NATS (En Route) plc

Financial statements
for the year ended 31 March 2009

Company Number: 4129273

CONTENTS

	Page
Business and financial review	1
Report of the directors	18
Report of the independent auditors	22
Income statement	24
Statement of recognised income and expense	24
Balance sheet	25
Cash flow statement	26
Notes forming part of the accounts	27

Company Secretary

Andrew Picton

Registered office

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

Registered in England and Wales
Company No. 4129273

Auditors

Deloitte LLP

This review presents a summary of the operating performance and results, financial position and cash flows of NATS (En Route) plc ("NERL") for the year ended 31 March 2009.

Highlights

- The company had another successful year and delivered a strong set of results. It maintained its safety record, provided customers with good operational service and continued to deliver its critical investment projects.
- NERL handled 2.4m flights during the year, a decrease of 4.4% on last year.
- Average delay per flight was 19.3 seconds (2008: 26.8 seconds). Although some of this reduction was due to the traffic downturn, 98.2 per cent of flights handled experienced no attributable delay.
- NERL reported a strong set of results with profit before tax of £118.0m (2008: £98.4m), before exceptional items. After exceptional items, NERL reported a profit before tax of £66.8m (2008: £62.5m).
- Despite the downturn in traffic, revenues at £627.1m (2008:£617.5m) were 1.6% better than the previous year and operating costs, before exceptional items, were 1.6% lower at £464.5m. Net finance costs, before exceptional items, of £44.6m (2008: £47.1m) were £2.5m less than 2008.
- Net debt increased by £13.9m to £611.9m (2008: £598.0m) reflecting a modest increase in borrowings and a fall in cash balances.

Response to the economic downturn

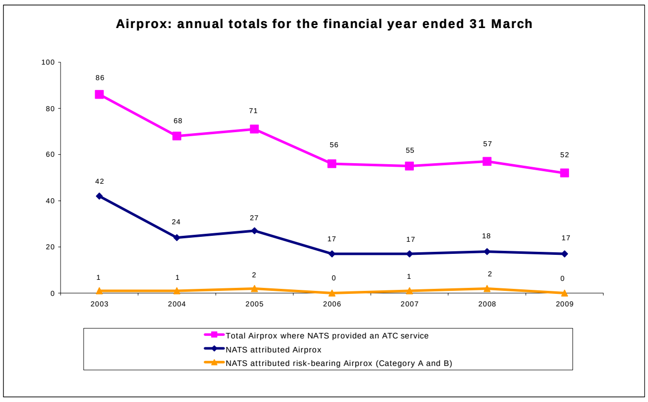
The operating environment is significantly more challenging than it was this time last year arising from lower traffic volumes, the deflationary effect of the recession and increasing pension costs.

Forecasts suggest that traffic volumes may be up to 15% lower over the next two years than expected a year ago with the effect of the downturn now expected to be longer lasting and deeper than the industry experienced after 9/11. In addition, deflation poses a particular challenge for the company as its revenues are generally uplifted by RPI but the cost base is less flexible and mainly staff related. Also, in spite of the steps that have been taken to reform its pension arrangements (see below), the cost of the legacy defined benefit pension scheme continues to increase. The pressures on the industry also mean that NERL can expect a rigorous review of its charges for the next 5 year control period (2011 to 2015).

Against this background the company has taken a number of actions to protect its financial position and protect against further demand risk. These actions include targeting a reduction of £45m

(15%) from the previously planned operating costs base and continuing to focus on managing liquidity and debt levels.

Proactive in Safety



Note: Safety statistics for 2009 include NATS assessment of the outcome of the UK Airprox Board reviews

We continue to maintain safety standards and to enhance those standards wherever possible. We remain committed to the principle of anticipating and preventing safety incidents before they can happen, and avoiding risk bearing airproxes. To this end we have developed a new safety risk index and our strategic plan for safety places emphasis on reducing this risk index particularly in the London terminal control operation.

The Lower Airspace Radar Service (LARS) managed by our controllers at Farnborough Airport to advise private flyers of the boundaries of controlled airspace in the London Terminal Manoeuvring Area has been extended from Heathrow and Gatwick to Luton and Stansted. We estimate that this service, for which the company absorbs the £0.5 million cost, has prevented more than 450 infringements of controlled airspace in the last 18 months.

We have also introduced the Controlled Airspace Infringement Tool (CAIT) which alerts controllers to infringers that have transponders. By doing this we have seen a significant reduction in the severity of events when infringers are transponding.

We have continued to forge closer links with the general aviation community as part of a broader approach to ensure the skies remain safe. From our work on the Aeronautical Information Service to support the flow of safety-related information to private flyers, to the production of a safety DVD for helicopters using the routes over London, we continue to exceed the requirements of our licence.

Our safety focus extends to sharing our observations and successes with our worldwide partners through ICAO (International Civil Aviation Organisation) and CANSO (Civil Air Navigation Services Organisation) to promote advances and to influence international safety policy. There is no question that such an exchange of ideas and strategy is in everyone's interest.

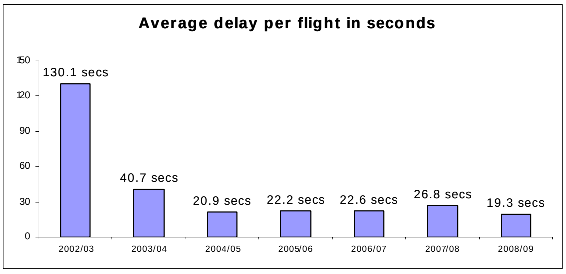
Tuned in to Customers and Driving Efficiency

Our relationship with our customers defines us, our service and how we work. Our focus is to improve the consistency of the service quality we deliver, to implement our programmes in a way which minimises the impact on customers, and to continue driving efficiency to keep prices as low as possible.

The Civil Aviation Authority has begun the process to establish the pricing framework for Control Period Three (CP3) from 2011 to 2015. We are pleased that the CAA is taking a customer-centred approach to this review. With this work now under way, there has never been a better opportunity to understand what our customers' requirements are and for them to influence key aspects of our future plans to help us provide them with the best possible service in a cost effective way.

During 2009, NERL will consult its customers on key strategic issues for CP3 including service quality, fuel and environmental efficiency, long-term investment and costs enabling us to reflect these priorities in our plans. On service quality, we are consulting customers on new targets aimed at ensuring that NATS' attributable delay does not exceed an average of 25 seconds per flight. We are also upgrading our operational contingency arrangements to make them more robust. On cost efficiency, our drive to cut 15% from our cost base is essential to keeping prices as low as possible for the life of the control period.

During 2009 we have reduced air traffic-related delay from 26.8 seconds per flight in 2008 to 19.3 seconds. Although some of this reduction is due to the traffic downturn, 98.2 per cent of the flights we handled experienced no attributable delay.



Significant efforts are being made to address early morning delays during peak periods, such as redesigning airspace over the London airports and the south coast last March. We have jointly agreed stretching targets with our airline customers through the Operational Partnership Agreement, which have been integrated into monthly and weekly targets with our control centres.

Our two-centre strategy will be completed next year when the new Prestwick centre opens. The operational synergies and economies of scale will contribute greatly to our overall efficiency.

Many people have been working very hard for several years to ensure this transfer is as trouble-free as the Terminal Control transfer in 2007 from West Drayton to Swanwick – which went so smoothly, few outside the company knew it had happened. As the Manchester Area Operations Room will be co-located with the Scottish Area at Prestwick, it is vital they are synchronised well ahead of time.
The move north by our Manchester Area team means great change for our staff and their families. We are doing all that we can to ease this transition.

Already, the two operations' rosters are aligned and system and project milestones continue to be met. The move is on course to be on budget and on time and we plan to move the Oceanic team to their new home later this year – two years ahead of schedule. This is further evidence of the confidence we now have in our project capability.

NERL's project capability rating, using an internal equivalent to the internationally recognised CMM standard (on a scale of 0 to 5) now places NERL at level 4, an increase from last year's 3.7. Given that the company was at 1.4 five years ago, this progress suggests that the highest mark of 5 now looks increasingly achievable.

One project which has been some seven years in development is iFACTS – or interim Future Area Control Tools Support.

This enormously complex project is at the leading edge of pioneering engineering expertise and software innovation. Introducing automatic trajectory prediction, it will enhance safety whilst reducing controllers' workload per aircraft – enabling us to increase capacity.

The system has been "shadowing" the live operation in Swanwick's Area Control since March, helping the core project team assess how the system operates in the live environment. It is proving immensely successful and is planned to enter into limited operational service later this year. One of its unique features is a "what if" calculation that looks ahead 20 minutes to warn against any losses of safe separation between aircraft.

Great Partners to Work With

We have worked hard to bring NERL closer to the heart of European air traffic strategy and to help create an environment in our industry where sharing experience and best practice is the norm.

NERL is a member of a group of air traffic management companies in the Single European Sky ATM Research (SESAR) Joint Undertaking. Along with those of France, Germany, Italy, Spain, Ireland, Austria, Estonia and Scandinavia we are helping to identify the systems solutions that will help achieve the Single European Sky (SES).

We are also the first to set up one of the building blocks of the SES. Our development of the Anglo-Irish FAB (Functional Airspace Block), which I announced a year ago, continues and one of our first tangible successes was the implementation of revised airspace over the Irish Sea to streamline arrival and departure flows through our joint airspace.

The FAB has been in existence for nine months and we now have a strategic plan for our first full year of operations as we strengthen the ties which are benefiting our customers with more direct routeings, fewer track miles and lower emissions.

Our membership of ICAO's Committee on Aviation and Environmental Protection and our leadership of CANSO's environmental work are also helping us forge more meaningful links with our fellow air traffic control providers as the industry seeks to understand the best way to ensure sustainable growth. We also continue to work in the UK as part of the Sustainable Aviation coalition which brings together manufacturers, airports, airlines and ourselves to find long-term solutions to the environment challenge.

