

NATS Limited

Financial statements

for the year ended 31 March 2009

Company Number: 3155567

Report of the directors

The directors present their report and audited accounts for the company for the year ended 31 March 2009.

Principal activities

The company is a wholly owned subsidiary of NATS Holdings Limited and holds investments in the group's principal operating subsidiaries; NATS (En Route) plc (NERL) and NATS (Services) Limited (NSL). The company acts as employer to all staff within the NATS group and incurs these expenses and others on behalf of subsidiary companies which it recharges through Management Services Agreements (MSA).

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of NATS Limited to NERL and NSL. In addition, the company entered into two MSAs with NERL and NSL on 25 July 2001. These agreements provide for the provision by the company of personnel and central services to NERL and NSL. 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. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the personnel together

with appropriate staff related costs and expenses and disbursements.

Business review and results

The results for the year ended 31 March 2009 are shown in the income statement on page 7 and reflect the results of the company under the MSAs explained above. The company reported an operating profit of £nil (2008: £nil). The company recognised a £9.1m dividend from NERL (2008: £107.6m), a £24.4m dividend from NSL (2008: £12.1m), incurred interest charges of £nil (2008: £8.0m) and received interest of £0.6m (2008: £1.1m).

The company repaid its shareholder loan notes in March 2008, together with accrued interest. This was funded by a dividend received from NERL.

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 full description of the NATS group's principal activities and business review is contained in the accounts of NATS Holdings Limited.

Dividends

An interim dividend of £43.5m was approved and paid in April 2009 (2008:

£2.4m). The Board recommends no final dividend is paid (2008: £nil).

Charitable donations

The company made aggregate donations of £18,322 (2008: £6,600).

Employees

The company 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 Chief Executive Officer maintains high visibility with staff through an annual 'roadshow' to each NATS location, where he briefs them on 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 is further 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 the company's policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

The company 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, disability, marital status, colour, race, ethnic origin, religious belief or sexual orientation, nor is disadvantaged by conditions or requirements applied to any post which cannot be shown to be fair and reasonable under relevant employment law or codes of practice.

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

The company 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 1985 is 13 days (2008: 18 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

Nigel Fotherby

Derek Stevens (resigned 30 September 2008)

Barry Humphreys (resigned 27 November 2008)

Ian Hall

Lawrence Hoskins

Ian Mills

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 parent undertaking NATS Holdings Limited: Paul Barron – 634; Nigel Fotherby - 1,777 and Ian Hall - 1,777.

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

Directors' responsibilities

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

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

Directors are also required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which comply with the requirements of the Companies Act 1985.

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 s234ZA of the Companies Act 1985.

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

Auditors

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

By order of the Board



Andrew Picton
Secretary
25 June 2009

Registered office

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

Registered in England and Wales
Company Number: 3155567

Independent auditors' report to the members of NATS Limited

We have audited the financial statements of NATS Limited for the year ended 31 March 2009 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the directors' report and the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in note 2 to the financial statements, the company in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended.



Deloitte LLP

*Chartered Accountants and Registered Auditors
Southampton, United Kingdom
25 June 2009*

Income statement

for the year ended 31 March 2009

		Year ended 31 March 2009	Year ended 31 March 2008
	Notes	£m	£m
Revenue	4	384.5	393.1
Staff costs	8	(375.4)	(374.4)
Services and materials		(0.5)	(2.3)
Repairs and maintenance		-	(0.1)
Other operating charges		(8.6)	(16.3)
		<u>(384.5)</u>	<u>(393.1)</u>
Net operating costs			
Operating profit	7	-	-
Investment revenue	9	34.1	120.8
Finance costs	10	-	(8.0)
		<u>34.1</u>	<u>112.8</u>
Profit before tax			
Tax	11	(0.3)	-
		<u>(0.3)</u>	<u>-</u>
Profit for the year attributable to equity shareholders		<u><u>33.8</u></u>	<u><u>112.8</u></u>

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

Statement of recognised income and expense

for the year ended 31 March 2009

		Year ended 31 March 2009	Year ended 31 March 2008
	Notes	£m	£m
Actuarial (loss)/gain on defined benefit pension scheme net of tax	17, 23b	(16.3)	6.6
		<u>(16.3)</u>	<u>6.6</u>
Net (expense)/income recognised directly in equity			
Profit for the year	19	33.8	112.8
		<u>33.8</u>	<u>112.8</u>
Total recognised income and expense for the year		<u><u>17.5</u></u>	<u><u>119.4</u></u>

