Annual Report and Accounts 2014

NATS Holdings Limited

Company Number: 04138218

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Strategic Report

Our business

Who we are

NATS Holdings Limited
NATS Holdings Limited is an air traffic control services provider which owns two principal operating subsidiaries: NATS (En Route) plc and NATS (Services) Limited.

NATS (En Route) plc
NERL is the sole provider of air traffic control services for aircraft flying 'en route' in UK airspace and the eastern part of the North Atlantic. It is economically regulated by the Civil Aviation Authority (CAA) within the regulatory framework of the European Commission's (EC) Single European Sky (SES) and operates under licence from the Secretary of State for Transport. It operates from two air traffic control centres, at Swanwick in Hampshire and Prestwick in Ayrshire.

NATS (Services) Limited
NATS Services provides air traffic services at 15 of the UK's airports and at Gibraltar: 8 of these contracts are subject to economic regulatory oversight by the CAA and the EC. It also provides engineering, consultancy (including training), defence and aviation information management services to UK and overseas customers. FerroNATS, a joint venture with Ferrovial, provides air traffic services at 9 airports in Spain.

Our services

We offer the following products and services to our customers:

> **Airspace:** UK en route, North Atlantic and terminal air traffic control (ATC) services;

> **Airports:** airport air traffic control services in the UK and overseas;

> **Consultancy:** solutions to specific operational and technical air traffic control challenges;

> **Defence:** helping military customers to share airspace with civil aviation;

> **Engineering:** delivering ATC technology and infrastructure projects to airport operators, air traffic service providers, construction companies and industry suppliers; and

> **Information:** aeronautical information management, airspace design services and data solutions for future flight efficiency and airport optimisation.


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Highlights

Financial highlights

(£m unless otherwise specified)	2014	Restated[1] 2013	Change	%
Revenue	**917.6**	899.6	+18.0	+2.0
Operating profit before exceptional items[2]	**240.3**	215.1	+25.2	+11.7
Operating profit	**167.5**	215.1	-47.6	-22.1
Profit before tax	**157.5**	160.8	-3.3	-2.1
Capital expenditure	**129.7**	128.9	+0.8	+0.6
Net debt[3]	**407.9**	457.1	-49.2	-10.8
Gearing[4]	**54.0 %**	54.5%	-0.5%	-0.9
Dividends	**62.0**	40.0	+22.0	+55.0

1 On adoption of the revised International Accounting Standard 19: *Employee Benefits*

2 Operating profit before the cost of the RP2 redundancy programme and goodwill impairment

3 Excludes derivative financial instruments

4 Ratio of the net debt to regulatory assets of the economically regulated business (NERL)

Operational and strategic highlights

- We handled just under 2.2 million flights (2013: 2.1 million) and maintained our safety record with one risk-bearing airprox attributable to NATS. Average delay per flight for Airspace and Airports was 5.5 seconds (2013: 1.4 seconds), reflecting one ground communications failure that resulted in significant delay. We maintained our position in the top quartile of European service delivery performance.
- We continue to enable significant savings in fuel and CO_2 emissions for customers. Against a 2006 baseline we are enabling fuel savings of c.170,000 tonnes per annum, worth c. £105m to airline customers (at £615 per metric tonne, based on average fuel prices and exchange rates for 2014). Cumulatively, since 2006, we have enabled fuel savings of 414,000 tonnes (1.3 million tonnes of CO_2) worth c. £255m to customers. We are also meeting the economic regulator's target for environmental efficiency.
- The Civil Aviation Authority (CAA) published its decision on the economic regulation of UK en route services for the EU's Single European Sky (SES) Reference Period 2015-2019 (RP2). The CAA requires a real reduction in charges of 5.1% per annum for RP2 which exceeds EU targets. This is a challenging price proposal and the company is taking action to reduce its costs to meet this requirement.
- We secured orders of £128m, including: the renewal of airport contracts with Belfast International, Cardiff and RAF Gibraltar; the provision of a back-up Galileo security monitoring centre; and training and windfarm mitigation services.
- The Trustees of the defined benefit pension scheme completed their triennial valuation and agreed a new schedule of contributions with the company, including a deficit recovery plan. This followed agreement by staff to pension reforms that reduced the size of the funding deficit and future costs.

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Chairman's statement

I am pleased to report another good set of results for NATS in what is my last Chairman's statement, as I will be retiring from the Board this summer.

The company's financial performance remains sound with operating profits before exceptional items improving by 12%. Headline profit before tax at £157.5m was less than last year (2013: £160.8m) but included a goodwill impairment charge and the cost of initial actions the company is taking to reduce its cost base for the next five year regulatory reference period (RP2: 2015 – 2019). The company paid a dividend of £62m in the year (2013: £40m).

During the year NATS has consulted extensively with customers on its plan for RP2. The company was innovative in its approach, presenting a real choice of service offerings and with a clear focus on cost reduction and the economic value from better airspace design, more fuel efficient flight profiles, improved network capacity and minimal delay. Our revised plan, submitted to the CAA in October last year, exceeded EU-wide targets for RP2 in all key performance areas with real price reductions of 18% over the regulatory period. The CAA's proposals are even more challenging requiring real price reductions of 21.6%.

My first year with NATS was memorable for the Gibraltar airport contract, NATS' first overseas tower contract, and its agreement with the Ministry of Defence (MoD) to a 15-year joint and integrated contract. Today NATS is operating nine towers in Spain in a joint venture with Ferrovial and we are bidding to expand our service to MoD. We have opened offices in two of our key markets, the Middle East and Asia Pacific. This year we faced stiff competition from other European air traffic controllers in our bid to retain the ATC contract with Gatwick airport, and we are waiting for the result of the tender. The company is keen to see the liberalisation of markets in continental Europe and continues to push for a level playing field in this regard. The business also has a new Managing Director Services, Catherine Mason, who will further strengthen our commercial experience to support existing customers and our growth strategy.

One other key feature of my tenure has been the significant progress made in our regulated business in improving its cost effectiveness and the quality and value of its service. Since the Public Private Partnership (PPP), underlying operating costs have reduced by more than a third in real terms while delivering low levels of delay and increasing levels of fuel savings. This has enabled meaningful contributions to Single European Sky (SES) targets working also with our European partners.

Most recently we have formed part of the consortium bidding for the SES ATM Research (SESAR) deployment manager role and we are also actively reviewing how best to accelerate the deployment of SESAR technology to accelerate the delivery of its benefits to our customers.

This year saw a significant change in the Board's membership with six new members joining and five stepping down following changes at The Airline Group (AG) and the rotation of Government-appointed members.

In March, USS Sherwood Limited (USS) completed its acquisition of 49.9% of the AG as a number of its members elected to sell down part of their shareholding. The AG owns 42% of NATS and so this transaction provides USS with a significant indirect interest in NATS and representation on the NATS Board. I am very pleased to welcome USS which I expect to be a long term strategic shareholder that will provide new insights and perspectives at the Board.

I would like to welcome Gavin Merchant and Dr Harry Bush CB of USS, together with Chris Bennett, another AG appointee. Dr Barry Humphreys and Nigel Turner, who previously represented AG, retired from the Board in March, and I must record my thanks to them for their commitment to NATS over the last decade.

The Government, which continues to be our largest shareholder has also appointed two new directors, Air Marshal Iain McNicoll CB CBE and Richard Keys.

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Chairman's statement
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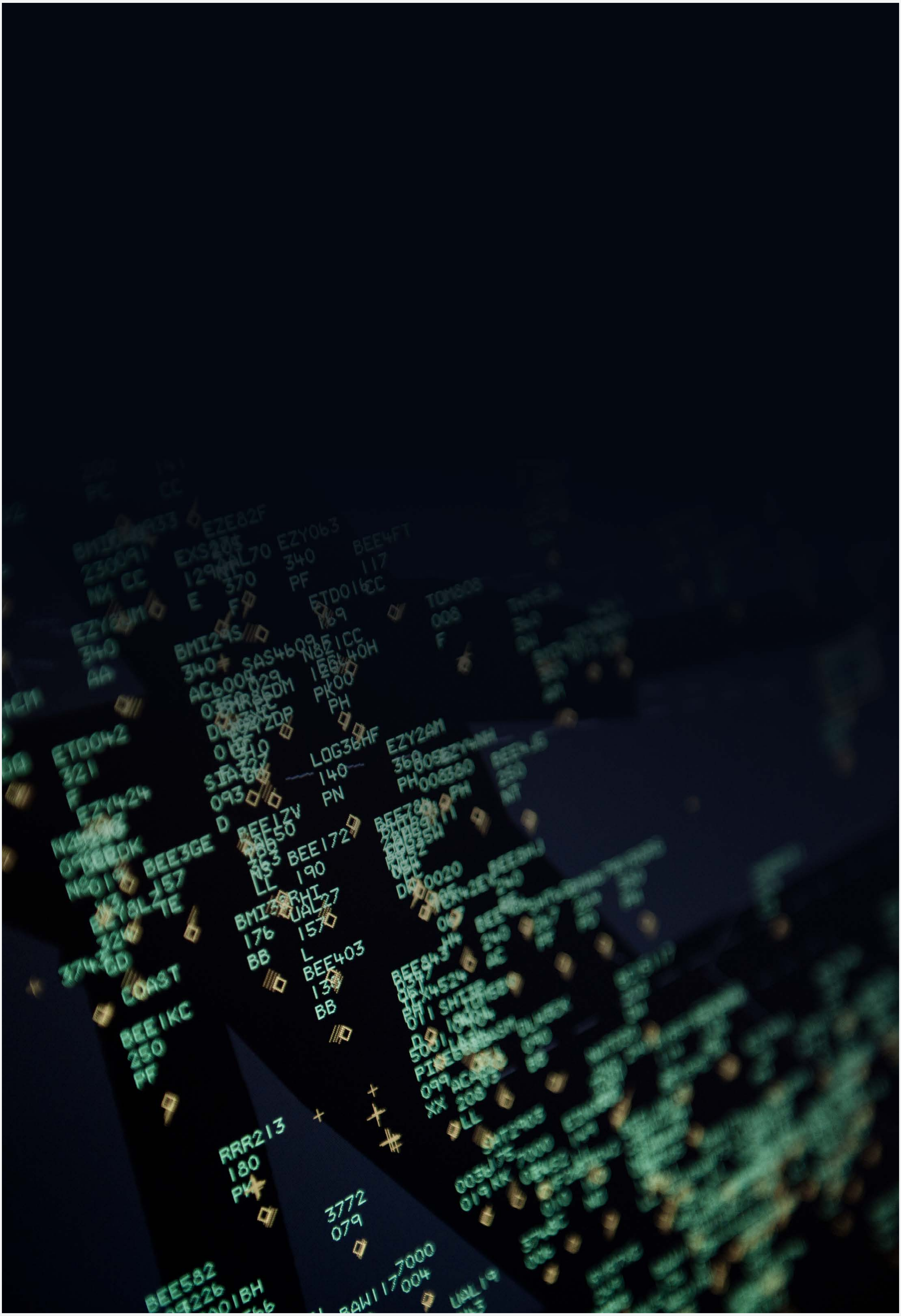
This follows the retirements of Sigurd Reinton and Andrew White and I would like to thank them for their contribution.