Acting Responsibly

We said last year that the environment would be a priority for NERL, however difficult that challenge may be. Since then, we have become the first air navigation service provider (ANSP) in the world to benchmark our environmental performance, and to set a target to reduce ATM-related CO_2 by an average of ten per cent per flight by 2020.

We are proud to be taking the lead in the air traffic management (ATM) sector by setting a course for more sustainable operations. Our pioneering benchmarking work showed that circa 26m tonnes of CO_2 were emitted across the UK's network in our baseline year of 2006.

Over the past year, we have trimmed 70,000 tonnes through tactical airspace management changes. Our long-term strategy will identify more fundamental improvements to procedures and airspace design and we will report on progress towards reducing the average fuel burn and emissions per flight by 10% by 2020.

We are part of a global industry and our focus on the environment is in line with the efforts our customer airlines have been making for some years. By examining the role ATM can play, together we can achieve a greater contribution to reducing carbon emissions.

We have shared our environment plan with our ANSP partners through CANSO and ICAO, launching it at ATC Global in Amsterdam – the world's largest gathering of the ATM industry. Reducing environmental impact by ten per cent is one of the key targets for the SESAR project by 2020 and our work is a further demonstration of the effort NERL is making to align our targets with the wider goals of the programme to deliver wider customer benefits across European airspace.

We have also pledged that our estate will be carbon-neutral by 2011. From setting up a salary-sacrifice scheme for commuter bicycles to installing solar power panels to service the gatehouse at Swanwick, incremental steps are being taken that will help us down this path.

Liberating and Inspiring People

Working Together is important in maintaining good industrial relations. We have a constructive relationship with our union colleagues and this has enabled us to tackle a number of challenging issues together over the past year, such as pensions and voluntary redundancy.

In order to manage the future costs and risks of final salary pension benefits provided to existing employees, we have had to take the difficult decision to close the scheme to new entrants while at the same time introducing a money purchase scheme for new employees from 1 April 2009. As a scheme member and as Chief Executive, I knew it was critical to address the risk posed by the escalating costs of the scheme, which were becoming unsustainable.

Together with our trade union colleagues, we spoke to everyone in the company in a number of sessions as part of a formal consultation late last year. This was a challenging discussion on a subject our people feel very strongly about. However, they also recognised that change was vital and voted in favour of the reforms.

I am grateful for a constructive and mature debate, ensuring the right outcome for the pension scheme and the future of the company.

Difficult times require imaginative solutions and the testing times we and our customers currently face call for renewed commitment from our people, whose efforts already make this company what it is. Continuing to improve the leadership capability of our managers is also key to this. This year our managers have been involving people in creating and achieving local targets which are consistent with our brand values.

Inspiring our people has never been more important – and knowing how our people feel is central to that. The response to our annual Talkback employee survey is up from a very good 78 per cent last year to 80 per cent this year: evidence that a healthy dialogue is still taking place and people are contributing.

We have also encouraged employees to look beyond the workplace and take their acknowledged teamwork and project management capability into the community. People across the company have become involved in dozens of community projects: ranging from beach-clearance and allotment-digging to coaching children to achieve success in GCSE examinations. It's our way of giving something back to the communities where we live and work.

Overview of Financial Performance

The company reported a profit before tax for the year of £66.8m (2008: £62.5m) and a profit after tax of £34.6m (2008: £47.1m).

	2009 £m	2008 £m
Turnover	**627.1**	617.5
Operating profit		
- Operating profit before exceptional items	162.6	145.5
- Exceptional items	(51.2)	(20.1)
	111.4	125.4
Profit before taxation		
- Profit before tax and exceptional items	118.0	98.4
- Exceptional items	(51.2)	(35.9)
	66.8	62.5
Profit after tax		
- Profit after tax before exceptional items	85.1	72.9
- Exceptional items (net)	(50.5)	(25.8)
	34.6	47.1

The results for this and the last financial year included certain revenue and expense items that were material in terms of their size and incidence and which have been reported as exceptional items. For 2009, the result included: staff redundancy costs of £25.2m (2008: £14.6m) incurred in response to the economic downturn; £26.0m (2008: £5.5m) for the costs of relocating staff from the Manchester control centre to Prestwick and from West Drayton to Swanwick; and a deferred tax charge of £13.6m following the withdrawal of industrial buildings allowances. The result for 2008 also included a redemption charge of £15.8m following repayment of high interest shareholder loans.

Exceptional items	**2009 £m**	2008 £m
Redundancy and related costs	**(25.2)**	(14.6)
Relocation costs	**(26.0)**	(5.5)
	(51.2)	(20.1)
Redemption payment	**-**	(15.8)
Net exceptional items before tax	**(51.2)**	(35.9)
Tax effect of the items above	**14.3**	10.1
Tax effect of the withdrawal of IBAs	**(13.6)**	-
	(50.5)	(25.8)

Underlying profit before tax, before these exceptional items, was £118.0m (2008: £98.4m). This was attributable to revenue growth from price increases, a reduction in operating costs and the benefit of action taken last year to repay shareholder loans. Profit after tax, before exceptional items, was £85.1m (2008: £72.9m).

Revenues

Overall traffic volumes were 4.4% lower than the previous year, volumes fell by 9.3% during the second half of the year as airlines adjusted their flight schedules in response to the global economic slowdown.

	2009 ('000s)	2008 ('000s)	% change in year
Chargeable Service Units	**10,601**	10,850	(2.3%)
Chargeable Distance (km)	**771,270**	799,071	(3.5%)
Total UK traffic (flights):			
Domestic	**470**	495	(5.0%)
Transatlantic	**336**	343	(2.0%)
Other	**1,566**	1,642	(4.6%)
Total	**2,372**	2,480	(4.4%)
Oceanic traffic (flights)			
Total flights	**416**	422	(1.4%)

In spite of the downturn, revenues increased by £9.6m to £627.1m (2008: £617.5m) and mainly reflected improved UK en route revenue and growth in MoD income. Revenues are explained in more detail by business segment below.

Operating costs

Before exceptional items and asset-related charges, operating costs decreased by £5.5m to £386.9m (2008: £392.4m).

Operating costs for the year are analysed as follows:

	2009 £m	2008 £m
Before exceptional items:		
Employee costs	**(256.9)**	(252.0)
Service and materials	**(46.0)**	(53.9)
Repairs and maintenance	**(25.1)**	(23.2)
External research and development	**(0.3)**	(0.3)
Other operating charges (net)	**(58.6)**	(63.0)
	(386.9)	(392.4)
Depreciation, amortisation and impairment	**(79.7)**	(82.8)
Deferred grants	**2.1**	3.2
Operating costs	**(464.5)**	(472.0)

The increase in employee costs and the reduction in other operating charges reflect an internal re-organisation that took place in the year. Following this, a number of staff supporting services whose primary objective is to support the NERL business have been seconded to NERL by NATS, NERL's parent. The staff costs associated with these services were therefore borne directly by NERL rather than recovered through inter-company charges from NATS, as in the prior year. To the extent that seconded staff also provided services to NATS (Services) Limited (NSL), a fellow subsidiary, NERL recovered the costs of these services through an appropriate recharge. The cost of staff providing group head office type services were still borne directly by NATS and recovered from both NERL and NSL through inter-company charges. These arrangements are consistent with the management services and inter-company services agreements described in note 2 to the accounts.

For these reasons, employee-related costs of £256.9m (2008: £252.0m), which account for 55% (2008: 53%) of the company's total operating costs, were 1.9% higher than the previous year. Before the additional transfer of seconded staff and their services, NERL's staff costs would have been lower than the previous year principally due to lower charges for staff benefits such as holidays and employee shares and the benefit of buying back London weighting allowances in the prior year.

The company employed an average of 3,913 (2008: 3,797) staff through the year. Employees in post at 31 March 2009 increased by 158 to 3,900 (2008: 3,742).

Non-staff costs at £130.0m (2008: £140.4m) decreased by £10.4m or 7.4%. For the reason given above, the previous year's costs included inter-company charges from NERL's parent for staff costs that are now borne directly by the company. This explains much of the reduction. In addition, the company was able to benefit from lower facilities costs following the closure of West Drayton in 2008. Partly offsetting these factors were charges for bad debts, limited under NERL's charge control conditions to £1.5m, following a number of airline failures in the year and a contract termination provision.

Depreciation, amortisation and impairment charges of £79.7m (2008: £82.8m) were £3.1m lower than the previous year as some Swanwick assets are now fully depreciated and following a review of asset lives and replacement plans.

Net Finance costs

Net finance costs, before exceptional items, at £44.6m (2008: £47.1m) were £2.5m lower than last year. This mainly reflected a £7.5m reduction in the charge of £11.5m (2008: £19.0m) from marking to market the index-linked swap, the value of which is dependent on market expectations of inflation and yields on long-dated gilts, offset in part by £4.5m less interest receivable on bank deposits.

Taxation

The tax charge, before exceptional items, was £32.9m (2008: £25.5m) at an effective rate of 27.9% (2008: 25.9%).

Exceptional tax charges included a one-off provision of £13.6m to reflect the withdrawal of industrial buildings allowances in the 2008 Finance Act. After exceptional items, the effective tax rate was 48.2% (2008: 24.6%).
Other factors affecting the tax charge for the year are set out in note 10 to the accounts.

UK air traffic services

	2009 £m	2008 £m
Turnover	**603.6**	593.7
Operating costs	**(368.4)**	(374.9)
Depreciation, amortisation, impairment and deferred grants	**(74.8)**	(77.1)
Exceptional items	**(50.2)**	(20.1)
Operating profit	**110.2**	121.6
Chargeable Distance (millions km)	**771.3**	799.1
Chargeable Service Units (000)	**10,601**	10,850

UK air traffic services are provided under the regulatory regime and comprise UK en route services, London approach services, services provided under the contract with the MoD and services to North Sea helicopter operators.