Balance sheet
 at 31 March 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Property, plant and equipment	13	-	-
Investments	25	244.6	244.6
Retirement benefit asset	23	-	19.3
Trade and other receivables	14	0.5	0.4
Deferred tax asset	17	0.9	-
		<u>246.0</u>	<u>264.3</u>
Current assets			
Trade and other receivables	14	57.1	39.0
Cash and cash equivalents	15	51.0	19.5
		<u>108.1</u>	<u>58.5</u>
Total assets		<u>354.1</u>	<u>322.8</u>
Current liabilities			
Trade and other payables	16	(99.0)	(39.7)
		<u>(99.0)</u>	<u>(39.7)</u>
Net current assets		<u>9.1</u>	<u>18.8</u>
Non-current liabilities			
Retirement benefit obligations	23	(3.3)	-
Deferred tax liability	17	-	(5.3)
		<u>(3.3)</u>	<u>(5.3)</u>
Total liabilities		<u>(102.3)</u>	<u>(45.0)</u>
Net assets		<u>251.8</u>	<u>277.8</u>
Equity			
Called up share capital	18	141.0	141.0
Other reserves	19	(50.0)	(50.0)
Retained earnings	19	160.8	186.8
Total equity		<u>251.8</u>	<u>277.8</u>

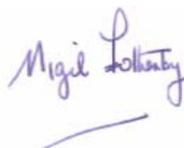
The financial statements were approved by the Board of directors and authorised for issue on 25 June 2009 and signed on its behalf by

Chairman



John Devaney

Finance Director



Nigel Fotherby

Cash flow statement

for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Net cash flow from operating activities	20	<u>(2.8)</u>	<u>0.1</u>
Cash flows from investing activities			
Interest received		0.7	1.0
Contributions to property, plant and equipment		0.1	0.2
Dividends received		33.5	119.7
		<u>34.3</u>	<u>120.9</u>
Net cash inflow from investing activities			
Cash flows from financing activities			
Interest paid		-	(15.0)
Unsecured loan notes repaid		-	(53.6)
Secured loan notes repaid		-	(48.7)
Dividends paid		-	(2.4)
		<u>-</u>	<u>(119.7)</u>
Net cash outflow from financing activities			
Increase in cash and cash equivalents during the year		31.5	1.3
Cash and cash equivalents at 1 April		<u>19.5</u>	<u>18.2</u>
Cash and cash equivalents at 31 March		<u><u>51.0</u></u>	<u><u>19.5</u></u>

1 General information

NATS Limited is a private company limited by shares, incorporated under the Companies Act 1985 and domiciled in the United Kingdom. The address of the registered office is on page 4. The nature of the company's operations and its principal activities are set out in the Report of the Directors.

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

2 Accounting policies

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

Basis of preparation

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

Two interpretations issued by the International Financial Reporting Interpretations Committee become effective for this period. These are: IFRIC 12: *Service Concession Arrangements* and IFRIC 14: *The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction*. The adoption of these Interpretations has not led to any changes in the companies accounting policies.

In addition, the company adopted IFRS 8: *Operating Segments* for the first time in 2008. The impact of adoption of IFRS 8 has been an additional disclosure provided in note 5. There have been no further changes to the basis of reporting as the company's business segments as reported to management are the same as the

primary segments required to be reported under IAS 14 the previous standard. The following interpretations, revisions and amendments to International Financial Reporting Standards have also been adopted in advance of their effective date and have had no effect on the accounting policies of the company: IFRIC 13: *Customer Loyalty Programmes*; 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*; Revisions to IFRS 3 and IAS 27: *Business combination and Consolidated and Separate Financial Statement*; Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*; IFRIC 15: *Agreements for the Construction of Real Estate*; 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 and IFRS 7: *Reclassification of financial asset (updated)*

The following issued but not yet effective interpretations, have not been applied in these financial statements: IAS 23 (revised): *Borrowing costs*, the impact is to remove the option, which the company adopts, that enable borrowing costs on qualifying capital assets to be expensed as incurred. This is not expected to have a significant impact. The revised standard is not effective until the year ending 31 March 2010; Revisions to IAS 1: *Presentation of Financial Statements*, the effect of these revisions are presentational only; and IFRIC 18: *Accounting for Transfers of Assets from Customers* application of this IFRIC is not permitted until the year ended 31 March 2010.

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of National Air Traffic Services Ltd (now NATS Limited) to two wholly owned operating subsidiary companies; NATS (En Route) plc (NERL), and NATS (Services) Ltd (NSL).

In addition the company entered into two Management Services Agreements (MSA) with NERL and NSL on 25 July 2001. These agreements provide for the provision by the company of personnel and central services to NERL and NSL. 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. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company's parent undertaking - NATS Holdings Limited - draws up the accounts for the group for the year ended 31 March 2009 which are filed with the UK Registrar of companies together with the company's accounts.