Martin Rolfe joined as an Executive director at the start of the year and brings extensive experience from the defence and aerospace sectors and Paul Reid resigned from the Board in December. I thank Paul for his long service to NATS and the foundation he provided for its growth strategy.

It has been a delight and a privilege to chair the Board and to leave NATS as a clear leader in its field. I am handing over to a refreshed Board, a strong and capable management team with a clear strategy for its future and supported by an exceptional workforce. I have no doubt at all, that NATS is a global leader in the provision of air traffic control services.

John Devaney
Chairman



Chief Executive's review

Overview

The 2014 year closes at a busy time, with significant work underway to secure business and further reduce costs in both our economically regulated and other businesses.

A major focus this year has been on securing a satisfactory outcome to the regulatory settlement for Reference Period 2 (RP2) (2015 -2019) for our economically regulated business and, for NATS Services, on continuing to capitalise on new commercial opportunities in the UK and overseas.

Last summer we consulted extensively with en route customers on our initial proposals for RP2. We prepared an innovative and ambitious plan which offered reduced prices but with differing service offerings. Our plan was carefully balanced and focused on the benefits to customers through investment in airspace capacity, fuel efficient flight profiles and avoiding delay. We also set a stretching cost saving target that will see underlying costs 42% lower in real terms at the end of RP2 than when NATS was privatised in 2001.

Customers highlighted the importance of achieving the maximum possible fuel savings, through early implementation of the UK's Future Airspace Strategy (FAS), at the lowest price while maintaining the consistency of service quality that they have become accustomed to in recent years.

Our revised plan, which reflected customer priorities and met regulatory performance targets for safety, capacity and environment at greatly reduced prices, was submitted to the Civil Aviation Authority (CAA). The CAA proposed even further price reductions making this a very challenging settlement.

We anticipated that customers and regulators would require lower prices and, to achieve our revised plan for RP2, we acted this year to reduce our cost base. This is reflected in our results. We also mitigated a potential increase in defined benefit scheme pension costs through further reforms (the scheme was closed to new members in 2009).

For our businesses which are not economically regulated, we have strengthened our strategic position by developing propositions for customers based on value rather than cost. We have also developed a territory strategy to target specific growth markets and campaigns which ensure that our approach to the market is consistent across service lines.

We secured orders worth £128m including the renewal of contracts with Belfast International, Cardiff and Gibraltar airports, contracts with windfarm developers to eliminate the false returns that wind turbines can generate on radars, and training for air traffic controllers. We also fulfilled contracts in Qatar, Kuwait, Hong Kong, Singapore and Australia and our Spanish joint venture provides air traffic control services to nine airports. In recent years we have secured contracts in 36 countries outside the UK.

Our revenue improved by £18.0m (2.0%) to £917.6m (2013: £899.6m) mainly reflecting an increase in UK en route revenues - the contribution from engineering and consultancy was lower reflecting non-recurring projects which were largely fulfilled last year – and our results before exceptional items improved by £25.2m to £240.3m (2013: £215.1m). We achieved a profit before tax of £157.5m (2013: £160.8m), a reduction of £3.3m from last year. This result was impacted by two exceptional items: the cost of redundancies and a goodwill impairment charge. In addition, and partly offsetting these, there was a credit arising from a fair value movement on a derivative contract. The factors affecting our performance are explained in the Service line performance and Financial review sections of this report.

We provided a high standard of operational safety and an attributable average Air Traffic Flow Management (ATFM) delay[1] of 5.5 seconds per flight (2013: 1.4 seconds). The latter included a ground communications failure on 7th December 2013 that resulted in a significant delay that day for customers. This single incident caused us to fall short of some of the performance targets set by the CAA as

1 ATFM or Air Traffic Flow Management delay represents the delay between the last take-off time requested by an airline and the take-off slot which is allocated when an Air Navigation Service Provider (ANSP) applies a flow restriction. Delay which is directly attributable to an ANSP includes staffing, capacity and systems-related delay. Delay which is not directly attributable to an ANSP, includes weather at airports and en route, and delay attributed to airport infrastructure. NATS determines its delay based on those factors which are directly attributable to its activities (i.e. staffing, capacity and systems-related) and has compared its performance with the equivalent European value.

Chief Executive's review
(Continued)

we imposed flow controls to manage traffic safely while we restored the system. 90% of flights were handled although significant delays were incurred. Overall this cost NATS £7.4m in lost incentives and penalties. An independent review of our technical response and our communications with customers during the incident found that the event was managed professionally. Despite this event, our service performance overall continued to be very good and was about one-fifth of the average European delay per flight, in the top quartile of performance.

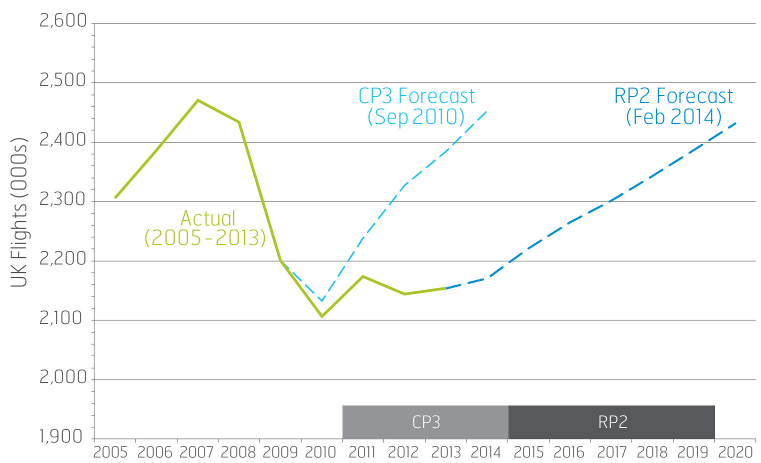
We met the flight efficiency target set by the CAA, which aims to reduce fuel burn and ATM-related CO_2 emissions, and through short term tactical measures we enabled 59,000 tonnes (2013: 6,926 tonnes) of fuel savings worth approximately £36m (at £615 per metric tonne, based on average fuel prices and exchange rates for 2014) to customers.

We invested £129.7m (2013: £128.9m), largely in our economically regulated activities, to sustain our operations and to develop systems in line with the Single European Sky ATM Research (SESAR) programme.

Operating environment

Historically, the growth in demand for air travel has been closely linked to the strength of the global economy. Some economies are growing faster than others, with the strongest growth being from the emerging economies of the Middle East and South East Asia. Of the established Western economies, the US has exhibited a particularly robust recovery since the financial crisis. In the meantime recovery in the UK is becoming increasingly solid whilst the Eurozone has recently exited recession and is back on a growth path. This puts all major regions of the world back into positive growth territory for the first time since the financial crisis. Whilst global demand for air travel recovers on the back of a strengthening global economy, it is the Middle East and South East Asia regions where we expect the growth in demand to be most pronounced and which offer the best prospects for business development: we are already seeing evidence of capacity constraints at busy airports and across airspace in these regions.

UK flights in controlled airspace



Note: Forecasts are derived from Eurocontrol's February 2014 STATFOR forecast.

The UK's progressively improving economy suggests that we should see a return to sustained growth in air traffic volumes. However, the severity of the economic recession has meant that forecasting a recovery has been particularly challenging, and sustained air traffic growth has been elusive so far with subsequent projections deferring the point at which growth had been anticipated.

Our plans assume flight volumes will grow by 0.8% in 2014 (calendar year) and by 1.9% per annum on average through RP2. We do not expect traffic levels to return to the previous peak (2007) until after RP2, and most likely in 2021 or 2022.

Chief Executive's review
(Continued)

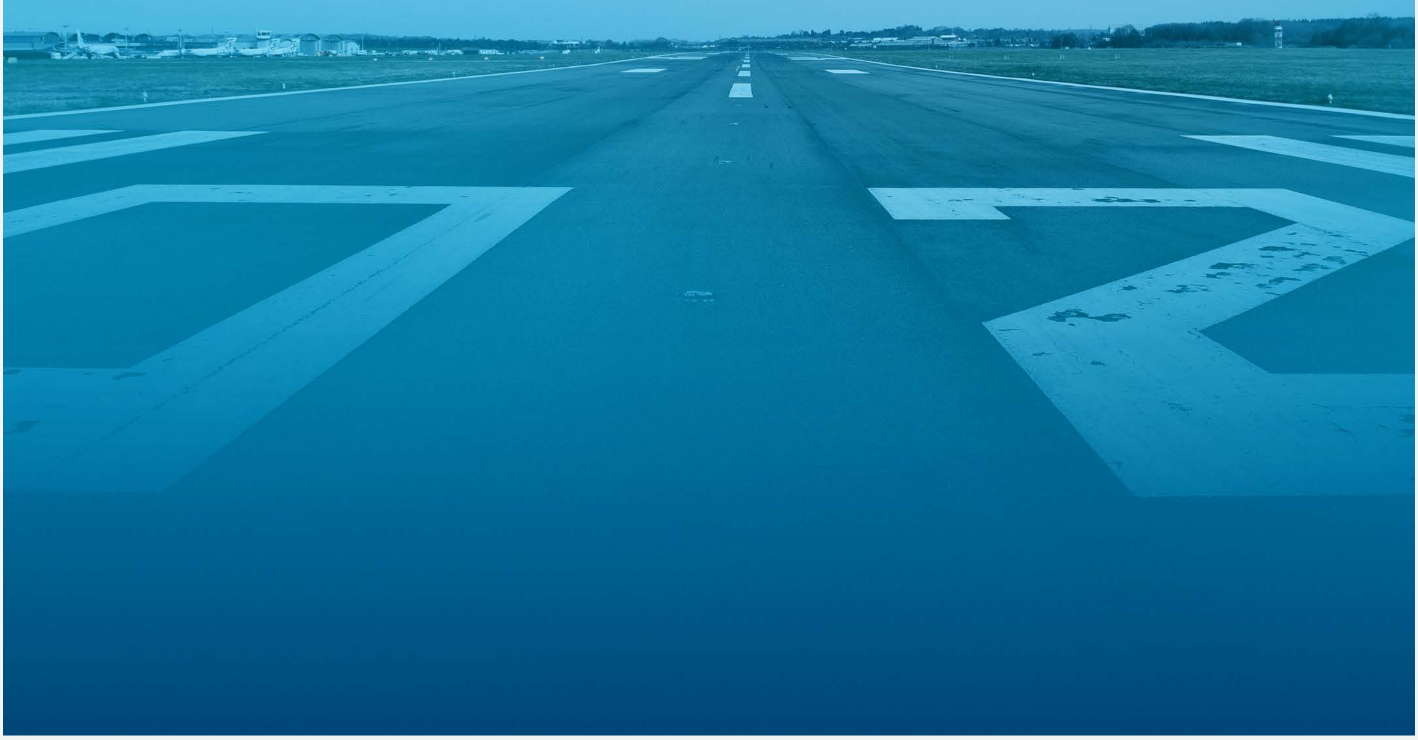
Looking ahead

We will not know the outcome of the RP2 settlement until November 2014, when the European Commission (EC) will confirm whether the UK-Ireland Functional Airspace Block (FAB) plan makes a sufficient contribution to EU performance targets. For now we will consider the impact of the CAA's decision on our revised business plan and take the necessary action to deliver the benefits we promised to customers.