Revenues from these sources can be analysed as follows:

	2009 £m	2008 £m
UK en route services	**527.0**	522.2
Support services to MoD	**44.9**	43.2
London approach services	**8.4**	8.7
North Sea helicopters	**7.3**	6.3
	587.6	580.4
Services to other group companies	**16.0**	13.3
	603.6	593.7

Income from UK en route services, which are provided to traffic operating in those parts of UK airspace which constitute controlled airspace, increased by £4.8m in the year to £527.0m (2008: £522.2m). The increase in income reflected higher charges derived from higher RPI in August 2008 built into the annual adjustment to charges under the RPI minus "X" economic regulatory formula. This increase offset the unexpectedly severe reduction in the volume of air traffic handled (down 3.5% to 771.3m kilometres flown). The volume risk sharing mechanism afforded some protection against the traffic downturns, enabling NERL to recover 50% of the shortfall below a regulatory baseline. This mechanism also provides for further protection against even more severe traffic downturns. NERL also recognised a service performance bonus in the year reflecting an improvement in the level of attributable delay per flight. London approach services, which are provided to aircraft arriving at or departing from Heathrow, Gatwick and Stansted airports, generated £8.4m (2008: £8.7m). Revenues from these services are combined with those from UK en route services and capped by the charge control conditions. The specific charge for London Approach is levied based on aircraft landed tonnage. Rates per tonne remained unchanged in the year at 20 pence up to 100 tonnes and at 8 pence per tonne above this. Landed tonnage decreased by 3.2% to 53.9m tonnes (2008: 55.7m tonnes).

NERL has a contract to provide services and support infrastructure to the MoD for military air traffic services. Revenues generated under the contract amounted to £44.9m (2008: £43.2m) with the increase arising from a combination of higher rates and additional services provided.

Charges for services to North Sea helicopter operators are levied on the basis of a charge per round trip flight. Revenues increased by £1.0m to £7.3m (2008: £6.3m) reflecting both an increase in the rate charged and volume handled to 40,728 (2008: 38,495).

Operating costs for UK air traffic services, excluding exceptional items, decreased by 1.7% to £368.4m (2008: £374.9m). As explained above, a number of staff were seconded to NERL by its parent company in the year. As a result, staff costs increased due mainly to staff transferring to this business segment. This offset the benefit of lower charges for holiday pay, employee share scheme costs, overtime and allowances. Non-staff costs were lower than the previous year due mainly to lower inter-company cost recharges and the benefit of lower facility costs, following the closure of West Drayton in 2008. These factors were partly offset by the costs of a contract termination and bad debts following the failures of Zoom, XL Airways and Futura. The regulatory mechanism limits NERL's losses from bad debts to £1.5m per annum.

Asset-related charges for depreciation net of deferred grants decreased by £3.7m to £72.1m (2008: £75.8m). Lower net depreciation charges reflected a review of the replacement plans for certain assets and that certain Swanwick systems, first implemented in 2001, are now fully depreciated. Charges for asset impairment were £2.7m (2008: £1.3m).

Exceptional charges of £50.2m (2008: £20.1m) related to staff redundancy costs, the costs of relocating staff to Prestwick given the closure of the Manchester control centre in 2010 and the transfer of staff to Swanwick following the closure of West Drayton in 2008.

UK air traffic services generated an operating profit of £110.2m for the year which was £11.4m lower than last year (2008: £121.6m) due to exceptional costs which offset the benefit of better revenues and lower operating costs.

North Atlantic air traffic services

	2009 £m	2008 £m
Turnover	**23.5**	23.8
Operating costs	**(18.5)**	(17.5)
Depreciation and amortisation	**(2.8)**	(2.5)
Exceptional items	**(1.0)**	-
Operating profit	**1.2**	3.8
Total flights (000)	**416**	422
Chargeable flights (000)	**414**	420

North Atlantic air traffic services are en route services provided by NERL in the Shanwick Oceanic Control Area (part of the North Atlantic where the UK provides navigation services by international agreement and where communications are provided by the Republic of Ireland). The charges for these services are levied on a per flight basis and are subject to regulatory charge control conditions that allow for the annual adjustment of prices by the movement in the RPI less a specified percentage. Revenues at £23.5m (2008: £23.8m) were £0.3m lower than the prior year. Flight volumes decreased by 1.6% to 413,600 (2008: 420,267) and more than offset the modest increase in rate per flight from £55.68 to £55.73.

Operating costs at £18.5m were £1m higher than the previous year (2008: £17.5m) due mainly to the costs of seconded staff and non-staff costs. Asset-related charges for depreciation, amortisation and impairment net of deferred grants also increased by £0.3m to £2.8m (2008: £2.5m).

Exceptional costs of £1.0m related to redundancy costs.

Overall, North Atlantic air traffic services generated an operating profit of £1.2m, £2.6m lower than the previous year (2008: £3.8m) principally due to higher operating costs, depreciation charges and exceptional items.

Balance sheet

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

	2009 £m	2008 £m
Goodwill	**351.0**	351.0
Intangible fixed assets	**149.8**	114.2
Property, plant and equipment	**615.7**	584.9
Other non-current assets	**1.4**	3.9
Cash and short term deposits	**83.4**	93.2
Other net current liabilities	**(10.8)**	(11.6)
Derivatives	**(82.5)**	(74.1)
Pension scheme (deficit)/surplus	**(51.8)**	310.4
Borrowings	**(695.3)**	(691.2)
Provisions and other non-current liabilities	**(92.4)**	(171.8)
Net assets	**268.5**	508.9

Shareholders' funds decreased by £240.4m from £508.9m last year. The reduction is mainly a function of the movement on the pension scheme, net of deferred tax, which was in surplus last year and is now in deficit. In addition, a dividend of £9.1m was paid by the company to its parent during the year. This also represented a reduction in equity. These movements were partly offset by the retained profit for the year.

Cash balances decreased by £9.8m from £93.2m to £83.4m, reflecting the dividend payment. Other net current liabilities included provisions for staff redundancy and relocation. The fair value liability of derivative financial instruments increased in the year due mainly to the RPI swap.

Provisions and other non-current liabilities of £92.4m (2008: £171.8m) include deferred tax provisions which, at £81.3m, were £83.0m lower than prior year mainly due to the movement on the pension scheme.

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

Capital expenditure

The company invested £146.0m in the year, £13.3m more than the previous year, in the following areas:

	2009 £m	2008 £m
Airspace development	**3.4**	3.9
Business systems	**4.6**	6.7
Future centres programme	**47.2**	22.3
Communications, navigation and surveillance	**8.4**	19.1
Radar site services	**13.8**	16.5
Current software systems	**35.3**	26.8
Prestwick/Manchester programme	**31.7**	23.6
Swanwick/West Drayton programme	**0.4**	9.8
Other	**1.2**	4.0
Total	**146.0**	132.7

The company continued to increase investment in its future centres systems which includes advanced controller tools such as Arrival Manager which provides reduced airborne holding and the more efficient management of arrivals into airports, Electronic Flight Data which replaces paper flight data strips by electronic “smart strips” and the interim Future Air Traffic Control Tools Support project which is based on trajectory prediction and conflict detection. The company also incurred further significant expenditure in completing the final stages of the new Prestwick centre systems and on the development of a new flight data processing system – interoperability Through European Collaboration (iTEC) - which will be compatible with European systems. The company spent less on Communications, Navigation and Surveillance following the completion of its Data and Voice Integrated NATS Communications Infrastructure (DaVINCI) project last year and on the successful transition of the West Drayton air traffic control operations to Swanwick.

Pensions

At 31 March 2009, measured under international accounting standards, the pension scheme was in deficit with liabilities exceeding assets by £51.8m. This compared with a surplus of £310.4m at 31 March 2008. The reduction in the scheme’s valuation was mainly due to the performance of the scheme’s investments, which were £495m lower mainly in response to the downturn in global stock markets. This effect was partly mitigated by a reduction in pension obligations by £133m due to an increase in the prescribed discount rate from 6.2% to 6.4% and a change to more moderate salary growth expectations.

During the year the company paid cash contributions to the scheme of £52.0m (2008: £28.2m) at a rate of 22.0% (2008: 12.2%) of pensionable pay. The company is increasing its cash contributions from May 2009 to an effective rate of 25.0% of pensionable pay for the 2009 calendar year and projects a rate of 30% for 2010. This is in anticipation of the 31 December 2009 triennial valuation and any agreement on a deficit recovery plan that may arise in the event that the scheme is in deficit at that date.

Treasury management

The gross borrowings of the company at £695.3m increased modestly on the previous year (2008: £691.2m) due mainly to inter-company loans used to fund staff relocations. Cash and investments decreased by £9.8m to £83.4m (2008: £93.2m): £9.1m was paid to the company’s parent as a dividend in March 2009. Overall, net debt increased to £611.9m (2008: £598.0m).

Movements in net debt

	Cash and short term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2008	93.2	(691.2)	(598.0)
Cash flow	(8.2)	(3.1)	(11.3)
Short term investments	(1.6)	-	(1.6)
Non-cash movements:	-	(1.0)	(1.0)
Balance at 31 March 2009	**83.4**	**(695.3)**	**(611.9)**

Risks and uncertainties

The principal operational risks and uncertainties of the company are described above. Specifically, these include risks associated with aircraft safety, provision of en route capacity, service resilience, project delivery and industrial action.

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

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

- currency risk: the company's objective is to reduce the effect of exchange rate volatility on short term profits. Transactional currency exposures that could significantly impact the Income Statement are hedged, typically using forward sales of foreign currencies. The company's most significant currency exposure arises because UK en route charges, which contribute 84% (2008: 85%) of total turnover, are set in sterling but are billed and collected in euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The resultant currency risk is materially eliminated by entering into forward foreign exchange contracts. At the year end, forward foreign currency transactions entered into to buy and sell sterling, designated as cash flow hedges, equivalent to £66.9m (net) were outstanding (2008: £72.3m) as detailed in note 18.
- interest rate and inflation risk: the company's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. At the time of the PPP in 2001, in view of NERL's high gearing and the fact that cash holdings were forecast to be minimal, the company adopted a policy of hedging projected gross borrowings. As a result of NERL's improved financial performance, cash holdings have increased significantly since 2001. Hence in September 2006, NERL moved from a strategy of hedging gross debt to hedging net debt in order to reduce its exposure

to interest rate risk on its cash holdings.