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 and in accordance with NATS (En Route) plc's air traffic services licence and airports and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence.
- ◆ Sales of goods are recognised when they are delivered and title has passed.
- ◆ Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- ◆ Dividend income is recognised when the shareholder's rights to receive payment have been established.
- ◆ Turnover is recognised in accordance with the Management Services Agreements.

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:

- ◆ Systems: 8-15 years.
- ◆ Plant and other equipment: 3-10 years.
- ◆ Furniture, fixtures and fittings: 10 years.
- ◆ Vehicles: 5 years.

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.

Deferred grants and other contributions to tangible fixed assets

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

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

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

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

Impairment of tangible and intangible assets

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

company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Where an impairment loss on an intangible or tangible asset 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 as income immediately.

Share based payments

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

In 2001, the company established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by The Airline Group for £nil consideration and NESL was gifted cash of £279,264 to acquire additional shares to maintain the Plan's interest at 5% of the share capital of NATS Holdings Limited. The Plan is administered by NESL, a trustee company. The employee ordinary shares may only be owned by employee shareholders and can only be sold to the trust company.

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 to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The costs of running the employee share trust are charged to the income statement.

Taxation

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

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

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

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

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

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.

Retirement benefit costs

The company 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 23. This included closing the defined benefit scheme to new entrants with effect from 1 April 2009, introducing a limit on increases in pensionable pay and

establishing a defined contribution scheme for new entrants effective from 1 April 2009.

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. Pension costs are assessed in accordance with the advice of a qualified actuary using the Projected Unit Credit Method. Actuarial valuations are carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of 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 that proportion, not relating to staff seconded to NERL and NSL, 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.

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.

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 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.

Equity instruments

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.

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 recognised income and expense. 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 affect the balance sheet position and the company's reserves and income statement. Refer to note 23 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 set out note 15. The note also 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 had cash balances of £51m at the balance sheet date together with formal arrangements with its subsidiaries on the recovery of costs. 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 2009.

4. Revenue

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

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Services provided to NATS (En Route) plc	293.1	298.0
Services provided to NATS (Services) Limited	91.4	95.1
	<u>384.5</u>	<u>393.1</u>

All revenue is derived from continuing operations. Note 5 summarises the source of revenues by business and geographical segment. Other revenue is described on the face of the income statement and is included in note 9.

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

For management reporting purposes, the company is currently organised into one business area.

Principal activities are as follows:

The company acts as employer of all staff within the group. The company seconded staff to the two principal operating companies within the group (NERL and NSL). It also provides central services to these two companies. The provision of these services is governed by Management Services Agreements (MSA) between the two operating companies and NATS Limited. In accordance with the MSA, NERL and NSL pay fees to NATS Limited for the provision of the company's services.

Segment information about the provision of these services is presented below.

	Year ended 31 March 2009 Total £m	Year ended 31 March 2008 Total £m
Revenue		
Revenue from internal customers	<u>384.5</u>	<u>393.1</u>
Segmental operating profit		
Investment revenue	34.1	120.8
Finance costs	-	(8.0)
Profit before tax	<u>34.1</u>	<u>112.8</u>
Tax	(0.3)	-
Profit for the year	<u>33.8</u>	<u>112.8</u>
Other information		
Capital expenditure	-	-
Depreciation and amortisation	-	-
Balance Sheet		
Segmental assets	<u>354.1</u>	<u>322.8</u>
Segmental liabilities	<u>(102.3)</u>	<u>(45.0)</u>

Geographical segments

The company's two customers (NERL and NSL) are both located in the UK and all capital expenditure and company assets are also all located within the UK.

All revenue is derived from the company's two customers (NERL and NSL).

6. Restructuring costs

These costs are included in arriving at operating profit (see note 8a).

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Voluntary redundancy costs	-	0.2
Payment for changes in redundancy terms	-	0.2
Included in amounts receivable from other group companies (revenue)	-	(0.4)
	<u>-</u>	<u>-</u>

7. Operating profit for the year

Operating profit for the year has been arrived at after charging:

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Depreciation of property, plant and equipment	-	-
Auditors remuneration for audit services (see below)	-	-
	<u>-</u>	<u>-</u>

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

8 Staff costs

The company is responsible for employing the staff engaged in the activities carried out by both NERL and NSL. Under the terms of the respective Management Services Agreements (MSA) dated 25 July 2001 the services of certain employees are seconded to NERL and NSL by the company. NERL and NSL are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company 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. The total staff costs incurred by the company were:

a Staff costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	325.4	324.5
Social security costs	29.9	29.9
Pension costs (note 8b)	57.3	54.8
	<u>412.6</u>	<u>409.2</u>
Less: amounts capitalised (in other group companies)	(37.2)	(34.8)
	<u>375.4</u>	<u>374.4</u>

* Includes redundancy costs (note 6), share based payment charges, other allowances and holiday pay.