Next month we expect to hear whether we have been successful in our bid for the Gatwick airport contract, defending it against competition from European State-owned air traffic service providers, whose own markets for these same services remain closed. I believe that our commitment to achieve capacity and to innovate in our service provision generates real value for our airport customers. It is worth noting that NATS provides services at the world's busiest single runway airport (Gatwick with 55 scheduled movements per hour) and dual runway airport (Heathrow with 88 scheduled movements per hour).

Also, together with our partner, Thales, we are one of the two remaining bidders for Project Marshall, a long term contract to manage air traffic and related infrastructure at Ministry of Defence (MoD) airbases. We expect a decision on this in the autumn.

Next month Scotland hosts the Commonwealth Games, the third largest multi-sport event in the world. Glasgow airport and the Prestwick air traffic control centre will be at the heart of managing the relevant airspace during this time, as competitors from 71 countries, along with spectators, officials and a number of Heads of State and VIPs fly to Glasgow. Whilst traffic levels are not expected to increase significantly, we are drawing on our experience of the 2012 London Olympics to ensure that we have the right safety, service, and security assurances in place to help deliver a successful event.



Chief Executive's review
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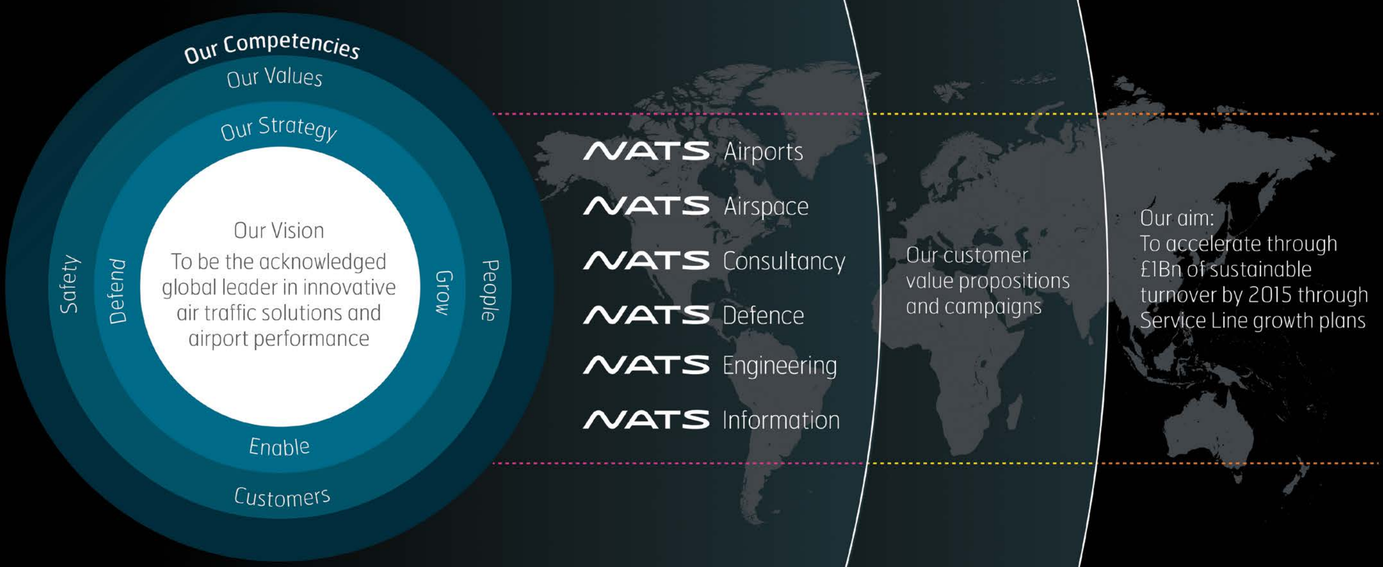
Performance through Innovation
Our journey to 2015



Chief Executive's review
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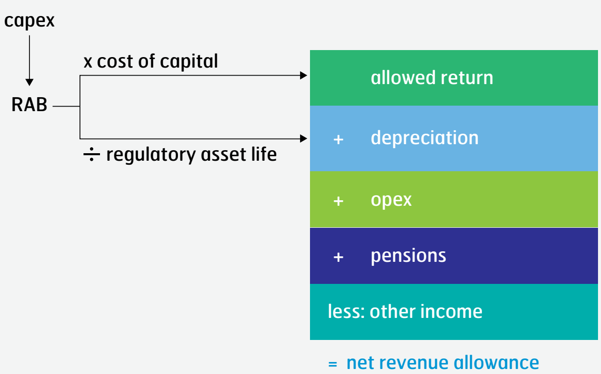
Our business model, vision and strategy

We generate our income from the provision of air traffic control and related services. Our activities are mainly conducted through two operating subsidiaries: NATS (En Route) plc (NERL) and NATS (Services) Limited (NATS Services).

NERL is the sole provider of air traffic control services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted by the Secretary of State under the Transport Act 2000. The Act gives the CAA the role of economic regulator. UK and North Atlantic en route, London Approach and North Sea helicopter advisory services are regulated by this licence. NERL also provides the military with engineering, surveillance and communications services.

The CAA establishes revenue allowances for NERL's economically regulated services. These remunerate NERL's efficient investment (capex), operating costs (opex), pensions and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The RAB, which represents the value ascribed to the capital employed in the regulated businesses, is adjusted to reflect asset additions, disposal proceeds, regulatory depreciation and the rate of inflation. Certain other income generated outside of the economically regulated activities is deducted under a 'single till', leaving a net revenue allowance. A price per service unit is set to recover this net revenue requirement based on forecast traffic for the reference period. This regulatory model is illustrated below.



The price control for the four years 2011 to 2014 (Control Period 3 or CP3) was based on total revenues of £2.2bn (expressed by the CAA in 2008/09 prices) and provides for a cost of capital of 6.8%, allowing for the reinvestment of cash. If the regulatory and other assumptions are borne out in practice, then NERL would earn a return of 6.8% p.a.. It can earn additional returns during a control period (or reference period in European terminology) if it outperforms the CAA's assumptions by becoming even more cost efficient and by financing its business at lower cost, or if traffic volumes are higher than forecast with risk-sharing arrangements. The CAA also sets targets for service and environmental performance which provides an incentive for outperformance. NERL would earn lower returns if it provided its service less cost effectively, if finance costs were higher or if traffic volumes were lower than assumed, and if it did not meet service performance targets.

The CP3 decision provided three key risk mitigations: a risk-sharing mechanism to protect against certain variations in traffic volumes from the level assumed; a true-up to charges in subsequent control periods where cash contributions to the defined benefit pension scheme differ from the CP3 forecast; and a target and cap on the level of NERL's gearing set at 60% and 65% of net debt to RAB, respectively. Charges may be adjusted for service performance incentives, traffic volume risk-sharing and for changes in inflation from the level forecast in the CP3 settlement.

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Our vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance.

As noted above, this year NERL consulted with customers on its business plan for RP2 and, following detailed review, the CAA has now put forward its recommendation to the Department for Transport (DfT) as part of the joint UK-Ireland FAB Performance Plan. The structure of the economic regulatory framework for UK en route services for RP2 is largely consistent with CP3 but the scope of regulation has been extended to Terminal Air Navigation Services (TANS) at large UK airports (those with more than 70,000 Instrument Flight Rule (IFR) movements from January 2015 onwards).

NATS Airports provides air traffic services at 15 of the UK's airports and in Gibraltar. The UK has 128 licensed aerodromes and of these 107 self-provide the service. Of the rest, 15 are outsourced to NATS Services and 6, to 2 other providers. Increasingly, NATS also faces competition from European State-owned Air Navigation Service Providers (ANSP).

NATS Engineering has a track record of delivering demanding and complex turnkey engineering projects. Its competence in this area stems from implementing, maintaining and enhancing equipment at airports. Its principal competitors include systems integrators, equipment manufacturers and specialist engineering consultants.

NATS Consultancy's expertise has evolved from its operational Air Traffic Control (ATC) experience, which enables it to help optimise the safety and operational performance of airports or ANSPs, providing practical advice on maximising throughput of traffic through existing airport infrastructure. The consultancy market includes other environmental, engineering and infrastructure consultancy firms. NATS also provides a training service, at its own training centre. Training services are also offered by other ANSPs and by specialist colleges.

NATS Information is expert at the capture of aeronautical data and other data associated with air navigation services and the management of that data into databases for charting and the provision of other services.

NATS Defence is seeking to extend the range of services that NATS provides to the UK MoD and overseas military customers. Project Marshall is one such opportunity that we are bidding for.

Our vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance.

Our strategy is based on three fundamental principles:

- to defend our existing market position;
- to grow our business by providing new and innovative products and services; and
- to enable the capabilities needed in the business to ensure we deliver our ambitions.

At the very heart of this strategy is our intention to help our customers to deliver a better passenger experience.

Our business is founded on providing a safe, efficient and cost-effective air traffic control service to our UK and North Atlantic en route and airport customers. We are uniquely placed to help airline and airport customers to realise value by making both airspace and airfield services more efficient than they are today. We think differently about what constitutes a flight; rather than considering this as a gate-to-gate process we look at it as cruise-to-cruise, whilst aiming to understand the cost and efficiencies of the complex interactions at each stage of flight between airlines, airport operators and NATS. We understand the benefit we can provide to airlines in our airspace through fuel efficient flight profiles and continuous descent approaches (which can also be tailored to aircraft type) and continuous ascent departures, ensuring sufficient network capacity to minimise delay, and through arrival and departure management. Our en route operation also provides a seamless transition between the North Atlantic and UK en route services, which helps achieve optimal flight profiles. We recognise that the airport experience is an intrinsic part of overall measurable performance and, through our experiences at Heathrow and Gatwick and other airports, we have demonstrated capability to optimise runway performance and apron efficiency, benefiting airport operators and investors, and airlines that are responding to growing demand for air travel through investments in new aircraft.

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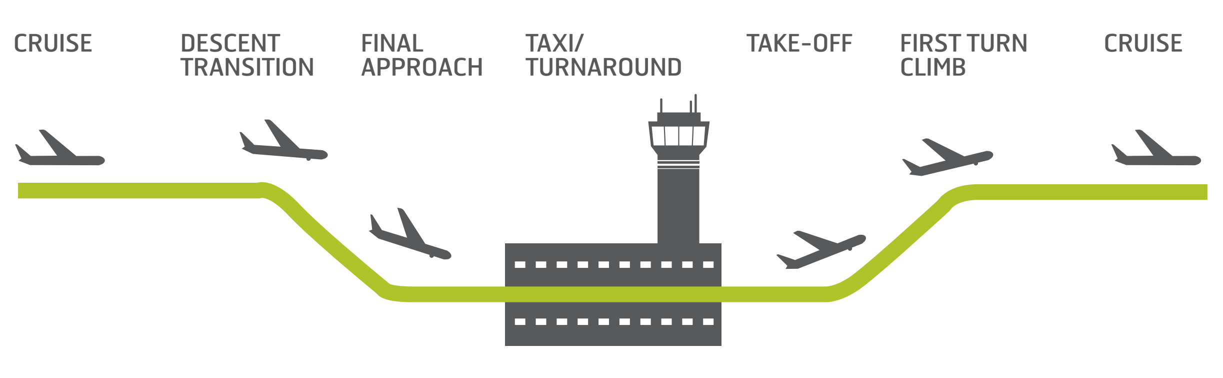

To defend our existing contracts we must continue to make our customer proposition attractive by focusing on service levels, our prices and the overall value we offer. These principles were at the heart of our approach to RP2 which offered a real choice to our en route customers for our Airspace activities.