To achieve an economic hedge of NERL's regulated revenue, most of which is linked to the movement in the retail price index ("RPI"), an index-linked swap with a notional principal of £200m was entered into in August 2003 whereby NERL receives fixed interest and pays interest at a rate adjusted for the movement in RPI. The swap was a hedge under UK GAAP but is required to be categorised under IFRS as held for trading.

As at 31 March 2009 (after derivatives), approximately 96.7% of NERL's net debt (2008: 98.8%) was either at fixed rates or at rates indexed to inflation.

- counterparty risk: as at 31 March 2009 the company had cash and deposits (shown as short term investments) totalling £83.4m. To minimise risk, funds may only be invested in high quality liquid investments. Credit risk associated with the investment of surplus funds (and from the use of interest rate and currency hedging derivatives) is managed by setting limits for counterparties based on their credit rating. An aggregate limit has also been established for each counterparty.
- liquidity risk: in addition to undrawn committed bank facilities totalling £138.7m, as at 31 March 2009 the company had cash and short term deposits totalling £83.4m. Included in cash of £67.8m is a liquidity reserve account balance of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short term deposit of £15.6m represents a debt service reserve account to fund interest and fees scheduled for payment in the 6 months ending 30 September 2009. The company's policy is to hold free cash within NERL equivalent to between one and two months' of UK en route services revenue (of between £43m and £85m) and to use surplus cash to reduce borrowings.
- funding risk: the policy of the company is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long term funding to finance its long term assets. Hence, the company's borrowings include a £600m amortising bond with a final maturity date of 2026. In addition, NERL has bank facilities totalling £216.2m of which £11m matures in 2010, £34.25m in 2011 and c.£170.95m in 2012.

Cash flow

Overall, the company's cash balances fell by £8.2m in the year to £67.8m (2008: £76.0m).

	2009 £m	2008 £m
Cash generated from operations	181.6	243.0
Taxation	(14.4)	(12.2)
Net cash from operating activities	167.2	230.8
Interest received	4.5	8.7
Capital expenditure	(140.3)	(138.6)
Sales of property, plant and equipment	1.0	0.1
Change in short-term investments	1.6	1.2
Net cash outflow from investing activities	(133.2)	(128.6)
Interest paid	(36.2)	(36.5)
Loan redemption payment	-	(15.8)
Loan repayments	-	(65.0)
Bank drawings and other loans	(0.3)	78.9
Inter-company loan	3.4	-
Dividends paid	(9.1)	(107.6)
Net cash outflow from financing costs	(42.2)	(146.0)
Decrease in cash and equivalents	(8.2)	(43.8)

Net cash from operating activities at £167.2m was £63.6m lower than 2008 (2008: £230.8m) reflecting higher cash contributions to the pension scheme and the effect of the lower traffic levels on cash receipts.

Net cash outflows from investing activities at £133.2m (2008: £128.6m), were £4.6m higher than 2008, reflecting lower interest received and higher capital expenditure.

Net cash outflows of £42.2m from financing activities were £103.8m lower than the prior year (2008: £146.0m). Last year the company financed the repayment of its shareholder loan notes with surplus cash and by drawing on its bank facilities. It also paid a dividend last year to its parent to enable NATS to repay the shareholder loans that it held.

The company held short term deposits maturing after more than 3 months of £15.6m (2008: £17.2m) representing a debt service reserve account to fund finance payments due to be made in the six month period ending 30 September 2009.

Going concern

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows, liquidity position and borrowings are set out in the Business and Financial Review above. In addition, note 18 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As at 31 March 2009, the company had unutilised bank facilities of £138.7m and cash and short term deposits of £83.4m. The majority of the company's bank facilities do not mature until November 2012 and payments on its £600m bond do not commence until March 2012. As such, the company has adequate liquidity to meet its funding needs in the medium term without seeking new funding. The considerable headroom on its borrowing facilities and substantial levels of cash holdings provide the company with liquidity in the event of a prolonged period of lower traffic volumes. The UK en route business also benefits from some protections against traffic volume risk afforded by its regulatory charge control conditions and other sources of income are generated mainly from long-term contracts. The company is also actively seeking to reduce its operating cost base through the costs saving programme described above 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 2009.

Outlook

The best long term view of the future is that demand for aviation will increase. In a global economy, that has to be the case.

Looking back over a career spanning nearly 30 years in management, my view is that whilst ensuring we ride out this current recession, we must be prepared for the upturn when it arrives. Whatever the prevailing conditions, NERL will always be built on safety, capacity and the environment.

The CP3 review will undoubtedly be a challenging process and the demands facing the airline industry mean the pressure on us to reduce costs will be intense and the expectation on us to continue the process of finding savings will remain.

This time next year I will have stepped down after six years as Chief Executive of this incredible company. The next year holds many challenges and milestones, foremost of which is the completion and entry into service of the Prestwick Centre, the culmination of our long-term, two-centre strategy.

Whilst there is always much still to do, I am proud of what we have achieved over the five years of CP2 and confident that NERL will continue to deliver exceptional performance well beyond my tenure.

Paul Barron
Chief Executive Officer

Report of the directors

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

Principal activities and business review

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

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

The company is subject to regulation in accordance with the Air Traffic Services Licence which was originally issued in March 2001 and has been modified on a number of occasions. The company generates revenues from UK air traffic services and North Atlantic air traffic services. The former comprises domestic en route services charged by Eurocontrol based on chargeable service units (a function of average weight of the aircraft and distance flown through UK airspace), support services provided to the Ministry of Defence, London Approach services and services provided to North Sea Helicopters.

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 review of the company's activities and performance during the year, including key performance indicators and comments on principal risks and uncertainties, is contained in the Business and Financial Review on pages 1–17.

Results and dividends

The results for the period are shown in the income statement on page 24. An interim dividend of £9.1m was paid in the year (2008: £107.6m) and the Board recommends a final dividend of nil (2008: £nil).

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

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

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

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 1985 is 38 days (2008: 33 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
Ian Hall
Lawrence Hoskins (until 1/10/2008)
Barry Humphreys (until 27/11/2008)
Ian Mills
Derek Stevens (until 30/09/2008).

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: Paul Barron – 634; Nigel Fotherby - 1,777; 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.

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: 4129273

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

We have audited the financial statements of NATS (En Route) plc for the year ended 31 March 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 28. 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.

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

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	Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m	Before exceptional items £m	Exceptional items (Note 6a) £m	Total £m
Revenue	4	627.1	-	627.1	617.5	-	617.5
Staff costs	7	(256.9)	(25.2)	(282.1)	(252.0)	(14.6)	(266.6)
Services and materials		(46.0)	-	(46.0)	(53.9)	-	(53.9)
Repairs and maintenance		(25.1)	-	(25.1)	(23.2)	-	(23.2)
External research and development		(0.3)	-	(0.3)	(0.3)	-	(0.3)
Depreciation, amortisation and impairment	6b	(79.7)	-	(79.7)	(82.8)	-	(82.8)
Profit on disposal of non-current assets		0.8	-	0.8	1.2	-	1.2
Other operating charges		(59.8)	(26.0)	(85.8)	(67.1)	(5.5)	(72.6)
Other operating income		0.4	-	0.4	2.9	-	2.9
Deferred grants released	6b	2.1	-	2.1	3.2	-	3.2
Net operating costs		(464.5)	(51.2)	(515.7)	(472.0)	(20.1)	(492.1)
Operating profit / (loss)	6	162.6	(51.2)	111.4	145.5	(20.1)	125.4
Investment revenue	8	4.7	-	4.7	9.2	-	9.2
Finance costs	9	(49.3)	-	(49.3)	(56.3)	(15.8)	(72.1)
Profit / (loss) before tax		118.0	(51.2)	66.8	98.4	(35.9)	62.5
Tax	10	(32.9)	0.7	(32.2)	(25.5)	10.1	(15.4)
Profit / (loss) for the year attributable to equity shareholders		85.1	(50.5)	34.6	72.9	(25.8)	47.1

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 £m	Year ended 31 March 2008 £m
Actuarial (loss)/gain on defined benefit pension scheme net of deferred tax	20,22,25	(266.5)	107.9
Change in fair value of hedging derivatives net of deferred tax	22	2.3	(2.8)
Net (expense) / income recognised directly in equity		(264.2)	105.1
Transfer (from)/to income statement on cash flow hedges net of deferred tax	22	(1.7)	2.5
Profit for the year	22	34.6	47.1
Total recognised income and expense for the year		(231.3)	154.7

Balance sheet

at 31 March 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	149.8	114.2
Property, plant and equipment	14	615.7	584.9
Retirement benefit asset	25	-	310.4
Trade and other receivables	15	1.4	3.9
		1,117.9	1,364.4
Current assets			
Trade and other receivables	15	114.1	111.1
Short term investments	18	15.6	17.2
Cash and cash equivalents		67.8	76.0
		197.5	204.3
Total assets		1,315.4	1,568.7
Current liabilities			
Trade and other payables	19	(121.9)	(117.1)
Borrowings	16	(1.2)	-
Current tax liabilities		(3.0)	(5.6)
Derivative financial instruments	17	(82.5)	(74.1)
		(208.6)	(196.8)
Net current (liabilities) / assets		(11.1)	7.5
Non-current liabilities			
Borrowings	16	(694.1)	(691.2)
Trade and other payables	19	(11.1)	(7.5)
Retirement benefit obligations	25	(51.8)	-
Deferred tax liability	20	(81.3)	(164.3)
		(838.3)	(863.0)
Total liabilities		(1,046.9)	(1,059.8)
Net assets		268.5	508.9
Equity			
Called up share capital	21	10.0	10.0
Hedge reserve	22	0.2	(0.4)
Special reserves	22	33.7	33.4
Other reserves	22	31.0	37.4
Retained earnings	22	193.6	428.5
Total equity		268.5	508.9

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	23	167.2	230.8
Cash flows from investing activities			
Interest received		4.5	8.7
Purchase of property, plant and equipment and other intangible assets		(140.3)	(138.6)
Sales of property, plant and equipment		1.0	0.1
Changes in short term investments		1.6	1.2
Net cash outflow from investing activities		(133.2)	(128.6)
Cash flows from financing activities			
Interest paid		(36.2)	(36.5)
Secured loan notes repaid		-	(65.0)
Inter-company loan		3.4	-
Redemption payment		-	(15.8)
Bank and other loans		(0.3)	78.9
Dividends paid		(9.1)	(107.6)
Net cash outflow from financing activities		(42.2)	(146.0)
Decrease in cash and cash equivalents during the year		(8.2)	(43.8)
Cash and cash equivalents at 1 April		76.0	119.8
Cash and cash equivalents at 31 March		67.8	76.0
Net debt (representing borrowings net of cash and short term investments)		(611.9)	(598.0)

1 General information

NATS (En Route) plc is a company incorporated under the Companies Act 1985 and domiciled in the United Kingdom. The address of the registered office is on page 21. The nature of the company's operations and its principal activities are set out in the Directors' report and in the business and financial review.