The staff costs for the company net of the staff costs for those staff seconded to NERL and NSL under the respective MSAs were as follows:

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	3.1	14.6
Social security costs	0.3	1.3
Pension costs (note 8b)	0.6	2.3
	<u>4.0</u>	<u>18.2</u>

* Includes redundancy costs, share based payment charges, other allowances and holiday pay.

b Pension costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Pension scheme costs for year (note 23(a))	<u>57.3</u>	<u>54.8</u>

The pension costs for the company net of the pension costs for those staff seconded to NERL and NSL under the respective MSAs were as follows:

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Pension scheme costs for year (note 23(b))	<u>0.6</u>	<u>2.3</u>

c Staff numbers

	Year ended 31 March 2009 No.	Year ended 31 March 2008 No.
The monthly average number of employees (including secondments to NERL and NSL under the MSA) was:		
Air traffic controllers	1,998	2,024
Air traffic service assistants	1,021	1,056
Engineers	1,128	1,159
Others	937	919
	<u>5,084</u>	<u>5,158</u>
The monthly average number of employees excluding secondments to NERL and NSL was:		
Air traffic controllers	4	6
Air traffic service assistants	2	2
Engineers	5	6
Others	49	220
	<u>60</u>	<u>234</u>

Following an internal reorganisation a number of activities and staff supporting these were transferred to the subsidiary companies (NERL and NSL).

9 Investment revenue

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest on bank deposits	0.6	1.1
Income from shares in group undertakings	33.5	119.7
	<u>34.1</u>	<u>120.8</u>

10 Finance costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest payable on other loans and similar charges	-	8.0

11 Tax

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Current tax	(0.1)	-
Deferred tax (note 17. Including a credit of £0.1m in respect of prior years, 2008: nil)	(0.2)	-
	<u>(0.3)</u>	<u>-</u>

Corporation tax is calculated at 28% (2008: 30%) of the estimated assessable profit for the year.

	Year ended 31 March 2009		Year ended 31 March 2008	
	£m	%	£m	%
The tax credit for the year can be reconciled to the profit per the income statement as follows:				
Profit on ordinary activities before tax	<u>34.1</u>		<u>112.8</u>	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2008: 30%)	(9.5)	(28%)	(33.8)	(30%)
Tax effect of dividend income not assessed in determining taxable profit	9.4	28%	35.9	32%
Tax effect of group relief surrendered for nil consideration	-	0%	(2.1)	(2%)
Tax effect of prior year adjustments	0.1	0%	-	0%
Tax effect of corporation tax rate change from 30% to 28%	-	0%	(0.1)	(0%)
Other permanent differences	(0.3)	(1%)	0.1	0%
Tax (charge)/credit for year at an effective tax rate of 1% (2008: 0.0%)	<u>(0.3)</u>	(1%)	<u>-</u>	0%
Deferred tax credit/(charge) taken directly to equity (see note 17)	<u>6.4</u>		<u>(2.1)</u>	

12. Dividends

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year of 30.85 pence per ordinary share (2008: 1.70 pence).	<u>43.5</u>	<u>2.4</u>

13. Property, plant and equipment

The net book value of property, plant and equipment at 31 March 2009 was £nil (2008: £nil). Amortisation charges amounted to £nil (2008: £nil).

14 Financial and other assets

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

Trade and other receivables

	2009 £m	2008 £m
Non-current		
Other debtors	0.5	0.4
	<u>0.5</u>	<u>0.4</u>
Current		
Other debtors	0.8	0.8
Intercompany debtors	55.7	36.7
Prepayments	0.6	1.4
Accrued interest	-	0.1
	<u>57.1</u>	<u>39.0</u>

The company does not have any external customers. Its principal customers are fellow subsidiaries. No allowance has been made for irrecoverable amounts on the outstanding balances. The company's subsidiaries have procedures in place to mitigate against market and financial risk and their financial positions are monitored to ensure that amounts due to the company are recoverable. The company supplies management services to other group companies under the Management Services Agreement.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the company at year end.

The directors consider that the carrying amount of the asset approximates to its fair value.

Overall, the maximum credit risk for the items discussed above would be £108.6m (2008: £58.9m).

15. Financial instruments**Capital Risk management**

The company manages its capital to ensure that it is able to continue as a going concern.