On the Airports side, we are facing an increasingly competitive environment due to changes in the market. Our response is to make our proposition more compelling to airport operators through improved efficiency, delivering price benefit, innovations in technology and operational delivery, and by tailoring our service according to the size and complexity of airports.

We are also facing economic regulation for UK TANS. We believe that a competitive market remains the most effective long-term business model for airport customers in the UK and overseas and we will work with regulators and customers to improve the UK's market contestability assessment. Our Spanish joint venture shows that where competition exists better quality services can be provided more cost effectively.

We have worked hard to develop a compelling growth strategy that builds on our intimate knowledge of how we can add value to airline and airport operations and offers a broader range of products and services to our existing and new customers. This has transformed NATS from a mainly UK-focused business to one which also operates internationally. Our strategy is to focus our resources on customers and countries most likely to provide long term sustainable business on a significant scale and at manageable risk. To this end we have developed a focused territory strategy and targeted customer campaigns.

There are limited new business openings in Europe at present, due to political factors, and the growth in military outsourcing has also been slower than expected. It is also taking longer to break into new markets due to economic conditions. However, there are good prospects in specific growth markets such as the Middle East and Asia Pacific, and this is where we are focusing our effort.

Our strategy will only succeed if enabled by improving our approach to competing for and delivering new business. We are continuing to develop our commercial capabilities and placing increased emphasis on international partnerships to access new markets while minimising commercial risk. Our people strategy focuses on the recruitment, succession planning and talent development required to deliver our strategy. This year we also developed complementary strategies to deliver continuous safety improvement as the business develops, reduce the impact of aviation on the environment and fuel savings, and a technology strategy to ensure alignment with the European SESAR programme.

To support our strategy we have also reaffirmed our core values this year:

- being safe in everything we do;
- delivering service excellence and environmental performance to customers; and
- valuing the difference we can all make as employees.

In 2011 we set ourselves the ambitious target of accelerating through £1bn of sustainable revenue by 2015 (from £865m in 2011/12). Indications are that we will achieve £930m for 2014/15. This is less than we had hoped but reflects pricing pressures in the UK airports market and the challenging environment, with slower economic growth than we envisaged 5 years ago which has limited growth opportunities. However, I believe our strategic position is stronger, our order book shows the prospects are bright and the foundations are in place that will enable growth in the future as markets liberalise.

A summary of the principal key performance indicators used to measure our financial and operational performance are set out on page 41.

Chief Executive's review
(Continued)

	Strategic highlights
Defend To defend our existing market position: continuing to make our customer proposition attractive by focusing on service levels, our prices and the value which we offer.	**Airspace:** following customer consultation, our proposal for RP2 exceeds EU-wide targets; **Airports:** we renewed contracts with Belfast, Cardiff and RAF Gibraltar in the year and we are competing to renew the Gatwick contract; **Airports:** Birmingham confirmed that it will not renew but take the service in-house from 2015.
Grow To grow our business by providing new and innovative products and services based on our core competencies: focusing our resources on carefully prioritised customers and countries most likely to provide long term sustainable business on a significant scale and at manageable risk.	**Airports:** we are providing Heathrow airport with a capacity management tool; **Consultancy:** we are redesigning airspace for Gatwick airport, providing training to Romania, advising Hong Kong on a design for a third runway and assessing airport capacity for Singapore; **Defence:** we are in the final bid stage for Project Marshall, a key terminal air traffic management programme for the Ministry of Defence; **Engineering:** we now provide engineering services to RAF Gibraltar and completed the fit-out of control towers for Manchester and Birmingham airports; **Information:** we offer a mitigation solution to windfarm operators and will provide advanced procedure design services at five Swedish airports.
Enable To enable the capabilities needed in the business to ensure we deliver our ambitions.	**Territory strategy:** in May 2014, we opened regional offices in Dubai and Singapore; **Strategic alliances:** we signed a Memorandum of Understanding with the Japan Civil Aviation Bureau in the year and a collaboration agreement with Airbus Prosky in April 2014; **People:** we have made further progress with our succession planning and launched our talent development programmes.

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Safety

Our first priority remains the safety of aircraft and the travelling public and we are committed to improving operational safety performance. This priority was confirmed by customers through the RP2 consultation in which we committed to reduce safety risk, defined as the accident risk per flight, in line with currently predicted traffic growth of 13% by 2020 (relative to 2013 calendar year traffic).

In 2011 we targeted a 10% reduction in the Weighted Safety Significant Event (SSE)[2] Index by March 2015. To date we are outperforming this target, through a 21% reduction in the index.

This year there was 1 category B Airprox[3] event attributable to NATS, the first category A or B event since 2008. Our target for 2015 is for no Airprox category A or B events attributable to NATS.

Although the overall number of Airprox events increased in the year, the number of losses of separation relating to Airprox where NATS was providing a service reduced from 7 in 2013 to 3 in 2014. This pattern reflects the subjective nature of Airprox reporting and our efforts at reducing the tolerance to risk across the aviation community.

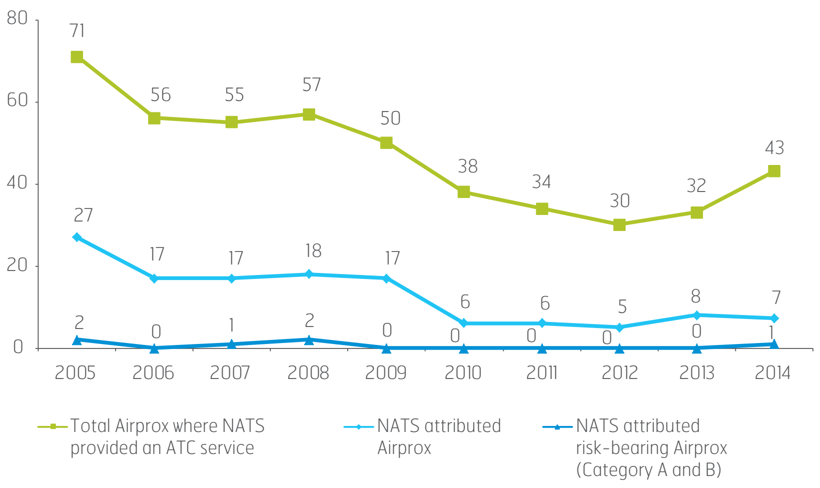
We are working towards introducing a new event reporting system to meet the European regulations for event assessment: the Risk Analysis Tool (RAT). This will see a significant change to the assessment of safety events across Europe and enable a greater understanding of the safety risk of occurrences, with a focus on factors that occur earlier in the event chain. This development has been led by NATS and is very much an evolution of the techniques we currently employ.

The most significant operational risks are infringements of controlled airspace, level busts[4] and runway-related events, and we have been continuing to address these. We have also taken a number of actions on Human Performance.

This year we have been working with the CAA on infringements and how to prevent them as well as mitigate their severity, which has been the focus until now. The CAA is reviewing ways to improve awareness across the general aviation community.

We have also made improvements to the controlled airspace infringement tool in light of operational experience: the speed threshold for the activation of the alert was lowered to pick up all aircraft types. We are also developing a light weight low cost alternative to transponders for General Aviation, to assist the detection and location of infringements on radar.

Airprox: Annual totals for the financial year ended 31 March



Note: Safety statistics for 2014 include NATS assessment of the outcome of UK Airprox Board reviews

2 The Weighted SSE Index is a single figure calculated by giving a weighted value to our 4 event scores (SSE 1-4). These values are combined in the index to provide the measure of safety performance used within the company to track our overall safety progress over time. It distinguishes between those events that are attributed wholly or partly to NATS, and those that are not (although both are addressed in our safety activities). The SSE scheme categorises safety events based upon severity (1-4) and separation distance (a-d), where 1a is the most severe and 4d the least severe.

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

4 An aircraft deviation of 300 feet or more from its assigned level

Chief Executive's review
(Continued)

We continue to work with the industry to maintain its focus on level busts. Deployment of the Barometric Pressure Setting Advisory Tool (BAT) was extended to cover departures and arrivals below the Transition Level throughout the London terminal manoeuvring area and we are proposing to deploy a Vertical Displacement Advisory Toolset this summer, which will alert controllers to aircraft that have exceeded their cleared level or that have the potential for a level bust based on their rate of climb or descent.

Airport operators have been working with NATS to prevent runway incursions. NATS is supporting Aberdeen airport with its trial of a runway incursion alerting system and we are working with several airports to improve compliance with procedures by ground handling agents.

A new Human Performance framework was adopted across NATS' operation. This recognises that three things are required for a controller or engineer to be effective: the appropriate tools for the job, the right level of capability and a conducive working environment. We are applying this framework to airspace changes such as the London Airspace Management Programme (LAMP) and Transition Altitude, and we are working with the industry to improve understanding of working environments and training.

As a key enabler for future safety improvement we have developed a Safety Strategy to 2020. The strategy proposes changing how NATS measures and controls safety in its operation, strengthening the role of people in delivering safety and making best use of the resources that are available to us. It also acknowledges the need to become even more proactive in anticipating the risks to our operations , in order to help us manage the significant challenges of the future. We were encouraged to see the principles of our Safety Strategy adopted by the Civil Air Navigation Services Organisation (CANSO) as a global standard for best practice.

Economic regulation

The regulatory framework in which NATS' economically regulated activities operate is now determined by the EC's Single European Sky (SES) legislation. Under this framework, EU-wide performance targets for safety, capacity, environment and cost efficiency are established and it is the role of member states and national regulators to develop Performance Plans at national and at FAB levels consistent with these targets. NERL's plan forms the majority of the UK-Ireland FAB plan for RP2.

Last summer NERL consulted extensively with airline customers on its draft RP2 Business Plan and put forward two price reduction proposals to customers: a service-led plan for those wanting the lowest price for a similar level of service as they currently receive together with airspace and system improvements, and a price-led plan for those seeking an even lower price and good performance but with customers taking on more service performance risk. In response, customers highlighted the importance of maximum fuel savings at the lowest price while maintaining existing service quality.

NERL submitted to the CAA a revised plan to meet these requirements and proposed cumulative cost reductions of £390m[5] in real terms over RP2, and real reductions in prices of 18%, which exceeded European Union (EU) wide targets. NERL's plan also delivered important strategic objectives, including the early implementation of the industry's FAS, deployment of SESAR technology and key airspace changes such as LAMP all of which deliver significant customer benefits, including enabled fuel savings of c. £180m p.a. by the end of RP2.

Following consultation, the CAA and the Irish Aviation Authority (IAA), submitted their recommended UK-Ireland RP2 Performance Plan to the UK and Irish Governments. We consider that the targets for safety, capacity and

5 Cumulative savings in RP2 relative to the RP1 National Performance Plan cost base for 2014.

Chief Executive's review
(Continued)

environment are reasonable. The CAA proposes additional real cumulative cost reductions of c. £90m over RP2. The CAA previously proposed c. £120m of cost reductions, but adjusted this following representations from NATS, making additional resources available to maintain the schedule of investment proposed in our revised business plan to enable significant fuel savings for customers.