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

2 Accounting policies

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

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 16. 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 company's 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 additional disclosure 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. The effect of this is estimated to result in a reduction in borrowing costs and an increase in assets of c. £3m in future periods. The revised standard is not effective until the year ending 31 March 2010; Revisions to IAS 1: *Presentation of Financial Statements*. The effects 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 (PPP) transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Ltd (now NATS Limited) to this company.

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

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

- approach control service for London Luton airport;
- training services;
- radar data services at NSL airports;
- engineering and software support services;
- research and development for NSL airports division and business development division; and
- other services to NSL business development division (for example - consultancy and engineering services).

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

- North Sea helicopter advisory service;
- air traffic services in certain sectors;
- services to London Approach service (engineering services, use of communications facilities);
- accommodation and support services to NERL units sited on NSL Heathrow premises; and
- miscellaneous other services.

The company commenced trading from 26 July 2001.

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

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

Goodwill
Goodwill arising on consolidation in relation to NATS (En Route) plc, being the excess of consideration over the values of the net assets acquired at the date of the Public Private Partnership (PPP), is recognised as an asset and

reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing the company assesses the carrying value of goodwill against the recoverable amount of the cash generating unit to which goodwill has been allocated. Where the recoverable amount is less than the carrying value, the impairment loss is allocated to goodwill.

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

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

The company does not have any finance leases.

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

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

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

- Leasehold land: over the term of the lease.
- Freehold buildings: 10-40 years.
- Leasehold buildings: over the remaining life of the lease to a maximum of 20 years.
- Air traffic control systems: 8-15 years.
- Plant and other equipment: 3-15 years.
- Furniture, fixtures and fittings: 10 years.
- Vehicles: 5-8 years.

Freehold land and assets in the course of construction and installation are not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

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

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

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

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

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

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

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

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

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

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

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

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

In 2001, the company 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”), 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 company’s share of 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

Foreign currency translation

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

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

Retirement benefit costs

The 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 company introduced a number of pension reforms, as explained in note 25. 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 the fair value of scheme assets as reduced by the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 15 to 19.

Financial Assets

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

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

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

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

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

Derivative financial instruments and hedging activities
The company’s activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The company uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in note 18 to the accounts.

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

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

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

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

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

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

3. Critical judgements and key sources of estimation uncertainty.

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset base, market premiums for regulated businesses and the outcome of the regulatory price control determination for control period 3 (2011-2015). If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. A reduction in value in use of 5% or a reduction in market premium of 3% would result in recoverable amount being equal to the carrying amount of goodwill. Refer to notes 12, 13 and 14.

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 25 of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Capital investment programme

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

4. Revenue

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

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
UK air traffic services	587.6	580.4
North Atlantic air traffic services	23.5	23.8
Inter-company income	16.0	13.3
	627.1	617.5

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

A portion of the company's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £2.4m (2008: £3.3m).

5. Business and geographical segments

Business segments

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

Principal activities are as follows:

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

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

Information about each business area is presented below.

Year ended 31 March 2009	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue			
Revenue from external customers	587.6	23.5	611.1
Revenue from internal customers	16.0	-	16.0
	603.6	23.5	627.1
Segmental operating profit	110.2	1.2	111.4
Investment revenue			4.7
Finance costs			(49.3)
Profit before tax			66.8
Tax			(32.2)
Profit for the period			34.6
Other information			
Exceptional costs	50.2	1.0	51.2
Capital expenditure	142.9	3.1	146.0
Depreciation and amortisation	74.2	2.8	77.0
Impairment losses recognised in income	2.7	-	2.7
Deferred grants released	(2.1)	-	(2.1)
Balance Sheet			
Segmental assets	1,200.8	31.2	1,232.0
Unallocated corporate assets			83.4
Total assets			1,315.4
Segmental liabilities	(177.0)	(7.6)	(184.6)
Unallocated corporate liabilities			(862.3)
Total liabilities			(1,046.9)

Year ended 31 March 2008	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue			
Revenue from external customers	580.4	23.8	604.2
Revenue from internal customers	13.3	-	13.3
	593.7	23.8	617.5
Segmental operating profit	121.6	3.8	125.4
Investment revenue			9.2
Finance costs			(72.1)
Profit before tax			62.5
Tax			(15.4)
Profit for the period			47.1
Other Information			
Exceptional costs	20.0	-	20.0
Capital expenditure	131.3	1.4	132.7
Depreciation and amortisation	79.0	2.5	81.5
Impairment losses recognised in income	1.3	-	1.3
Deferred grants released	(3.2)	-	(3.2)
Balance Sheet			
Segmental assets	1,439.7	35.8	1,475.5
Unallocated corporate assets			93.2
Total assets			1,568.7
Segmental liabilities	(120.4)	(4.0)	(124.4)
Unallocated corporate liabilities			(935.4)
Total liabilities			(1,059.8)

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

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

5. Business and geographical segments (continued)

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 2009 £m	Year ended 31 March 2008 £m
UK	274.2	278.7
Rest of Europe	209.5	199.2
North America	106.1	103.8
Other	37.3	35.8
Total	627.1	617.5

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

Information about major customers

Included in revenues arising from UK air traffic services are revenues of £65.5m (2008: £64.8m) 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):

a. Exceptional items

Redundancy and relocation costs

During the year staff relocation costs were incurred following the closure of the air traffic control centre at West Drayton in 2008 and the consequent relocation of staff to the Swanwick area. Restructuring costs for staff relocation and redundancy were also incurred following the decision to close the air traffic control centre at Manchester and to consolidate operations at Prestwick, following the development of this air traffic control centre, during the year ending 31 March 2010. To the extent that staff could not be redeployed, termination terms were agreed. In response to the economic downturn, voluntary redundancy was also offered to non-operational staff in some areas of the business.

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Voluntary redundancy costs	25.2	11.1
Payment for changes in redundancy terms	-	3.0
Cost of relocation of staff and offices to Swanwick area	11.4	5.5
Cost of relocation of staff to the Prestwick area	14.6	-
Other operating charges - intra group	-	0.5
	51.2	20.1

The tax effect of the items above and the effect of the abolition of industrial building allowances (see note 10.) are shown as exceptional on the face of the income statement.

b. Other items

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

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
CAA regulatory charges	4.4	3.8
Depreciation of property, plant and equipment	68.8	73.0
Impairment of property, plant and equipment	2.6	0.4
Amortisation of internally generated intangible assets	8.2	8.5
Impairment of internally generated intangible assets	0.1	0.9
Deferred grants released	(2.1)	(3.2)
Research and development costs	3.9	7.2
Auditors remuneration for audit services (see below)	-	-

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

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

Transactions with group companies	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Net charges for services provided by parent undertaking	10.9	31.3
Charges for services provided by other group companies	15.8	13.9

In addition to the staff costs referred to in note 7a below, NERL is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NERL. Under the Inter Company Services Agreement NERL provides certain services to NSL. 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 2009 £m	Year ended 31 March 2008 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries*	252.2	238.2
Social security costs	22.6	21.9
Pension costs (note 7b)	44.1	40.3
	318.9	300.4
Less: amounts capitalised	(36.8)	(33.8)
	282.1	266.6

* Includes redundancy costs, other allowances and holiday pay.

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

7 Staff costs (continued)

b Pension costs

	Year ended Year ended 31 March 2009 £m	Year ended Year ended 31 March 2008 £m
Pension scheme costs for year (note 25)	44.1	40.3

c Staff numbers

	Year ended 31 March 2009 No.	Year ended 31 March 2008 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,420	1,445
Air traffic service assistants	793	813
Engineers	984	1,002
Others	716	537
	3,913	3,797

8 Investment revenue

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest on bank deposits	4.4	8.9
Other loans and receivables	0.3	0.3
	4.7	9.2

9 Finance costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	5.3	0.6
Interest on shareholder loan notes	-	5.2
Bond and related costs including financing expenses	30.3	30.1
Other	0.7	-
Interest payable on intercompany loans	1.5	1.4
	37.8	37.3
Loss on derivatives not qualifying for hedge accounting	11.5	19.0
	49.3	56.3
Payment on redemption of 11.3575% fixed rate secured shareholder loan notes	-	15.8
	49.3	72.1

10 Tax

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Current tax (including a charge of £1.5m in respect of prior years, 2008: £0.7m credit)	(11.8)	(11.2)
Deferred tax (See note 20. Including a credit of £1.6m in respect of prior years, 2008: £0.3m charge)	(20.4)	(4.2)
	(32.2)	(15.4)

Included in the deferred tax charge above is a charge of £13.6m for the tax effect of the abolition of industrial building allowances. This is presented in the income statement as an exceptional item.