The capital structure of the company consists of cash and cash equivalents and equity attributable to shareholders as disclosed in this note and notes 18 and 19.

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:

	2009 £m	2008 £m
Financial assets		
Loans and receivables (including cash and cash equivalents and short term investments)	<u>108.0</u>	<u>57.4</u>
Financial liabilities		
Amortised cost	<u>(52.8)</u>	<u>(10.0)</u>

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, 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 quarterly 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 (cash flow interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2009 (2008: nil).

Market risk

The company's activities expose it to the financial risk of changes in interest rates on cash deposits. It has no risk as a result of changes in foreign currency exchange rates as it does not generate revenues or make purchases in foreign currencies.

The company is not exposed to interest rate risk on borrowings.

Interest rate risk management

The company had no debt at 31 March 2009 or 31 March 2008.

Economic interest rate exposure

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

2009				2008			
Currency	Cash		Average maturity	Currency	Cash		Average maturity
	Amount	Economic interest rate			Amount	Economic interest rate	
	£m	%	days		£m	%	days
Sterling	50.8	0.5	1	Sterling	19.5	5.4	3
Euro	0.2	-	1	Euro	-	-	-
	<u>51.0</u>				<u>19.5</u>		

15. 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 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 fall by 1%.

	2009 Impact £m	2008 Impact £m
Cash On Deposit (2009: £51.0m, 2008: £19.5m)	<u>0.5</u>	<u>0.2</u>

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by its fellow subsidiaries 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 fellow subsidiaries 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 and Moody's Investors Service.

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 and Moody's rating agencies. Where there is a difference in the rating then the lower of the two ratings is applied.

Currently, the company's investments take the form of bank time deposits. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's 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 the company's deposits at 31 March by credit rating (Standard & Poor's):

Rating (Standard & Poor's)	Number of institutions	2009		2008		
		£m	By credit rating %	£m	By credit rating %	
AA	-	-	0.0%	1	11.5	59.0%
A+	3	35.8	70.2%	-	8.0	41.0%
A	2	15.2	29.8%	1	-	0.0%
		<u>51.0</u>	<u>100.0%</u>	<u>19.5</u>	<u>100.0%</u>	

Liquidity risk management

The responsibility for liquidity management rests with the Board with oversight provided by the Treasury Committee. The company manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. The company had no debt at the year end.

Maturity of financial liabilities

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

	2009 Other liabilities £m	2008 Other liabilities £m
Due within one year or less or on demand	<u>52.8</u>	<u>10.0</u>

Fair values of financial instruments

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

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>108.0</u>	<u>108.0</u>	<u>57.4</u>	<u>57.4</u>
Financial liabilities				
Amortised cost	<u>(52.8)</u>	<u>(52.8)</u>	<u>(10.0)</u>	<u>(10.0)</u>

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

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

	2009 £m	2008 £m
Current		
Trade payables	0.2	0.4
Other payables	-	0.2
Tax and social security	9.1	9.4
Accruals and deferred income	46.2	29.7
Dividend payable to parent company	43.5	-
	<u>99.0</u>	<u>39.7</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 13 days (2008: 18 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Other £m	Total £m
At 1 April 2007	(0.2)	3.4	-	3.2
Charge/(credit) to income	0.1	-	(0.1)	-
Charge to equity	-	2.1	-	2.1
At 31 March 2008	<u>(0.1)</u>	<u>5.5</u>	<u>(0.1)</u>	<u>5.3</u>
Charge to income	0.1	-	0.1	0.2
Credit to equity	-	(6.4)	-	(6.4)
At 31 March 2009	<u>-</u>	<u>(0.9)</u>	<u>-</u>	<u>(0.9)</u>

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.

	2009 £m	2008 £m
Deferred tax liabilities	-	(5.5)
Deferred tax assets	0.9	0.2
	<u>0.9</u>	<u>(5.3)</u>

The directors consider the deferred tax asset to be fully recoverable.

18. Share capital

	Authorised:		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2008 and 31 March 2009	<u>150,000,100</u>	<u>150.0</u>	<u>141,000,005</u>	<u>141.0</u>

19. Reserves

	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2007	(50.0)	69.8	19.8
Movement in statement of recognised income and expense	-	6.6	6.6
Net profit for the year	-	112.8	112.8
Dividends paid	-	(2.4)	(2.4)
Balance at 31 March 2008	<u>(50.0)</u>	<u>186.8</u>	<u>136.8</u>
Movement in statement of recognised income and expense	-	(16.3)	(16.3)
Net profit for the year	-	33.8	33.8
Dividends payable	-	(43.5)	(43.5)
Balance at 31 March 2009	<u>(50.0)</u>	<u>160.8</u>	<u>110.8</u>