After further review and adoption by both Governments, the final performance plan will be submitted to the EC on 30 June 2014. In November 2014, the Commission will notify member states whether plans are consistent with and make adequate contribution to the EU-wide targets for RP2.

As noted in the 2013 Annual Report, the DfT accepted the CAA's advice that the balance of evidence did not support the existence of market conditions under the criteria specified in SES regulations in the TANS at the 8 UK airports with more than 70,000 IFR movements. Under the RP2 regulations, where market conditions have not been demonstrated, performance plans must include national targets for TANS. Therefore in December 2013, the CAA consulted on TANS and published its decision in February 2014. In general terms we welcome the CAA's approach to regulation and its intent to avoid hindering the development of contestable market conditions[6]. It recognises that airport operators are best placed to decide the type and levels of performance needed to deliver the service they require for their customers. The CAA has set out specific targets for airport capacity (delay), which maintains historic performance, and a general 1% cost efficiency target (in real terms). In the longer term, we believe the EC and UK Government and regulators should encourage the liberalisation of those TANS markets across Europe which are closed. As well as evidence from the UK market, our Spanish joint venture is an example of the benefit of liberalising markets, with airport operators there, making significant cost savings on their airport air traffic service contracts.

Single European Sky (SES)

The EU SES is the initiative launched by the European Commission (EC) in 2004 to reform Air Traffic Management (ATM) in Europe and drive improvement in performance and efficiency. SESAR contributes to the implementation of the SES by defining, developing and deploying the technologies and procedures for new-generation ATM systems. What has to date been a research and development programme is now moving towards the deployment of new infrastructure that will be fully harmonised and interoperable across Europe. A deployment manager will be appointed by the EC to aid the timely and co-ordinated deployment of these projects.

We recognise that a fully cooperative approach between users and service providers will be a requirement for success and, as the biggest investors in the ATM system of the future, it is vital that ANSPs play a pivotal role in shaping deployment. For this reason we are playing a key role in the development of a consortium comprising the A6 Group (the alliance of the largest European ANSPs that is chaired by NATS), 4 airlines and 25 airports that will bid for the role of deployment manager. We expect progress this autumn.

Within NATS we are currently shaping our own programme for the deployment of SESAR technologies, with the intention of accelerating the roll out across our UK infrastructure to realise anticipated benefits for customers as soon as possible. This will also enable us to reduce our investment in legacy equipment.

Progress in implementing SES has been relatively slow and the EC is now discussing an SES II+ legislative package to accelerate it. While such a Commission-led approach might yield short term benefits, NATS is pressing for industry-led reform through ANSP alliances and commercial innovation. Through our leadership roles in organisations like CANSO, A6, Borealis, the EU Aviation Platform and our pro-active engagement with the UK-Ireland FAB, we are seeking to shape the implementation of SES II+ and position ourselves as well as we possibly can for the future.

6 See principal risks and uncertainties

Chief Executive's review
(Continued)

UK aviation strategy

The Airports Commission is making recommendations on how to maintain the UK's position as a hub for international air traffic. Its interim report short-listed three proposals for an additional runway in the southeast by 2030: a second runway at Gatwick airport; a third runway at Heathrow, to the northwest of the existing runways; and extending the existing northern runway at Heathrow to at least 6,000m, enabling it to operate as two independent runways. The Commission is studying a Thames Estuary option and will decide this year on whether it should be short-listed too. A priority for NATS is to contribute to the early assessment of these options, including airspace considerations for new runways or airports, with a particular emphasis on operational and network feasibility and identifying key constraints, ahead of publication of the final report after the 2015 General Election.

We contributed our expertise and experience to help inform the Commission's thinking and provided a list of short and medium term measures that can be achieved through the Future Airspace Strategy (FAS) developed with the CAA. The report supported FAS and allied ATM concepts: LAMP, Airport Collaborative Decision Making (A-CDM), Time-Based Separation (TBS) and extended arrival management (XMAN). It also recommended immediate action to improve the use of existing runway capacity, including an 'optimisation strategy' to improve the operational efficiency of UK airports and airspace. NATS is reviewing these recommendations to ensure that, as far as possible, robust assessments of their airspace implications have been carried out. We are pleased to report good progress in these areas which is already seeing an improvement in resilience and punctuality at Heathrow.

The Commission specifically suggested trials at Heathrow to smooth the early morning arrival schedule to minimise stacking and resulting delays, and to provide more predictable noise respite for local people. It also recommended that an Independent Noise Authority is established to provide expert and impartial advice about the noise impacts of aviation and to facilitate the delivery of future improvements.

People

This year's performance illustrates the high quality, commitment and professionalism of our people. Valuing the difference we can all make at NATS is one of our core values. At its heart is a respect for individual expertise, capitalising on individual strengths and encouraging people to develop their skills.

This year saw the launch of a NATS wide succession and personal development programme called PATH. This is a five level programme of performance enhancement, leadership development and succession planning which is accessible to all NATS employees. PATH provides our people with access to the latest thinking and development on best in class business practices and supports them in enhancing the skills and competencies required for both their current and future roles. It has been designed to equip our people to meet the challenges of today and tomorrow, and to ensure NATS has the capability and resilience in our talent pool to deliver on our commitments to existing customers and for growth.

The Trustees of NATS' defined benefit pension scheme reported the outcome of the 2012 triennial valuation in the period: a deficit of £382.6m, compared with £351.1m in 2009. This reflected actions taken by the company to manage the cost and risk of the scheme through pension reforms that the company agreed with its trades unions and staff. Like many other UK defined benefit schemes, the fall in real gilt yields in recent years to record low levels has had the effect of significantly increasing the liabilities of NATS' scheme but without a corresponding increase in scheme assets (a large part of which are equities and similar return-seeking assets). As a result, it was clear that NATS would be facing a material increase in pension contributions after the actuarial valuation at 31 December 2012 unless changes were made. Through Working Together with NATS' trades unions (NTUS), staff agreed to reduce the existing limit on the annual rate of increase in pensionable pay and to recommend to the scheme's Trustees that future service benefits should be indexed at CPI (rather than RPI). The result was also a schedule of contributions set at a more affordable level than would otherwise have been the case.

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Staff also agreed to a 3-year pay award which is linked to CPI. In addition, NATS introduced a Company Performance Related Pay Scheme (CPRP) which directly links the company's profit performance to an employee's total reward. This is an important step in aligning staff, shareholder and customer interests in the continued delivery of a high quality, safe and affordable service.

Finally, as noted above, to achieve the level of cost efficiency necessary to meet our proposed RP2 business plan, our economically regulated business is undertaking a voluntary redundancy programme to reduce its headcount. The programme will apply to all employee groups across the regulated side of NATS. This programme was agreed following consultation and full engagement with NTUS after careful consideration of resource requirements needed to maintain safety standards and performance levels as well as customer service levels.

Service line performance

We organise our activities according to service lines, which represent the products and services that we offer. A brief description of each is provided below together with a summary of financial and operational performance. The principal financial targets are revenue and contribution. The latter takes account of the operating costs which service line managers are able to influence directly. A reconciliation of service line contribution to the group's operating profit is provided in the notes to the financial statements.

NATS Airspace

	2014	2013
Financial performance:		
Revenue (£m)	**740.7**	711.7
Service line contribution (£m)	**391.6**	368.1
Capital expenditure (£m)	**125.5**	127.0
Operational performance:		
Flights handled ('000s)	**2,162**	2,126
Risk-bearing airprox (no.)	**1**	nil
Average delay per flight (seconds)	**5.4**	1.3
Enabled fuel savings (tonnes)	**59,000**	6,926

NATS Airspace includes all of NATS' economically regulated activities: UK en route services provided to aircraft operating in controlled airspace; en route services to traffic in that part of the North Atlantic where NATS provides a navigation service; approach services for aircraft arriving at and departing from the five main London airports; services to North Sea helicopter operators; and services to the military.

Revenue from NATS Airspace increased to £740.7m (2013: £711.7m), principally due to an increase in UK en route revenues and one-off income for establishing the back-up Galileo Security Monitoring Centre at Swanwick. Offsetting these was the impact of the service performance penalty of £1.0m (last year NATS Airspace earned an incentive of £6.8m) and the decision reported last year to price below the level of permitted revenue allowances for UK en route and London Approach services.

Service line contribution improved to £391.6m (2013: £368.1m). Attributed operating costs were higher mainly reflecting CPI-linked pay rises, a new staff incentive scheme and higher pension charges (at budgeted rates) which offset higher capitalised staff costs, a reduction in staff overtime – required to support the 2012 London Games the previous year – and lower headcount.

Chief Executive's review
(Continued)

The volume of UK flights increased by 1.7% in the year, with growth in all markets other than domestic flights, which contracted as airlines managed capacity by reducing the number of services offered. Growth in transatlantic and other international markets is largely driven by a recovering UK and global economy with airlines increasing capacity to meet increased demand.

Chargeable service units (the billing unit for UK en route services that is a function of aircraft weight and distance flown) also benefited from improved transatlantic traffic and from more northerly routes than usual across the North Atlantic through the winter, which led to longer distances flown.

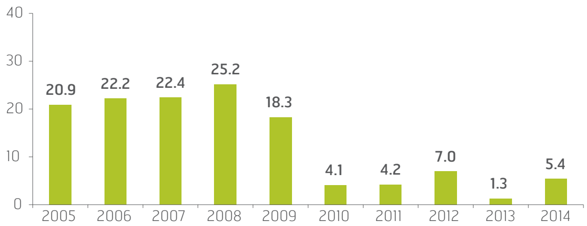
The level of delay attributable to NATS Airspace for the financial year was an average of 5.4 seconds per flight (2013: 1.3 seconds), with 99.7% of flights not delayed (2013: 99.9%). As noted above, this included the impact of the systems incident on 7 December 2013.

This event had a particularly significant impact on the delay variability score relative to the CAA's calendar year par value targets (adjusted for lower traffic volumes than assumed in the CP3 settlement) and resulted in the performance penalty overall. On other measures NATS Airspace out-performed targets, reflecting the overall quality of service provided in the year.

In addition to measures of delay, we are incentivised on the environmental performance of our network and we achieved this target. The flight efficiency metric is discussed in more detail in Corporate Responsibility. We aim to deliver short term tactical benefits to our customers and this year we enabled 59,000 tonnes (2013: 6,926 tonnes) of fuel savings from changes to procedures, equivalent to 190,000 tonnes (2013: 22,025 tonnes) of ATM-related CO_2 emissions, and worth approximately £36m to our customers (based on average fuel prices of £615 per tonne). The improvement reflects the level of changes made this year as well as better analysis of the benefits of previous changes.

	2014	2013	Year on year change
	('000s)	('000s)	%
Chargeable Service Units	**9,747**	9,395	3.8
Total UK traffic (flights):			
Domestic	**377**	385	(2.1)
North Atlantic	**314**	310	1.3
Other	**1,471**	1,431	2.8
Total	**2,162**	2,126	1.7
Oceanic traffic (flights):			
Chargeable flights	**403**	393	2.5

Airspace: average delay per flight in seconds



CP3 metrics: 2013 calendar year	Target adjusted for traffic	**Actual**
T1: avg. delay per flight (secs)	8.8	**5.2**
T2: delay impact (score)	24.6	**3.8**
T3: delay variability (score)	1,411.0	**3,784.4**
T4: 3Di metric (score)	24.0	**23.7**

OPA performance targets for 2013/14

	Target	Stretch	**Actual**
Average en route delay per flight (seconds, incl. weather related delay)	8.5	7.0	**6.9**
Short term flow regulations (% < = 45 minutes duration)	95%	96%	**96%**
Enabled fuel savings (tonnes)			
Flight efficiency (small scale procedural changes)	12,000	18,000	**19,237**
London arrival metering	5,000	10,000	**10,000**

Chief Executive's review
(Continued)

Our customers also set us service targets under our Operational Partnership Agreement (OPA) by which we work together to agree priorities and achieve short term operational improvements. We met these targets and also completed our joint 'hotspot' projects.