Corporation tax is calculated at 28% (2008: 30%) 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:	£m	Year ended 31 March 2009 %	£m	Year ended 31 March 2008 %
Profit on ordinary activities before tax	66.8		62.5	
Tax on profit on ordinary activities at standard rate in the UK of 28% (2008:30%)	(18.7)	(28.0%)	(18.7)	(30.0%)
Tax effect of abolition of industrial building allowances	(13.6)	(20.3%)	-	0.0%
Tax effect of prior year adjustments	0.1	0.1%	0.4	0.0%
Tax effect of change in rate from 30% to 28% for deferred tax	-	0.0%	4.3	6.9%
Tax effect of other permanent differences	-	0.0%	(1.4)	(2.2%)
Tax charge for year at the effective tax rate of 48.2% (2008: 24.6%)	(32.2)	(48.2%)	(15.4)	(24.6%)
Deferred tax (credit)/charge taken directly to equity (see note 20)	(103.4)		35.3	

11 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 £0.91 per ordinary share (2008: £10.76).	9.1	107.6

12 Goodwill

	£m
At 31 March 2009 and 31 March 2008	351.0

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

The carrying value is determined by reference to value in use calculations and the net realisable value of the regulated asset bases of the company's business segments, including market premiums for regulated businesses (assumed at 10%, 2008: 10%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of the second regulatory control period (31 December 2010 for UK air traffic services and 31 March 2011 for North Atlantic air traffic services) as assumed in the company's business plans, and a terminal value at that date, reflecting the regulated asset bases and market premiums. The company's business plans reflect the impact of the challenging economic environment on traffic volumes and the activities which the company is taking to mitigate this. The discount rate is a pre-tax nominal rate of 7.07% (2008: 9.51%). See note 3.

13 Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2007	35.1	12.3	10.8	66.3	124.5
Additions internally generated	-	1.9	-	16.7	18.6
Additions externally acquired	-	-	-	12.2	12.2
Disposals during the year	-	-	-	(0.8)	(0.8)
Transfers during the year	(0.1)	13.2	1.6	(14.6)	0.1
At 1 April 2008	35.0	27.4	12.4	79.8	154.6
Additions internally generated	1.0	0.2	2.6	9.4	13.2
Additions externally acquired	2.0	0.6	-	28.2	30.8
Disposals during the year	-	(1.5)	-	-	(1.5)
Transfers during the year	0.1	2.0	2.5	(4.7)	(0.1)
At 31 March 2009	38.1	28.7	17.5	112.7	197.0
Accumulated amortisation					
At 1 April 2007	6.7	5.5	3.6	16.0	31.8
Charge for the year	4.2	2.8	1.5	-	8.5
Impairment provision recognised in income statement	-	-	-	0.9	0.9
Disposals during the year	-	-	-	(0.8)	(0.8)
At 1 April 2008	10.9	8.3	5.1	16.1	40.4
Charge for the year	4.1	2.7	1.4	-	8.2
Impairment provision recognised in income statement	-	-	-	0.1	0.1
Disposals during the year	-	(1.5)	-	-	(1.5)
At 31 March 2009	15.0	9.5	6.5	16.2	47.2
Carrying amount					
At 31 March 2009	23.1	19.2	11.0	96.5	149.8
At 31 March 2008	24.1	19.1	7.3	63.7	114.2

14 Property, plant and equipment

	Freehold land & buildings £m	Improvements to leasehold land & buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture & fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2007	212.9	45.8	951.0	13.3	134.5	1,357.5
Additions during the year	0.1	0.2	32.2	-	69.4	101.9
Disposals during the year	(0.1)	-	(24.5)	(0.1)	(2.8)	(27.5)
Other transfers during the year	1.0	0.1	68.9	-	(70.1)	(0.1)
At 1 April 2008	213.9	46.1	1,027.6	13.2	131.0	1,431.8
Additions during the year	1.8	1.0	37.6	0.3	61.3	102.0
Disposals during the year	-	(11.4)	(81.6)	-	-	(93.0)
Other transfers during the year	5.1	1.9	32.3	1.0	(40.2)	0.1
At 31 March 2009	220.8	37.6	1,015.9	14.5	152.1	1,440.9
Accumulated depreciation and impairment						
At 1 April 2007	64.1	30.2	697.1	5.1	4.0	800.5
Provided during the year	6.5	1.6	63.8	1.1	-	73.0
Provisions for impairment	-	-	-	-	0.4	0.4
Utilisation of impairment provision	-	0.2	0.1	-	(0.3)	-
Disposals during the year	-	-	(24.1)	(0.1)	(2.8)	(27.0)
At 1 April 2008	70.6	32.0	736.9	6.1	1.3	846.9
Provided during the year	6.6	1.3	59.8	1.1	-	68.8
Provisions for impairment	-	-	-	-	2.6	2.6
Utilisation of impairment provision	-	-	-	-	-	-
Disposals during the year	(0.1)	(11.4)	(81.6)	-	-	(93.1)
At 31 March 2009	77.1	21.9	715.1	7.2	3.9	825.2
Carrying amount						
At 31 March 2009	143.7	15.7	300.8	7.3	148.2	615.7
At 31 March 2008	143.3	14.1	290.7	7.1	129.7	584.9

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £2.7m (2008: £1.3m) were made in respect of assets in the course of construction reflecting a reassessment of certain projects and the likelihood of benefits being realised in full.

During the year the company performed a detailed review of the useful economic lives of its assets to align with the group's latest asset replacement plans. As a result of this review, the useful economic lives of a number of assets have been extended. The effect of re-lifing assets was to reduce the depreciation charge by £1.4m in the current year and is expected to reduce depreciation charges in subsequent years by £3.6m.

15 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	1.4	3.9
Current		
Receivable from customers gross	39.9	44.1
Allowance for doubtful debts	(5.3)	(2.1)
	34.6	42.0
Other debtors	5.4	3.8
Prepayments	13.0	14.7
Accrued income	61.1	50.4
Accrued interest	-	0.2
	114.1	111.1

The average credit period taken on sales of services is 28 days (2008: 25 days). Interest is charged by Eurocontrol to UK en route customers at 9.86% (2008: 9.24%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £5.3m (2008: £2.1m). Full provision is made for receivables from UK en route customers that are over due. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation which is evidence of a reduction in the recoverability of the cash flows.

15 Financial and other assets (continued)

Ageing of past due but not impaired trade receivables

	2009 £m	2008 £m
30-90 days	0.9	0.9

Movement in the allowance for doubtful debts

	2009 £m	2008 £m
Balance at the beginning of the year	2.1	3.8
Increase /(decrease) in allowance recognised in the income statement	3.6	(0.1)
Amounts written off as irrecoverable	(0.4)	(1.6)
Balance at end of year	5.3	2.1

Of the £3.6m increase in the allowance recognised in the income statement, £1.4m has been deferred to the balance sheet in accordance with the licence which limits NERL's exposure to bad debts from UK en route services to £1.5m arising in relation to a calendar year.

In determining the recoverability of a trade receivable the group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Credit risk is mitigated in part by regulatory price control conditions that protect revenues from losses exceeding £1.5m a year. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £4.5m (2008: £1.2m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables

	2009 £m	2008 £m
Current	-	-
30-90 days	0.4	0.5
90-365 days	3.8	0.3
more than 365 days overdue	1.1	1.3
	5.3	2.1

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

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

Overall, the maximum credit risk for the items discussed above would be £198.9m (2008: £208.2m).

16 Borrowings

	2009 £m	2008 £m
Unsecured loans		
Intercompany loan	25.9	22.5
Other loans (non interest bearing)	1.2	1.4
Total unsecured loans	27.1	23.9
Secured loans		
£600m 5.25% Guaranteed Secured Amortising Bonds due 2026	597.4	597.1
Bank loans (variable rate revolving credit facility expiring 2010-2012)	77.5	77.5
Gross borrowings	702.0	698.5
Unamortised bond issue costs	(6.7)	(7.3)
	695.3	691.2
Amounts due for settlement within 12 months	1.2	-
Amounts due for settlement after 12 months	694.1	691.2

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NERL grants its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Drawings of £77.5m made in March 2008 under its £216.2m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is circa £1,135m.

The average effective interest rate on the bank loan in the year was 6.50% (2008: 5.94%) and was determined based on 6 month LIBOR rates plus a margin.

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

Undrawn committed facilities	2009 £m	2008 £m
Between one and two years	11.0	-
Expiring in more than two years	127.7	138.7
	138.7	138.7

Drawings of £77.5m were made on committed facilities of c.£216.2m in March 2008. The bank facilities expire as follows: £11.0m in November 2010; £34.25m in November 2011 and the balance of c.£170.95m in November 2012.

17 Derivative financial instruments

Fair value liability of derivative financial instruments

	2009 £m	2008 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.8	4.9
Derivative financial instruments classified as held for trading		
Index-linked swaps	80.7	69.2
	82.5	74.1

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

18 Financial instruments

Capital Risk management
The company manages its capital to ensure that it is able to continue as a going concern, to meet its obligations under its air traffic services licence and to provide returns to stakeholders. The capital structure of the company consists of debt, as disclosed in note 16, cash and cash equivalents, as explained in this note and equity attributable to shareholders as disclosed in notes 21 and 22.

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

As at 31 March 2009, the company had a credit rating of A+ (stable outlook) from Standard & Poor's and A2 (stable outlook) from Moody's (2008: A stable outlook/ A3 positive outlook).

Gearing ratio
Consistent with seeking to maintain an investment grade credit rating, the company sets a gearing target, measured as the ratio of Net Debt to the Regulatory Asset Base (RAB).

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.

18 Financial instruments (continued)

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)	124.8	142.9
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	(1.8)	(4.9)
Derivative financial instruments classified as held for trading	(80.7)	(69.2)
Amortised cost	(764.9)	(757.9)
	(847.4)	(832.0)

Amortised cost includes balances for trade and other payables, the £600m bond, bank borrowings and other loans.