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

20. Notes to the cash flow statement

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating profit from continuing operations	-	-
Adjustments for:		
Non-cash element of charge for pensions cost	(0.1)	0.5
Operating cash flows before movements in working capital	(0.1)	0.5
Decrease in trade and other receivables	0.7	1.1
Decrease in trade and other payables	(3.4)	(1.5)
Cash generated from operations	(2.8)	0.1
Tax paid	-	-
Net cash flow from operating activities	(2.8)	0.1

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

	2009 £m	2008 £m
Capital commitments contracted but not provided for in the accounts.	-	-
Minimum lease payments under operating leases recognised in income for the year.	0.2	0.5
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	-	-
In the second to fifth years inclusive	0.9	0.1
After five years	-	1.1
	0.9	1.2

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

22 Share based payments

The company operates an All-Employee Share Ownership Plan for the benefit of employees to hold 5% of the share capital of the company. The plan is administered by NATS Employee Sharetrust Limited. The scheme allows for free shares to be awarded to employees. The shares have a vesting period of 3 years from date of award and may be cash-settled from this date. The shares may be forfeited if the employee leaves within 3 years of the date of award, depending on conditions of departure.

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2009	No. employee shares outstanding at 31 March 2008
21 September 2001	3,353,742	743,598	1,830,334
20 October 2003	2,459,000	691,402	1,974,000
10 September 2004	1,966,000	1,531,600	1,646,800
11 January 2008	1,071,840	988,900	1,064,800
		3,955,500	6,515,934
Dividend shares issued on 28 June 2005		88,431	214,990
Total employee shares in issue at 31 March		4,043,931	6,730,924

22 Share based payments (continued)

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

	Movement in the no. of shares during the year ended 31 March 2009	Movement in the no. of shares during the year ended 31 March 2008
Balance at 1 April	6,730,924	6,275,868
Granted during the year	-	1,071,840
Forfeited during the year	(21,200)	(13,553)
Exercised during the year	(2,665,793)	(603,231)
Balance at 31 March	<u>4,043,931</u>	<u>6,730,924</u>

These shares are valued every six months by independent valuers using discounted cash-flows and income multiple methods of valuation. As at 31 March 2009 the price of an employee share was valued at £2.50 (2008: £2.45). A valuation at 30 June 2008 valued the shares at £2.70. The liability on the balance sheet for the employee shares at 31 March 2009 was £8.6m (2008: £14.2m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £7.1m (2008: £1.3m).

23 Retirement benefit scheme**Background**

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

The Civil Aviation 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 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 the year 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 the scheme on a ratio of 2:1 up to an employer contribution limit of 18%.

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 latest Trustees' funding assessment was prepared as at 31 December 2006, 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.

Trustee's funding assessment

The Trustees' funding assessment of the NATS' section was carried out at 31 December 2006 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 will be 1.9% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and 1.5% higher than the annual increases in pensions.

The market value of the NATS' section's assets as at 31 December 2006 was £2,785.3m. For the purpose of the Trustees' funding assessment assets were taken at market value. After allowing for benefit changes arising from the valuation, the assets were sufficient to cover 112% of the benefits that had accrued to existing members.

23 Retirement benefit scheme (continued)**Company's accounting valuation under international accounting standards**

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

The company is the employer of all staff in the group. Staff are seconded to NERL and NSL under the respective Management Services Agreements (MSA) with these companies (see note 2 above). Under the MSA, the company is obliged to pay all salaries and other benefits (including pension contributions) for the staff. NERL and NSL pay fees to the company for the services it provides including those of the staff. The pensions cost reported below show the costs for both the total staff employed by the company and for the staff who work directly for the company i.e. excluding staff seconded to NERL and NSL.

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 at 31 December 2006 and updated to 31 March 2009 for IAS 19 purposes 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:

	2009	2008	2007
Inflation	3.40%	3.60%	3.20%
Increase in:			
- salaries	3.90%	4.80%	4.40%
- deferred pensions	3.40%	3.60%	3.20%
- pensions in payment	3.40%	3.60%	3.20%
Expected return on:			
- equities	7.05%	7.60%	7.50%
- property	7.05%	7.60%	7.50%
- bonds	4.40%	4.95%	4.73%
Discount rate for scheme liabilities	6.40%	6.20%	5.20%

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 PMA92 and PFA92 medium cohort (2008: PMA92 and PFA92 medium cohort). These tables assume that the life expectancy, from age 60, for a male pensioner is 26.3 years and a female pensioner is 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 27.0 years and for females to 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 10.6%/Increase by 12.2%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.2%/Decrease by 10.6%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.6%/Decrease by 4.4%
Rate of mortality	Increase by 1 year	Increase by 1.8%