NATS Airspace invested £125.5m (2013: £127.0m) in support of its air traffic control infrastructure in the year. We continued to develop the next generation flight data processing system which will be compatible with European systems and undertook ongoing modernisation of the voice and data network. Following customer consultation, we also brought forward investments in: Time-Based Separation, to reduce delays at Heathrow caused by headwinds on final approach; LAMP, an airspace efficiency project to be delivered in RP2 which is an important enabler of fuel savings; and the upgrade of North Atlantic flight data and display systems, which will improve fuel efficiency and safety. We also replaced the last of the 27 radars this year following a 10-year programme and implemented Datalink functionality, which enables the exchange of data messages between controllers and pilots, further enhancing the safety and efficiency of their communications.

NATS Airports

	2014	2013
Financial performance:		
Revenue (£m)	**183.6**	182.6
Service line contribution (£m)	**57.3**	60.0
Capital expenditure (£m)	**0.5**	0.9
Operational performance:		
Airports served: UK (no.)	**15**	15
Airports served: Overseas, incl. JV (no.)	**10**	6
Risk-bearing airprox (no.)	**nil**	nil
ATC service delivery events (no.)	**8**	5
ATC asset non-availability (hours)	**15**	42
Average delay per flight (seconds)	**0.1**	0.1

NATS Airports offers innovative ATC and airport optimisation services to UK and international airport customers, helping them generate operating efficiencies and capacity in a cost effective manner. It supplies air traffic control and related engineering support services to 15 UK airports and to Gibraltar. In addition, our FerroNATS joint venture is now managing 9 Spanish airports following successful completion this year of the transition from Aena. The joint venture's financial performance is included in the service line's result.

Revenue increased by £1.0m to £183.6m (2013: £182.6m) mainly due to contractual increases in charges. The service line generated a contribution of £57.3m (2013: £60.0m), a reduction of £2.7m due mainly to higher staff-related costs but offset in part by a reduction in the joint venture loss as it completed the transition of airport contracts in the year. The joint venture is now trading profitably and will make a contribution in 2015.

During the year we renewed contracts with Cardiff, Belfast International and Gibraltar airports. The Birmingham airport contract ends in March 2015 following the airport's decision to take ATC and engineering functions in-house; we agreed a one year extension to the contract and have been providing support to ensure a smooth and safe transition. Next month we will hear whether we have succeeded in renewing Gatwick.

We continued to provide a safe service at airports with no risk-bearing airproxes during the period. The average delay per flight attributable to NATS Airports in the period was 0.1 seconds, in line with last year. We also track events which impact service delivery arising from equipment failure and staffing shortages and the average time per incident that equipment is unavailable to support the ATC service.

The CAA has proposed cost efficiency and capacity targets for large airports for RP2, as discussed earlier in the report. In addition, there are two environmental metrics which will continue to be monitored but with no targets set: additional taxi-out time and additional time in terminal airspace.

Chief Executive's review
(Continued)

NATS Engineering

	2014	2013
Financial performance:		
Revenue (£m)	**15.6**	21.0
Service line contribution (£m)	**2.2**	4.4
Capital expenditure (£m)	**3.3**	0.6
Significant milestones:		
Manchester airport: new control tower building		
Birmingham airport: new control tower building		
Birmingham airport: instrument landing system		
Clyde windfarm: radar mitigation solution		
Heathrow airport: voice and radar recorder replacement		
East Shetland Basin: communications system		
Bristol airport: emergency voice communications system		
Bristol airport: semi-automated meteorological observation system		
Hong Kong International airport: land reclamation consultancy		

NATS Engineering provides services to airport operators, construction companies and industry suppliers, mainly integrating new air traffic control infrastructure at airports. Revenue at £15.6m was £5.4m lower than last year (2013: £21.0m) reflecting the ad hoc nature of these services and the completion of the major part of significant projects last year, such as the fit-outs of control towers at Birmingham and Manchester airports. Contribution was also lower at £2.2m (2013: £4.4m) for this reason.

We continue to provide engineering services to a number of airports at which NATS does not provide the air traffic control, including Belfast City, Inverness and Oxford, Highlands & Islands airports and Dundee. We also won the contract to provide engineering support services at RAF Gibraltar.

Our capability was evident this year when we responded to repair an instrument landing system damaged by an aircraft at Stansted and restored critical systems affected by severe weather at Gatwick, in both cases minimising the impact on the customer's operation.

During the year we replaced the radar data processor and display systems at Farnborough airport in time for this summer's air show.

We continue to build our presence overseas, delivering engineering resource in Kuwait through Stanley Consultants and supporting Hong Kong's airport with land reclamation and runway studies. NATS (USA) Inc., NATS' American subsidiary, was part of the winning consortium led by Harris Corporation that was awarded a Data Communication Integrated Services (DCIS) contract by the Federal Aviation Administration (FAA). Work on this contract is now starting.

Other NATS Service lines

	2014	2013
Financial performance:		
Revenue (£m)	**18.8**	21.2
Service line contribution (£m)	**3.9**	6.7
Capital expenditure (£m)	**0.4**	0.4
Secured order value:		
UK contracts (£m)	**43.5**	10.6
Overseas contracts (£m)	**13.1**	4.3

Other NATS Service lines include Consulting, Defence and Information services provided to customers in the UK and overseas.

Revenues at £18.8m (2013: £21.2m) were £2.4m lower than previously, as a greater portion of the airspace design and airports consultancy contracts in the Middle East were undertaken last year. Service line contribution reduced by £2.8m to £3.9m (2013: £6.7m) reflecting the reduction in income recognised.

NATS Consultancy is the initial point of contact for many of our new UK and international customers. Its activities include airspace development and airport capacity improvement projects for which our UK expertise in managing some of the world's busiest airspace and airports is recognised. This is borne out by our success in securing

Chief Executive's review
(Continued)

new orders from UK and overseas customers including for the training of Romanian and Libyan controllers, and capacity management and airport and airspace design contracts in the Middle East and Asia Pacific. Also, working with partners Siemens Postal, Parcel and Airport Logistics, McLaren Applied Technologies and AVTECH Sweden, we are providing Heathrow Airport with an enhanced capacity analysis capability to allow them to assess proposed changes to the airport infrastructure more rapidly.

NATS has a well-established relationship with the UK's MoD which we are seeking to extend (our joint and integrated civil and military air traffic control services contract is managed by, and reported in, NATS Airspace). AQUILA Air Traffic Management Services, a collaboration of NATS and Thales, has been selected as one of two remaining bids to support the MoD with air traffic systems and services for its air bases in the UK and overseas.

NATS Information provides data to enable improved efficiency and flight optimisation to customers. To this end we are able to source and integrate traffic, weather and aeronautical information management data to provide value-adding services to aircraft operators. We also have a team of operational procedures designers whose capabilities are recognised by airports and other ANSPs. Finally, we have established a leading position in assessing and mitigating the impact of windfarms on aviation (principally radars), creating opportunities to provide surveillance data solutions to the renewable energy market and we have seen significant growth here this year.

Orders were secured in the year in the UK for airspace consultancy and services to windfarm operators, and in Europe and the US, with a total value of £56.6m (2013: £14.9m).

Our overseas growth has been significantly enhanced by the excellent support we have received in recent years from the UK Trade & Investment team and UK embassies around the world. I would like to publically record my thanks for the support, enthusiasm and insights provided by these dedicated staff.

As we look to the year ahead we are well placed to meet the challenges of the European SES programme, to conclude the RP2 settlement and to exploit the opening up of more aviation services markets as airline and airport customers recognise what can be achieved through competition rather than regulation.

Richard Deakin
Chief Executive Officer

Financial review

	2014	2013
	£m	£m
Revenue	**917.6**	899.6
Operating profit before exceptional items	**240.3**	215.1
Operating profit	**167.5**	215.1
Profit before tax	**157.5**	160.8
Profit after tax	**129.3**	125.4
Dividends	**62.0**	40.0

Note: the 2013 comparative is restated on adoption of revised IAS 19

There were two exceptional items which impacted these results: the cost of redundancies and a goodwill impairment charge. In addition, partly offsetting these, was a credit arising from the fair value movement on a derivative contract. Operating profit before these factors improved by £25.2m to £240.3m (2013: £215.1m) reflecting the continuing solid operational performance of the business.

Revenues improved by £18.0m to £917.6m (2013: £899.6m) due largely to an increase in en route revenue allowances, reflecting higher traffic volumes and inflation. This was offset by the effect of a ground communications failure on service performance which resulted in a penalty of £1.0m (2013: £6.8m incentive) and lower revenue recognised this year from engineering and consultancy services contracts. These and other factors are described in the review of service line performance.

Overall, profit before tax was lower by £3.3m at £157.5m (2013: £160.8m). The following table explains the reduction in profit before tax for the year.

		Profit before tax
	£m	£m
2013 profit before tax (restated)		160.8
Revenue changes		
Airspace		
Net increase in revenue (allowing for traffic volumes & inflation)	33.3	
Pricing below the revenue cap	(2.7)	
Service performance incentive	(7.8)	
Galileo Security Monitoring Centre revenue	2.6	
Other revenue changes	1.3	
		26.7
Airports		0.7
Engineering		(6.5)
Other NATS Service lines		(2.9)
Cost changes		
Staff costs	1.7	
Non-staff costs	4.0	
		5.7
Depreciation & amortisation, net of deferred grants	(1.5)	
Asset impairment charges	(1.2)	
Disposal of assets	4.2	
		1.5
Exceptional items:		
Redundancy costs	(40.8)	
Goodwill impairment	(32.0)	
		(72.8)
Fair value movement on derivative contract	38.2	
Other finance costs (net)	4.7	
		42.9
Results of associates and joint ventures		1.4
2014 profit before tax		**157.5**

Financial review
(Continued)

Redundancy costs
A charge of £40.8m for the year related to redundancies which the company considered necessary to reduce its cost base to meet the challenging cost efficiency targets set for Reference Period 2 (RP2).

Goodwill
A goodwill impairment charge of £32.0m has been recognised (2013: £nil). Goodwill of £386m was initially recognised by NERL following the NATS Public Private Partnership (PPP) transaction in 2001. Under UK Generally Accepted Accounting Principles (UK GAAP), which the company followed until 2006, this was amortised over NERL's 30 year licence period. Since adoption of international accounting standards, the carrying value of goodwill has been assessed annually by reference to value in use, represented by the present value of future cash flows implied by NERL's regulatory settlements, and net realisable value based on its Regulatory Asset Base (RAB), including a premium to reflect the potential for outperformance relative to regulatory settlements. This premium of 7-8% (2013: 10%) reflects the company's assessment of reduced opportunities to outperform its regulatory targets as well as by reference to market transactions in UK and European economically regulated sectors, including precedents where there has been a change of control.