The index-linked swap is categorised as held for trading. The movement in its market value of £11.5m has been recorded in the income statement in the year (2008: £19.0m).

Financial risk management objectives
The treasury function is mandated by the Board of NATS (Holdings) Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the company. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets 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 (including currency risk, cash flow interest rate risk and inflation risk), credit risk and liquidity risk.

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

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

Foreign currency risk management
The company's principal exposure to foreign currency transaction risk is in relation to UK en route services revenues, accounting for 84% of turnover (2008: 85%). Charges for this service are set in sterling, but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to the company, forward foreign currency contracts are entered into. The company seeks to hedge 90% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a quarterly basis.

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

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

	Assets		Liabilities	
	2009 £m	2008 £m	2009 £m	2008 £m
Euro	91.6	102.2	(1.1)	(12.6)
US Dollar	0.2	0.4	(0.1)	(0.1)
Canadian Dollars	0.1	0.9	(0.1)	-
Danish Krone	0.5	-	(0.1)	-
	92.4	103.5	(1.4)	(12.7)

Foreign currency sensitivity analysis
The company holds foreign currency cash balances in Euro, US Dollars, Canadian Dollars and Danish Krone.

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

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

Currency	2009 Impact £m	2008 Impact £m
Euro	(2.2)	(1.7)
US Dollar	-	-
Canadian Dollars	-	(0.1)
Danish Krone	(0.2)	-
	(2.4)	(1.8)

The company's sensitivity to foreign currency has increased during the current reporting period mainly due to an increase in net unhedged foreign currency assets. NERL believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the level of currency investments was broadly constant throughout the reporting period.

18 Financial Instruments (continued)

Forward foreign exchange contracts
Forward foreign exchange contracts were entered into during the year to sell Euro forecast to be received from Eurocontrol in respect of UK en route revenues. In addition in 2009, NERL entered into other forward foreign exchange contracts to fund purchases of equipment. These forward exchange contracts have been designated as cash flow hedges. The following contracts were outstanding at year end:

	2009				2008		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-3 months	69.3	77.0	0.9002		72.3	96.0	0.7526

Euro bought	€m	£m	
0-3 months	1.0	0.9	0.8925
Over 3 months	0.4	0.3	0.8796
	1.4	1.2	0.8890
Danish Krone bought	DKKm	£m	
0-3 months	1.4	0.2	8.1395
Over 3 months	10.3	1.2	8.4241
	11.7	1.4	8.3892
Danish Krone sold	£m	DKKm	
Over 3 months	0.2	1.6	8.1933

In addition to the above, NERL has entered into agreements with a contract date after 31 March 2009 to sell Euro anticipated to be received in the period June through to August 2009 totalling €130.4m in respect of UK en route revenues.

At 31 March 2009, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these future transactions was £0.3m (2008: unrealised losses of £0.4m). These contracts will mature within the first two months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

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

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

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

Exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

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

	2009						
	Cash			Short term deposits			Total
Currency	Amount	Economic interest rate	Average maturity	Amount	Economic interest rate	Average maturity	
	£m	%	days	£m	%	days	£m
Sterling	62.6	0.5	1	15.6	1.8	183	78.2
EUR	4.5	0.2	1	-	-	-	4.5
DKK	0.5	-	1	-	-	-	0.5
USD	0.2	-	1	-	-	-	0.2
	67.8			15.6			83.4

	2008						
	Cash			Short term deposits			Total
Currency	Amount	Economic interest rate	Average maturity	Amount	Economic interest rate	Average maturity	
	£m	%	days	£m	%	days	£m
Sterling	59.6	5.5	12	17.2	5.7	184	76.8
EUR	15.1	4.1	3	-	-	-	15.1
USD	0.4	2.5	7	-	-	-	0.4
CAD	0.9	3.4	4	-	-	-	0.9
	76.0			17.2			93.2

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.

18 Financial Instruments (continued)

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

Excluding derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2009						
Sterling:						
5.25% guaranteed secured bonds	597.4	-	-	597.4	5.27%	11.0
Bank loans	77.5	77.5	-	-	2.15%	0.5
Inter-company loans	25.9	25.9	-	-	2.31%	0.5
Other loans	1.2	-	-	1.2	0.00%	0.0
Total	702.0	103.4	-	598.6		
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	597.1	-	-	597.1	5.28%	12.0
Bank loans	77.5	77.5	-	-	6.32%	0.5
Inter-company loans	22.5	22.5	-	-	6.31%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	698.5	100.0	-	598.5		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2009						
Sterling:						
5.25% guaranteed secured bonds	397.4	-	-	397.4	5.28%	11.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.51%	0.5
Bank loans	77.5	77.5	-	-	2.15%	0.5
Inter-company loans	25.9	25.9			2.31%	0.5
Other loans	1.2	-	-	1.2	0.00%	0.0
Total	702.0	103.4	200.0	398.6		
At 31 March 2008						
Sterling:						
5.25% guaranteed secured bonds	397.1	-	-	397.1	5.29%	12.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	3.50%	0.5
Bank loans	77.5	77.5	-	-	6.32%	0.5
Inter-company loans	22.5	22.5	-	-	6.31%	0.5
Other loans	1.4	-	-	1.4	0.00%	0.9
Total	698.5	100.0	200.0	398.5		

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

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

	2009 £m		2008 £m	
Net Debt	611.9		598.0	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	391.9	64.0	391.2	65.4
Index Linked	200.0	32.7	200.0	33.4
Floating (net of cash and short term investments)	20.0	3.3	6.8	1.2
	611.9	100.0	598.0	100.0

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

Interest rate sensitivity analysis

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

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

	2009 Impact £m	2008 Impact £m
Cash On Deposit (2009: £83.4m, 2008: £93.2m)	0.8	0.9
Borrowings (2009: £103.4m, 2008: £100.0m)	(1.0)	(1.0)
	(0.2)	(0.1)

The sensitivity to interest rates has increased during the year primarily due to a reduction in the amount of cash on deposit.

Inflation rate risk

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

The value of the notional principal of £200m of the index-linked swap is also linked to movements in RPI. The increase in the notional value is payable semi-annually commencing on 31 March 2017 and ending on 31 March 2026 (the expiry date of the swap).

18 Financial Instruments (continued)

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

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

	2009 Impact £m	2008 Impact £m
Change in index-linked swap interest and mark to market value	(34.5)	(29.7)

The mark to market value of the index-linked swap is also sensitive to the discount rate that is used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. NERL's index-linked swap is most sensitive to yields on swaps that mature within 10 to 15 years. The effect of a 1% increase in the discount rate on 15-year swaps would be to increase profit and equity by £12.3m (2008: £19.4m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

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

The group's policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's 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 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. During 2008 the group tightened its investment criteria and currently only places deposits that have a maturity in excess of seven days with banks rated AA- or better.

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

Rating (Standard and Poor's/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 £m	By credit rating %	Number of institutions	2008 £m	By credit rating %
AA	-	-	-	4	68.7	73.7
AA-	2	37.4	44.8	-	-	-
A+	2	20.9	25.1	1	15.0	16.1
A	3	25.1	30.1	1	9.5	10.2
		83.4	100.0		93.2	100.0

18 Financial Instruments (continued)

Liquidity risk management

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

The policy is to:

a. maintain free cash equal to between 1 and 2 months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short term investments, excluding a debt service reserve account of £15.6m used to fund interest and fees scheduled for payment in the next six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants.

b. ensure access to bank facilities sufficient to meet 120% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. The company has access to bank facilities totalling c.£216.2m available until November 2010, and c.£170.95m until November 2012, thereby ensuring that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan;

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

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

e. maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of a £600m sterling bond that starts to amortise in 2012 and has a final maturity date of 2026 and by having available committed bank facilities totalling c£216.2m of which £11.0m expires in 2010, £34.25m in 2011 and c.£170.95m in November 2012.

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

	2009 £m	2008 £m
Average monthly UK en route services income	42.6	43.5
Free cash	45.2	53.9
Ratio of free cash to UK en route services income	1.1	1.2

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

	2009 £m	2008 £m
Bank borrowings	77.5	77.5
Gross borrowings	702.0	698.5
Bank borrowings as a percentage of gross borrowings	11.0%	11.1%

Maturity of borrowings

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

	2009				2008			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	2.0	35.3	62.9	100.2	1.3	36.8	59.4	97.5
Between one and two years	0.8	35.5	-	36.3	2.7	36.5	-	39.2
Due between two and five years	6.7	245.5	-	252.2	3.6	185.1	-	188.7
Due in more than five years	45.5	750.4	-	795.9	44.6	828.5	-	873.1
	55.0	1,066.7	62.9	1,184.6	52.2	1,086.9	59.4	1,198.5
Effect of interest, discount and unamortised bond issue costs	(27.9)	(398.5)	-	(426.4)	(28.3)	(419.6)	-	(447.9)
	27.1	668.2	62.9	758.2	23.9	667.3	59.4	750.6

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

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

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m	
2009						
Net settled:						
Index-linked swap receivable/(payable)	3.5	3.5	9.1	(109.1)	(93.0)	
Gross settled:						
Foreign exchange forward contract receivables	69.5	-	-	-	69.5	
Foreign exchange forward contract payables	(73.9)	-	-	-	(73.9)	
	(0.9)	3.5	9.1	(109.1)	(97.4)	-
2008						
Net settled:						
Index-linked swap receivable/(payable)	3.5	3.3	8.8	(122.7)	(107.1)	
Gross settled:						
Foreign exchange forward contract receivables	72.3	-	-	-	72.3	
Foreign exchange forward contract payables	(77.2)	-	-	-	(77.2)	
	(1.4)	3.3	8.8	(122.7)	(112.0)	-

18 Financial Instruments (continued)

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 fair value of the index-linked swap is determined independently by reference to contractual cash flows, the break-even inflation rate which is calculated as the difference in yields on fixed interest and index-linked gilts of similar maturity to the swap contract and discounted to present value. The fair value of the £600m bond has been derived from its externally quoted price. The book values of other financial assets and liabilities approximate to their fair values because of their short maturites.

