2009: PMA92 and PFA92 medium cohort). These tables assume that the life expectancy, from age 60, for a male pensioner is 27.6 years (2009:26.3 years) and a female pensioner is 28.7 years (2009: 29.2 years). Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 29.3 years (2009: 27.0 years) and for females to 30.2 years (2009: 29.9 years).

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

Assumption:	Change in assumption:	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease by 11.1%/Increase by 13.0%
Rate of inflation	Increase/decrease by 0.5%	Increase by 13.2%/Decrease by 11.3%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.4%/Decrease by 4.2%
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:

	2010 £m	2009 £m
Current service cost	(22.8)	(21.3)
Past service cost	(0.6)	(0.8)
Expected return on scheme assets	28.1	40.5
Interest cost on scheme liabilities	(29.8)	(31.0)
Total defined benefit charge recognised in arriving at operating profit	(25.1)	(12.6)

22. Retirement benefit scheme (continued)

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

	2010 £m	2009 £m
Actual return less expected return on scheme assets	127.1	(177.0)
Experience gains and losses arising on scheme liabilities	41.6	8.2
Changes in assumptions underlying the present value of the scheme liabilities	(135.3)	68.4
	33.4	(100.4)

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

	2010 £m	2009 £m
Fair value of scheme assets	610.3	446.9
Present value of defined benefit obligations	(593.8)	(461.2)
Surplus/(deficit) in scheme	16.5	(14.3)

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

	2010 £m	2009 £m
At 1 April	446.9	577.1
Expected return on scheme assets	28.1	40.5
Actuarial gains and losses	127.1	(177.0)
Contributions from scheme members	0.1	3.7
Contributions from company	22.5	14.9
Benefits paid	(14.4)	(12.3)
At 31 March	610.3	446.9

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

	2010 £m	2009 £m
At 1 April	(461.2)	(493.3)
Current service cost	(22.8)	(21.3)
Past service costs	(0.6)	(0.8)
Interest cost	(29.8)	(31.0)
Actuarial gains and losses	(93.7)	76.6
Contributions from scheme members	(0.1)	(3.7)
Benefits paid	14.4	12.3
At 31 March	(593.8)	(461.2)

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	
	2010 £m	2009 £m	2010 %	2009 %
Equity Instruments	320.6	235.2	7.55	7.05
Property and other assets	79.2	73.0	7.55	7.05
Bonds	202.0	131.8	4.90	4.40
Cash	8.5	6.9	4.90	4.40
	610.3	446.9	6.64	6.23

22. Retirement benefit scheme (continued)

The five year history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	(593.8)	(461.2)	(493.3)	(525.8)	(487.4)
Fair value of scheme assets	610.3	446.9	577.1	574.1	528.4
Surplus/(deficit) in the scheme	16.5	(14.3)	83.8	48.3	41.0
Experience adjustments in scheme liabilities					
Amount (£m)	41.6	8.2	21.0	(4.8)	10.2
Percentage of scheme liabilities	(7.0%)	(1.8%)	(4.3%)	0.9%	(2.1%)
Experience adjustments in scheme assets					
Amount (£m)	127.1	(177.0)	(37.7)	9.7	83.7
Percentage of scheme assets	20.8%	(39.6%)	(6.5%)	1.7%	15.8%

23. Related party transactions

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

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

Contract arrangements exist between BAA Limited and NATS Services in relation to air navigation services provided at Aberdeen, Edinburgh, Gatwick (up until its sale to Global Infrastructure Partners on 4th December 2009), Glasgow, Heathrow, Southampton, and Stansted airports.

Trading transactions

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

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
BAA Ltd	104.5	151.7	10.5	7.0	15.9	12.9	3.4	1.4
Department for Transport (Dft)	-	0.1	-	-	-	-	-	-
Ministry of Defence (MoD)	5.1	6.5	-	-	0.4	0.4	-	-
Meteorological Office	0.3	-	-	-	-	-	-	-

Sales are made to related parties at the company's usual rates and purchases at market prices.
The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 21.
A provision of £0.3m (2009: £nil) has been made for doubtful debts in respect of amounts owed by related parties.

The Report of the Directors on page 9 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.

24. Subsidiaries

The company owns NATSNav Limited whose principal activity is satellite based navigation services. The cost of the investment is stated at £1. NATSNav is a member of a European Economic Interest Grouping (EEIG). The EEIG is currently being wound up and the activities are now being carried out through European Satellite Services Provider (ESSP) which is a corporate entity providing satellite based services to the European Commission.

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

The company has provided guarantees in respect of its subsidiary (NATSNav Limited), please refer to note 21 for further details.

25. 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, 5th Floor, Brettenham House South, Lancaster Place, London WC2E 7EN.

26. Events after the reporting period

Airspace use restrictions were imposed by the UK and European aviation authorities in response to the risks to aircraft safety from a volcanic ash cloud that drifted across UK and European airspace following the eruption of an Icelandic volcano. This resulted in severely reduced air traffic volumes for a period of 6 days from 15 April 2010 and intermittent disruption through May 2010. The financial effects of this were a cash shortfall from lower billings to customers of c. £2m for the year ending 31 March 2011.
No adjustment has been made to the result for the year ended 31 March 2010 or the financial position at that date.

In May 2010, the Board declared and paid an interim dividend for the year ending 31 March 2011 of £50 per share (totalling £5m) to its parent company.