The carrying value of goodwill is intrinsically linked to NERL's regulatory settlements and its RAB in particular. The RAB represents the value ascribed to the capital employed in the regulated business. It increases with capital expenditure and is reduced by disposal proceeds and regulatory depreciation. It is also uplifted each year for inflation. Regulatory depreciation of the RAB is a source of revenue allowances (explained in the description of NERL's business model). During RP2, NERL's capital investment is projected to be less than regulatory depreciation and the RAB is expected to contract in real terms. For this reason, goodwill impairment may also arise in future years.

Fair value movement on derivative contract
Our financing arrangements include an index-linked swap. This was taken out in 2003 as an economic hedge (qualifying for hedge accounting under UK GAAP) of NERL's revenue allowance for financing charges, which is linked to inflation. The swap contract does not qualify for hedge accounting under international accounting standards, and changes in fair value are recognised in the income statement. The fair value varies with changes in the market's expectation of inflation, swap discount rates and the passage of time to expiry of the contract in 2026, and can be volatile.

In addition, the company has adopted IFRS 13 and recognised a credit value adjustment of £2.3m to reflect NERL's own credit risk.

This year, changes in market conditions resulted in a reduction in the swap's market value liability at the balance sheet date and, when combined with the credit value adjustment, a credit to the income statement of £17.7m (2013: charge of £20.5m).

Comparison between reported profit and regulatory return
The profits reported in these financial statements are prepared in accordance with IFRS and policies described in note 2 to these accounts. As described above, the Civil Aviation Authority (CAA) applies an economic regulatory building block model which is mainly cash-based. It can give rise to some significant differences between reported operating profit and regulatory return.
The main reasons include:

- lower historical cost depreciation compared with regulatory depreciation which is indexed to inflation; and
- lower accounting pension costs using best estimate assumptions prescribed by accounting standards compared with the cash contributions agreed with Trustees, which include a margin for prudence.

Financial review
(Continued)

This difference in basis explains why NERL's reported profit is some £80m higher than its regulatory return. This regulatory view is set out in NERL's audited published regulatory accounts.

Review of operating costs

The group incurred operating costs, before exceptional redundancy costs and goodwill impairment, of £677.3m (2013: £684.5m).

	2014	2013
	£m	£m
Staff costs	**(419.1)**	(420.8)
Services and materials	**(79.3)**	(77.2)
Repairs and maintenance	**(36.4)**	(37.9)
External research and development	**(0.1)**	(0.2)
Other operating charges (net)	**(39.6)**	(44.1)
	(574.5)	(580.2)
Depreciation and amortisation	**(105.7)**	(104.3)
Asset impairment	**(2.0)**	(0.8)
Deferred grants	**0.7**	0.8
Profit on disposal of non-current assets	**4.2**	–
Operating costs	**(677.3)**	(684.5)

Staff costs overall were broadly in line with the previous year. Pay rises linked to the Consumer Prices Index (CPI), a new incentive scheme and employee share scheme costs were offset by lower overtime, more labour capitalised and lower pension costs. Pension charges (before redundancy-related past service cost), which reflect the revised accounting standard, were £9.0m lower at £111.4m (2013: £120.4m) mainly due to a reduction in the accrual rate to 34.0% (2013: 38.2%), before salary sacrifice, for the defined benefit pension scheme. The average number of staff employed during the year was 4,519 (2013: 4,562) and those in post at 31 March 2014 reduced by 3.6% to 4,421 (2013: 4,585).

Non-staff costs at £155.4m (2013: £159.4m) were lower by 2.5% and mainly reflected the level of Engineering and Consultancy activity undertaken.

Depreciation, amortisation and impairment charges increased in aggregate to £107.7m (2013: £105.1m). The profit on disposal of assets included a gain realised on the sale of the company's former training college at Hurn and an insurance claim for storm damage to a radar.

Net finance costs

Excluding the index-linked swap explained above, net finance costs were £4.7m lower at £27.9m (2013: £32.6m) due mainly to lower bond interest payments, following repayments of principal, and the net unwind of discounts on non-current assets and liabilities.

Taxation

The tax charge of £28.2m (2013: £35.4m) was at an effective rate of 17.9% (2013: 22.0%). This is lower than the headline rate of corporation tax of 23%, due largely to the deferred tax impact of a reduction in the corporation tax rate to 20% from April 2015, as enacted by the 2013 Finance Bill, which is partially offset by the impact of goodwill impairment.

NATS now undertakes business in a number of other countries, though the bulk of its taxes arise in the UK. For each country in which we operate, we organise our operations to pay the correct and appropriate amount of tax at the right time according to the laws of the relevant country and ensure compliance with the group's tax policies and guidelines. The group's tax strategy is reviewed annually by a Tax Committee and covers the application of all taxes, both direct and indirect, to our business including corporation tax, payroll taxes and value added tax.

The Tax Committee comprises the Finance Director, the Head of Tax and other senior finance professionals and takes advice from a professional firm.

Financial review
(Continued)

Dividends
During the year the company paid dividends totalling £62.0m (2013: £40.0m). In May 2014 the company declared an interim dividend for the year ending 31 March 2015 of £51.0m which was paid to shareholders in June.

Balance sheet
The group balance sheet is summarised below.

	2014	2013
	£m	£m
Goodwill	**319.0**	351.0
Tangible and intangible fixed assets	**934.1**	913.3
Other non-current assets	**72.4**	60.6
Cash and short term deposits	**241.3**	228.1
Derivatives (net)	**(128.8)**	(145.8)
Pension scheme (deficit)/surplus	**(12.3)**	14.0
Borrowings	**(649.2)**	(685.2)
Deferred tax liability	**(87.8)**	(104.6)
Other net (liabilities)/assets	**(31.1)**	4.5
Net assets	**657.6**	635.9

Movements in goodwill, pensions, cash and borrowings and derivatives are explained elsewhere in this report.

Changes to fixed assets reflect capital investment in the year of £129.7m, net of depreciation and disposals. The change in deferred taxes mainly arises from the movement in the pension funding position and reduction in corporation tax rates.

Defined benefit pensions
a. IFRS – accounting basis
At 31 March 2014, measured under international accounting standards and the associated best estimate assumptions, the company's defined benefit scheme was in deficit with liabilities (of £4,178.7m) exceeding assets (of £4,166.4m) by £12.3m (2013: £14.0m surplus). Given the size of the scheme relative to the company, changes in market conditions can have relatively large impacts on the results and financial position.

b. Actuarial – funding basis
The scheme actuary's latest triennial valuation of the scheme was prepared as at 31 December 2012 and reported a scheme deficit of £382.6m - the deficit would have been significantly worse had action not been taken by the company to secure staff agreement to reduce the limit on increases in annual pensionable pay from Retail Prices Index (RPI) + 0.5% to CPI + 0.25%. This valuation, which is for funding purposes and uses assumptions including a margin for prudence, gives rise to a different valuation than that disclosed under international accounting standards. It determines the contributions that NATS is required to make to the defined benefit scheme.

The Trustees and the company have agreed a schedule of contributions and a deficit recovery plan for the period to 31 December 2023. This required the company to make deficit repair payments of £25.7m for calendar year 2013 and £26.6m for calendar year 2014, and future service contributions at a rate of 36.7% of pensionable pay (excluding salary sacrifice) for this period. From 1 January

Financial review

(Continued)

2015 future service contributions will reduce to 29.4%, reflecting the revised cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Also, from 1 January 2015, deficit contributions will be £28.6m, increasing by 2.37% each year. This means that for RP2 (2015 to 2019), contributions will average c.41% of pensionable pay, compared with c.46% currently. The lower cap on pensionable pay and change in future service indexation are estimated to avoid contribution increases amounting to c.£280m in RP2, with c.£200m relating to the en route business.

The company continues to work with Trustees to ensure an appropriate investment strategy is in place, including de-risking the scheme as funding levels improve to mitigate future volatility in the funding position.

During the year ended 31 March 2014 the company paid deficit recovery payments of £25.9m (2013: £25.1m). Before pension salary sacrifice payments of £15.6m and redundancy-related augmentation payments of £1.9m, the group's overall contributions to the defined benefit scheme were £127.9m (2013: £125.6m), equivalent to 46.0% of pensionable pay (2013: 45.9%).

Funding and treasury management

At 31 March 2014, borrowings were £649.2m (2013: £685.2m). Cash and investments increased by £13.2m to £241.3m (2013: £228.1m) and net debt decreased by £49.2m to £407.9m (2013: £457.1m).

	Cash and short term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2013	228.1	(685.2)	(457.1)
Cash flow	13.6	37.4	51.0
Short term deposits	(0.4)	-	(0.4)
Non-cash movements	-	(1.4)	(1.4)
Balance at 31 March 2014	**241.3**	**(649.2)**	**(407.9)**

Cash flow

Overall, cash and cash equivalents increased by £13.6m in the year to £211.6m (2013: £198.0m).

	2014 £m	2013 £m
Net cash from operating activities	**263.3**	255.6
Net cash used in investing activities	**(117.8)**	(128.3)
Net cash used in financing activities	**(131.9)**	(117.0)
Increase in cash and cash equivalents	**13.6**	10.3
Cash and cash equivalents at start of year	**198.0**	187.7
Cash and cash equivalents at end of year	**211.6**	198.0

Net cash from operating activities at £263.3m was £7.7m higher than last year (2013: £255.6m) and reflected higher income receipts for UK en route services, consultancy and engineering contracts net of higher costs, including redundancies and taxes. This enabled the group to finance its capital investment, service its debt obligations and pay a dividend to shareholders.

A change to NERL's licence deferred the recovery of regulatory receivables of c.£13m from 2014 to 2015 (and defers c.£48m from 2015 to 2016), which impacted on net operating cash flows.