	Carrying amount		Fair value	
	2009	2008	2009	2008
	£m	£m	£m	£m
Financial assets				
Accounts receivable, cash and bank balances	124.8	142.9	124.8	142.9
Financial liabilities				
Trade and other payables (including current tax liabilities)	(62.9)	(59.4)	(62.9)	(59.4)
£600m 5.25% Guaranteed Secured Amortising Bond	(597.4)	(597.1)	(543.9)	(552.1)
Bank loans	(77.5)	(77.5)	(77.5)	(77.5)
Intercompany loan	(25.9)	(22.5)	(25.9)	(22.5)
Other loans	(1.2)	(1.4)	(1.2)	(1.4)
Derivative financial instruments				
Forward foreign exchange contracts	(1.8)	(4.9)	(1.8)	(4.9)
Index-linked swap	(80.7)	(69.2)	(80.8)	(69.2)
	(847.4)	(832.0)	(794.0)	(787.0)

19 Financial and other liabilities

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

	2009	2008
	£m	£m
Current		
Trade payables	11.6	9.8
Amounts due to other group undertakings	47.1	31.1
Other payables	1.2	12.9
Accruals and deferred income		
- deferred grants	1.7	2.2
- other	60.3	61.1
	121.9	117.1
Non-current		
Accrual and deferred income		
- deferred grants	5.9	7.5
- other	5.2	-
	11.1	7.5
	133.0	124.6

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 38 days (2008: 33 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

20 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 2007	80.7	53.8	(8.5)	(1.2)	124.8
Charge/(credit) to income	10.1	(2.4)	(3.1)	(0.4)	4.2
Charge/(credit) to equity	-	35.5	(0.2)	-	35.3
At 31 March 2008	90.8	86.9	(11.8)	(1.6)	164.3
At 1 April 2008	90.8	86.9	(11.8)	(1.6)	164.3
Charge/(credit) to income	20.0	2.2	(0.4)	(1.4)	20.4
Charge/(credit) to equity	-	(103.6)	0.2	-	(103.4)
At 31 March 2009	110.8	(14.5)	(12.0)	(3.0)	81.3

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	(110.8)	(177.7)
Deferred tax assets	29.5	13.4
	(81.3)	(164.3)

21 Share capital

	Authorised Number of shares	Authorised £m	Called up, allotted and fully paid Number of shares	Called up, allotted and fully paid £m
Ordinary shares of £1 each				
At 31 March 2008 and 31 March 2009	10,000,000	10.0	10,000,000	10.0

22 Reserves

	Hedge reserve £m	Special reserves £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 April 2007	(0.1)	33.1	44.9	373.9	451.8
Movement in statement of recognised income and expense	(0.3)	-	-	107.9	107.6
Transfers between reserves	-	0.3	(7.5)	7.2	-
Net profit for the year	-	-	-	47.1	47.1
Dividends paid	-	-	-	(107.6)	(107.6)
Balance at 31 March 2008	(0.4)	33.4	37.4	428.5	498.9
Movement in statement of recognised income and expense	0.6	-	-	(266.5)	(265.9)
Transfers between reserves	-	0.3	(6.4)	6.1	-
Net profit for the year	-	-	-	34.6	34.6
Dividends paid	-	-	-	(9.1)	(9.1)
Balance at 31 March 2009	0.2	33.7	31.0	193.6	258.5

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

23 Notes to the cash flow statement

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating profit from continuing operations	111.4	125.4
Adjustments for:		
Depreciation of property, plant and equipment	68.8	73.0
Amortisation of intangible assets	8.2	8.5
Impairment loss	2.7	1.3
Deferred grants released	(2.1)	(3.2)
Gain on disposal of property, plant and equipment	(0.8)	(1.2)
Non-cash element of charge for pension costs	(7.9)	12.1
Operating cash flows before movements in working capital	180.3	215.9
Increase in trade and other receivables	(7.2)	(8.2)
Increase in trade and other payables	8.5	35.3
Cash generated from operations	181.6	243.0
Tax paid	(14.4)	(12.2)
Net cash from operating activities	167.2	230.8

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

24 Financial commitments

	2009 £m	2008 £m
Capital commitments contracted but not provided for in the accounts.	90.2	120.8
Minimum lease payments under operating leases recognised in the income statement for the year.	6.9	7.7
At the balance sheet date the company had outstanding commitments to future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	0.7	0.5
In the second to fifth years inclusive	1.7	3.0
After five years	36.1	40.1
	38.5	43.6

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

Guarantees

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

25 Retirement benefit scheme

Background

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 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 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 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.

NATS Limited, the immediate parent of the company, is the employer of, and seconds to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in Civil Aviation Authority Pension Scheme and bears the employment (including pension) costs of those personnel.

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

Trustees' funding assessment

The last 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 before retirement will be 1.9% 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 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. The assets were sufficient to cover 112% of the benefits that had accrued to existing members.

25 Retirement benefit scheme (continued)

Company's accounting valuation under international accounting standards
The pension cost under International Accounting Standard 19, Employee benefits, relating to the scheme is assessed in accordance with the advice of independent qualified actuaries. The pension costs reported below represent the pension element of the fees the company pays to NATS Limited for the provision of services of the staff seconded to the company by NATS Limited - see note 7a above.

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 will continue to report under an immediate recognition approach in subsequent periods.

The Trustees' funding assessment carried out at 31 December 2006 was updated to 31 March 2008 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:

	2009	2008
Inflation	3.40%	3.60%
Increase in:		
- salaries	3.90%	4.80%
- deferred pensions	3.40%	3.60%
- pensions in payment	3.40%	3.60%
Expected return on:		
- equities	7.05%	7.60%
- property	7.05%	7.60%
- bonds	4.40%	4.95%
Discount rate for scheme liabilities	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 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 principle assumptions used to measure the scheme liabilities are set out note 27. of the Group accounts.

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	(74.1)	(81.5)
Past service cost	(5.0)	(3.4)
Expected return on scheme assets	149.2	147.0
Interest cost on scheme liabilities	(114.2)	(102.4)
Total defined benefit charge recognised in arriving at operating profit	(44.1)	(40.3)

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	(653.6)	(129.8)
Experience gains and losses arising on scheme liabilities	33.1	73.7
Changes in assumptions underlying the present value of the scheme liabilities	250.4	199.5
	(370.1)	143.4

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:

	2009 £m	2008 £m
Fair value of scheme assets	1,641.0	2,136.3
Present value of defined benefit obligations	(1,692.8)	(1,825.9)
(Deficit)/surplus in scheme	(51.8)	310.4

25 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	2,136.3	2,125.9
Expected return on scheme assets	149.2	147.0
Actuarial gains and losses	(653.6)	(129.8)
Contributions from scheme members	12.2	11.7
Contributions from company	52.0	28.2
Benefits paid	(55.1)	(46.7)
At 31 March	1,641.0	2,136.3

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

	2009 £m	2008 £m
At 1 April	(1,825.9)	(1,946.8)
Current service cost	(74.1)	(81.5)
Past service costs	(5.0)	(3.4)
Interest cost	(114.2)	(102.4)
Actuarial gains and losses	283.5	273.2
Contributions from scheme members	(12.2)	(11.7)
Benefits paid	55.1	46.7
At 31 March	(1,692.8)	(1,825.9)

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	863.5	1,288.6	7.05%	7.60%
Property	267.8	335.6	7.05%	7.60%
Bonds	483.9	490.4	4.40%	4.95%
Cash	25.8	21.7	4.40%	4.95%
	1,641.0	2,136.3	6.23%	6.97%

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	(1,692.8)	(1,825.9)	(1,946.8)	(1,857.8)	(1,516.4)
Fair value of scheme assets	1,641.0	2,136.3	2,125.9	2,014.0	1,568.1
(Deficit)/Surplus in the scheme	(51.8)	310.4	179.1	156.2	51.7
Experience adjustments in scheme liabilities					
Amount (£m)	33.1	73.7	34.1	22.0	54.9
Percentage of scheme liabilities	(2.0%)	(4.0%)	(1.8%)	(1.2%)	(3.6%)
Experience adjustments in scheme assets					
Amount (£m)	(653.6)	(129.8)	(15.5)	322.2	71.5
Percentage of scheme assets	(39.8%)	(6.1%)	(0.7%)	16.0%	4.6%

26 Related party transactions

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

AG is a consortium of seven airlines: British Airways, bmi, Britannia, easyJet, Monarch, Thomas Cook and Virgin. The 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.

Trading transactions

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

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Ministry of Defence (MoD)	45.1	43.7	3.6	3.6	-	3.8	4.5	2.2
Department for Transport (DfT)	1.3	0.4	-	-	0.1	-	-	-
Meteorological Office	0.1	0.2	0.7	0.5	-	-	0.1	0.2

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

The Report of the Directors on page 18 includes details of the directors of the company. None of these directors received any fees in the year for their services as directors of this company. The consolidated accounts of NATS Holdings Limited include details of the remuneration received by the directors of the group.

27 Parent undertaking

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

The largest and smallest group in which the results of the company are consolidated is that of which NATS Holdings Limited is the parent company. The consolidated accounts of NATS Holdings Limited can be obtained from the company's secretary, at its registered office, 5th Floor, Brettenham House South, Lancaster Place, London WC2E 7EN.

28 Contingent liabilities

During 2008, the company undertook a public consultation in respect of airspace changes in the Terminal Control South West region. The Civil Aviation Authority approved the proposals put forward by NERL and directed that the changes be implemented as of 10 April 2008. The CAA's decision is subject to a Judicial Review. NERL has been included in that process at its own request due to its status as an interested party. If the Judicial Review reverses the CAA's decision a new consultation may be necessary. The CAA may require the costs of a new consultation to be borne by NERL. In addition, NERL may incur significant legal costs through the Judicial Review process which may not be recoverable even if the decision is upheld.