(a) The pensions costs of the total staff employed by NATS Limited were:

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

	2009 £m	2008 £m
Current service cost	(98.2)	(110.3)
Past service cost	(5.8)	(3.9)
Expected return on scheme assets	198.8	196.0
Interest cost on scheme liabilities	(152.1)	(136.6)
Total defined benefit charge recognised in arriving at operating profit	(57.3)	(54.8)

Amounts taken to the statement of recognised income and expense are as follows:

	2009 £m	2008 £m
Actual return less expected return on scheme assets	(868.0)	(175.6)
Experience gains and losses arising on scheme liabilities	43.4	100.6
Changes in assumptions underlying the present value of the scheme liabilities	331.4	267.0
	(493.2)	192.0

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:

	2009 £m	2008 £m
Fair value of scheme assets	2,188.9	2,846.2
Present value of defined benefit obligations	(2,258.3)	(2,432.7)
(Deficit)/Surplus in scheme	(69.4)	413.5

23 Retirement benefit scheme (continued)

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

	2009 £m	2008 £m
At 1 April	2,846.2	2,833.1
Expected return on scheme assets	198.8	196.0
Actuarial gains and losses	(868.0)	(175.6)
Contributions from scheme members	16.0	15.8
Contributions from sponsoring companies	67.6	37.7
Benefits paid	<u>(71.7)</u>	<u>(60.8)</u>
At 31 March	<u>2,188.9</u>	<u>2,846.2</u>

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

	2009 £m	2008 £m
At 1 April	(2,432.7)	(2,594.5)
Current service cost	(98.2)	(110.3)
Past service costs	(5.8)	(3.9)
Interest cost	(152.1)	(136.6)
Actuarial gains and losses	374.8	367.6
Contributions from scheme members	(16.0)	(15.8)
Benefits paid	<u>71.7</u>	<u>60.8</u>
At 31 March	<u>(2,258.3)</u>	<u>(2,432.7)</u>

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

	<u>Fair value of assets</u>		<u>Expected return</u>	
	2009 £m	2008 £m	2009	2008
Equity Instruments	1,151.9	1,716.8	7.05%	7.60%
Property	357.3	447.1	7.05%	7.60%
Bonds	645.5	653.4	4.40%	4.95%
Cash	<u>34.2</u>	<u>28.9</u>	<u>4.40%</u>	<u>4.95%</u>
	<u>2,188.9</u>	<u>2,846.2</u>	<u>6.23%</u>	<u>6.97%</u>

The five year history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(2,258.3)	(2,432.7)	(2,594.5)	(2,461.6)	(2,008.8)
Fair value of scheme assets	<u>2,188.9</u>	<u>2,846.2</u>	<u>2,833.1</u>	<u>2,668.60</u>	<u>2,077.8</u>
(Deficit)/Surplus in the scheme	<u>(69.4)</u>	<u>413.5</u>	<u>238.6</u>	<u>207.0</u>	<u>69.0</u>
Experience adjustments in scheme liabilities					
Amount (£m)	<u>43.4</u>	<u>100.6</u>	<u>30.7</u>	<u>27.8</u>	<u>70.1</u>
Percentage of scheme liabilities	<u>(1.9%)</u>	<u>(4.1%)</u>	<u>(1.2%)</u>	<u>(1.1%)</u>	<u>(3.5%)</u>
Experience adjustments in scheme assets					
Amount (£m)	<u>(868.0)</u>	<u>(175.6)</u>	<u>(5.2)</u>	<u>428.1</u>	<u>95.7</u>
Percentage of scheme assets	<u>(39.7%)</u>	<u>(6.2%)</u>	<u>(0.2%)</u>	<u>16.0%</u>	<u>(4.6%)</u>

23 Retirement benefit scheme (continued)**(b) The pensions costs of the staff who work directly for NATS Limited were:**

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2009 £m	2008 £m
Current service cost	(2.8)	(4.8)
Past service cost	-	(0.3)
Expected return on scheme assets	9.1	9.2
Interest cost on scheme liabilities	<u>(6.9)</u>	<u>(6.4)</u>
Total defined benefit charge recognised in arriving at operating profit	<u>(0.6)</u>	<u>(2.3)</u>

Amounts taken to the statement of recognised income and expense are as follows:

	2009 £m	2008 £m
Actual return less expected return on scheme assets	(37.4)	(8.1)
Experience gains and losses arising on scheme liabilities	2.1	5.9
Changes in assumptions underlying the present value of the scheme liabilities	<u>12.6</u>	<u>10.9</u>
	<u>(22.7)</u>	<u>8.7</u>

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

	2009 £m	2008 £m
Fair value of scheme assets	101.0	132.8
Present value of defined benefit obligations	<u>(104.3)</u>	<u>(113.5)</u>
(Deficit)/Surplus in scheme	<u>(3.3)</u>	<u>19.3</u>

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

	2009 £m	2008 £m
At 1 April	132.8	133.1
Expected return on scheme assets	9.1	9.2
Actuarial gains and losses	(37.4)	(8.1)
Contributions from scheme members	0.1	0.6
Contributions from company	0.7	1.7
Benefits paid	<u>(4.3)</u>	<u>(3.7)</u>
At 31 March	<u>101.0</u>	<u>132.8</u>

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

	2009 £m	2008 £m
At 1 April	(113.5)	(121.9)
Current service cost	(2.8)	(4.8)
Past service costs	-	(0.3)
Interest cost	(6.9)	(6.4)
Actuarial gains and losses	14.7	16.8
Contributions from scheme members	(0.1)	(0.6)
Benefits paid	<u>4.3</u>	<u>3.7</u>
At 31 March	<u>(104.3)</u>	<u>(113.5)</u>

23 Retirement benefit scheme (continued)

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

	Fair value of assets		Expected return	
	2009 £m	2008 £m	2009	2008
Equity Instruments	53.2	80.1	7.05%	7.60%
Property	16.5	20.9	7.05%	7.60%
Bonds	29.8	30.5	4.40%	4.95%
Cash	1.5	1.3	4.40%	4.95%
	<u>101.0</u>	<u>132.8</u>	<u>6.23%</u>	<u>6.97%</u>

The five year history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(104.3)	(113.5)	(121.9)	(116.4)	(91.5)
Fair value of scheme assets	<u>101.0</u>	<u>132.8</u>	<u>133.1</u>	<u>126.2</u>	<u>98.3</u>
(Deficit)/Surplus in the scheme	<u>(3.3)</u>	<u>19.3</u>	<u>11.2</u>	<u>9.8</u>	<u>6.8</u>
Experience adjustments in scheme liabilities					
Amount (£m)	<u>2.1</u>	<u>5.9</u>	<u>1.3</u>	<u>(4.4)</u>	<u>1.1</u>
Percentage of scheme liabilities	<u>(2.0%)</u>	<u>(5.2%)</u>	<u>(1.1%)</u>	<u>3.8%</u>	<u>(1.2%)</u>
Experience adjustments in scheme assets					
Amount (£m)	<u>(37.4)</u>	<u>(8.1)</u>	<u>0.6</u>	<u>22.2</u>	<u>6.1</u>
Percentage of scheme assets	<u>(37.0%)</u>	<u>(6.1%)</u>	<u>0.5%</u>	<u>17.6%</u>	<u>6.20%</u>

24 Related party transactions

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

The Airline Group is a consortium of seven airlines: British Airways, bmi, easyJet, Monarch, Thomas Cook, Thomsonfly and Virgin Atlantic. The Airline Group 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 The Airline Group have not been disclosed in this set of accounts.

The company did not have any transactions with the shareholders of NATS Holdings Ltd.

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures. Key management includes the board of directors of the company and the group's principal subsidiaries.

	2009 £m	2008 £m
Short-term employee benefits	5.1	4.4
Post-employment benefits	0.6	0.5
Termination benefits	-	0.1
	<u>5.7</u>	<u>5.0</u>

In addition to the above directly employed personnel, the company's key management also includes personnel employed as consultants who receive fees for their services. The aggregate amount of these fees was £nil (2008: £nil).

Directors' transactions

Paul Barron has disclosed a related party transaction in that his wife Dawn Barron of Human Alchemy had been engaged by the business during the financial year 2008/09 at a cost of £144,344 (2008: £76,422). This work was at the request of Philip James, NERL HR Director and Ian Mills, NERL Chief Operating Officer who have utilised her skills and understanding in specific leadership tools and techniques being introduced across the company.

25. Subsidiaries

Name of Company	Principal activity	Proportion of ordinary shares held and voting rights	Country of Registration	Country of operation	
NATS (En Route) plc	En-route air traffic services	100%	England and Wales	United Kingdom	
NATS (Services) Limited	Airport air traffic services	100%	England and Wales	United Kingdom	
NATSNV Limited	Satellite based navigation	100%	England and Wales	United Kingdom	
					Total £m
Balance of investments at 1 April 2008 and 31 March 2009:					244.6

Pursuant to a loan agreement entered into by NATS (En Route) plc, the company has granted a legal mortgage and fixed charge over its shares in NERL and a floating charge over all other assets.

26. 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.