Financial review
(Continued)

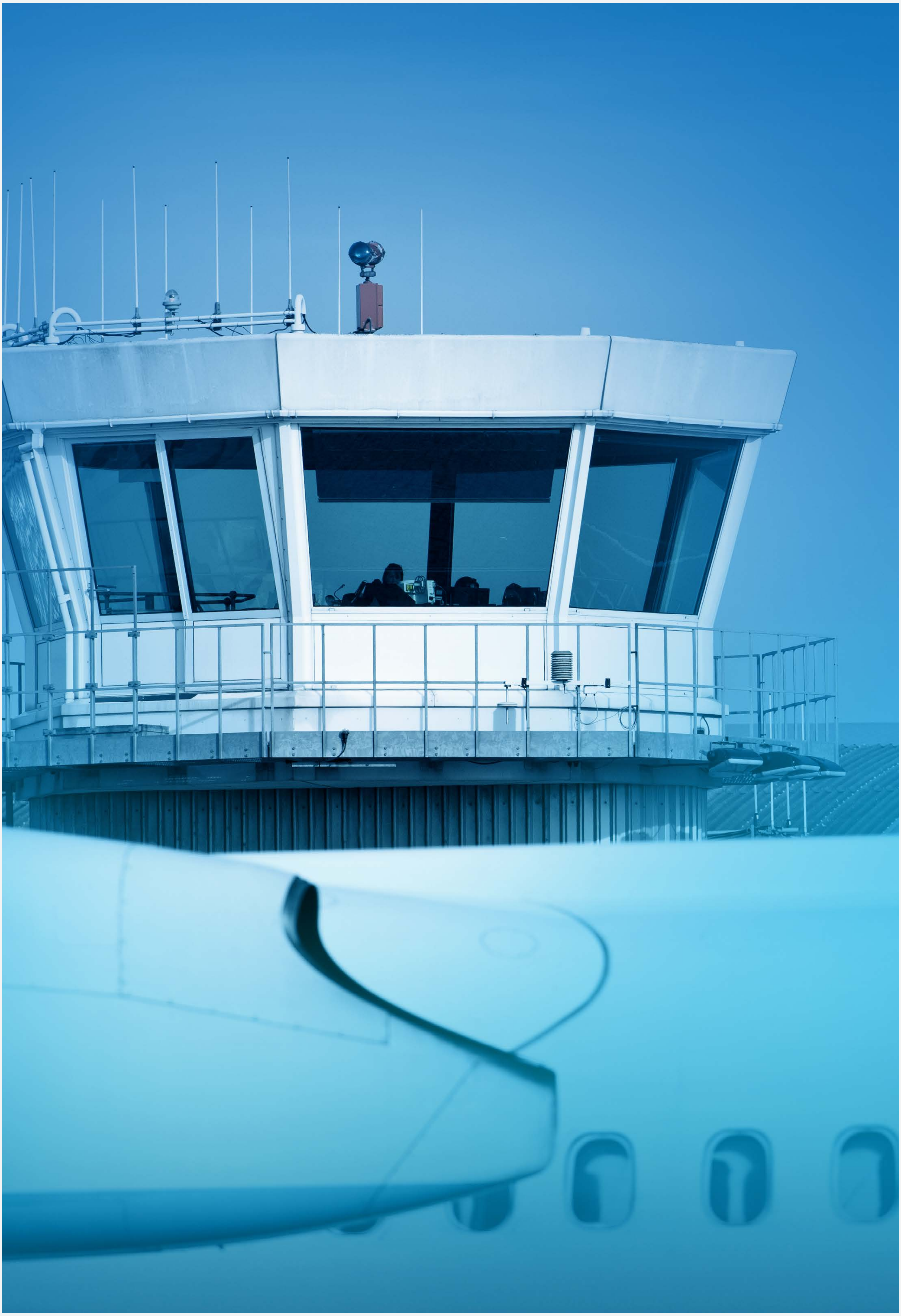
Going concern

The group's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in the report above. In addition, note 19 to the financial statements describes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The group holds adequate levels of cash and as at 31 March 2014 had access to £148.0m of undrawn committed bank facilities that are available until December 2016. The group's forecasts and projections, which reflect its expectations for CP3 and its assumptions for RP2 and taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its existing facilities for the foreseeable future. The UK en route business also benefits from some protections against traffic volume risk afforded by its price control conditions. Other sources of income are generated mainly from long term contracts, some of which were renewed in the year. As stated earlier, the group is implementing plans to reduce its en route underlying operating cost base to meet RP2 cost efficiency targets. As a result, the directors believe that the group is well placed to manage its business risks.

The directors have formed a judgement that taking into account the financial resources available to the group, 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 2014.

Nigel Fotherby
Finance Director



Principal risks and uncertainties

The operational complexities inherent in the business leave NATS exposed to a number of significant risks and uncertainties. Our risk management process has identified the key risks that the Board believes are likely to have the most significant impact on our business, financial position, results and reputation based on the severity and likelihood of the risk factor. Risks are re-assessed regularly and reflect the Board's assessment as at the date of this report. The list is not intended to be exhaustive.

The group has maintained a focus on mitigating these risks, although many remain outside of our control – for example changes in governmental regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

A more detailed summary of our internal control and risk management processes is set out in the Governance section on page 58 to 59.

The risk of an aircraft accident

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

Loss of service from an air traffic control centre

A loss of service from a centre would result in a loss of revenues as flow management procedures would be introduced to maintain safety standards. The extent of loss would depend on the time necessary to resume a safe service and the resultant level of air traffic delay. To this end NATS has invested in developing contingency arrangements which enables the recovery of its service capacity.

Operational systems resilience

Operational service provision is increasingly dependent on the performance and resilience of engineering systems and communications, surveillance and flight data infrastructure. To mitigate the risk of service disruption NATS regularly reviews the resilience of its operational systems.

Economic regulation of UK Terminal Air Navigation Services (TANS)

In May 2013 the Department for Transport (DfT) accepted the Civil Aviation Authority's (CAA) advice that there is insufficient evidence to demonstrate that the Single European Sky (SES) market conditions tests for TANS at large airports in the UK are satisfied. Therefore, the CAA has proposed an additional 1% cost efficiency target over and above NATS' proposed TANS plan. This proposal by the CAA remains compliant with legal requirements but also aims to encourage the development of competition in the UK market. NATS has also proposed making a number of commitments to address the perceptions of airport operators about the economic barriers operating in the market. The aim of this is to strengthen the evidence in support of the existence of market conditions. NATS is currently discussing with the CAA what steps need to be undertaken to further encourage and promote market conditions prior to another assessment taking place (potentially in 2015), to allow enough time for assessment prior to the Commission being able to implement European Union (EU) wide cost efficiency targets at the start of 2017.

Principal risks and uncertainties
(Continued)

Pension scheme funding

Adverse movements in pension asset and liability values arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the pension deficit and result in significant contributions to fund pension benefits. Management regularly reviews the financial position of the defined benefit scheme and is consulted by Trustees on the design of the risk reduction strategies that are in place. The scheme was closed to new entrants in 2009 and pensionable pay rises were capped. In April 2013 the company agreed further reforms with staff which reduced the cap on pensionable pay rises and introduced indexation of future service benefits linked to the Consumer Prices Index (CPI) from 1 November 2013. In June 2013 the Trustees agreed a new schedule of contributions with the company. The next formal review of the funding of our defined benefit scheme will take place as part of the triennial valuation as at 31 December 2015.

Industry outlook

Poor market and economic conditions can reduce NERL's revenues to levels below those assumed by the economic regulator in making the Control Period 3 (CP3) price determinations. This in turn could impair shareholder returns. NATS monitors the key industry indicators on a monthly basis against CP3 forecasts and has taken action in the past to realign its cost base with lower revenues. As explained above, NERL has traffic volume risk-sharing arrangements that mitigate revenue reductions to a large extent.

Electronic and other external threats

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, could damage our assets or otherwise significantly impact on our service performance. NATS seeks to mitigate these risks through its business continuity controls, security processes and procedures.

Employee relations

Industrial action could result in reduced air traffic service provision which adversely impacts on service performance. Every effort is made to maintain good employee relations at all times, including through our Working Together programme, to ensure the delivery of an efficient operational service and associated support.

Other matters

In addition to the top risks set out above there are the following matters of note:

a. Financial risks

The main financial risks of the group relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 19. 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.

Principal risks and uncertainties
(Continued)

b. Scottish independence

There are various scenarios which could have an impact on NATS' business in the event of a 'Yes' vote for independence. These could include: a potential change in ownership, impacts on employee terms and conditions, changes in taxation and related payroll structures, a potential change in currency and different employment legislation. The Board is monitoring the status of this potential risk to understand the material impact of a positive vote as more information becomes available.

c. Key programme and project risks

Following a review by the Technical Review Committee, since the 2013 Annual Report & Accounts, the Board has re-assessed its view of the significance of key programme and project risks and no longer considers these to be one of the top risks facing the company.

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Corporate responsibility

As a responsible member of the aviation industry, NATS is committed to playing its part in limiting, and where possible reducing the impact of our operations on the environment. Our broad environmental programme focuses on improving airspace efficiency to reduce CO_2 emissions, fuel burn and noise, reducing the impact of our buildings and travel on the environment and building sustainable links to support local communities.

Minimising the environmental impact of Air Traffic Management (ATM)

We have a number of targets that reflect our customers' high priority for reduced emissions and fuel burn. These include:

- A long term strategic target to reduce ATM CO_2 emissions by an average 10% per flight by 2020, from a 2006 baseline. This targets UK and North Atlantic en route and airports services;
- An interim target to achieve an average 4% per flight reduction by the end of the 2014 calendar year, against the 2006 baseline;
- Annual calendar year 3 Dimensional Inefficiency Score (3Di) targets, which financially incentivise our performance in line with our strategic target. This targets UK en route services only; and
- Specific short term fuel savings targets agreed annually with customers via the Operational Partnership Agreement (OPA) and the Fuel Efficiency Partnership (FEP). These target UK and North Atlantic en route and airports services.

a. Strategic and interim target

Our strategic target is challenging but is achievable and supported by the investments assumed in RP2 and other short term procedural and tactical changes we have planned.

To meet our 4% interim target, we have implemented a large number of relatively small scale operational improvements at our centres and airport ATC units. As the table below shows, the pace of delivery has stepped up but to achieve the target we will need to deliver significant change through the remainder of the 2014 calendar year to enable 130,000 tonnes of fuel savings (worth c. £80m at £615 per metric tonne of fuel). Each of our operational units has embedded business plan targets to deliver this outcome.

From 2015 our plans focus on emissions reductions enabled by large scale airspace modernisation and new technologies linked to our capital investment programme. For example, the London Airspace Management Programme (LAMP), the largest airspace re-organisation in NATS' history, is a key enabler. This is a highly complex programme and NATS is already consulting on proposed changes.

b. Progress in 2014

The major focus of the last year has been on delivering additional short term flight efficiency measures to achieve our 4% ATM CO_2 target by the end of 2014 calendar year. The focus of this project has been to implement new fuel and emissions saving measures, or speed up delivery of existing projects originally expected to deliver after 2014. Over the past year we have delivered over 75 specific fuel saving changes to airspace and procedures compared with an average of 30 in previous years.

Tonnes ('000s)	Financial years ended						Target
	2009	2010	2011	2012	2013	**2014**	April to Dec. 2014
Fuel enabled savings	25	29	16	29	7	**59**	130
CO_2 enabled savings	80	93	50	93	22	**190**	413

Corporate responsibility

(Continued)

These changes helped us to deliver the biggest annual savings to fuel burn and CO_2 emissions since the programme began: we enabled fuel savings of 36,000 tonnes equivalent to 114,000 tonnes of CO_2 worth £22m to our airline customers.

During the year, improved analytical techniques have allowed us to assess for the first time benefits of airspace efficiency measures and past projects. We are now able to capture the benefits delivered tactically on the day by our front-line operational staff such as the impact of greater sharing of airspace with our military counterparts and continuous climbs and descent operations. Including these benefits from past actions which have not been reported previously, total enabled fuel savings for 2013/14 were 59,000 tonnes, equivalent to 190,000 tonnes of CO_2, and worth £36m.

This better information has enabled us to update our assessment of performance against our 2006 baseline and we now believe that cumulatively since 2006, we have enabled reductions in fuel of 414,000 tonnes and CO_2 emissions of over 1.3 million tonnes, worth c.£255m in fuel savings for our airline customers.

In the last year we also extended our noise respite trials and work with communities which sought to provide noise respite to the communities around Heathrow airport. This work will continue over the coming year, learning from the trials we have already completed.

NATS is also leading an initiative within the UK aviation coalition, Sustainable Aviation, to deliver more continuous descent operations across the UK to save fuel, CO_2 emissions and to improve noise performance. The four main London airports have increased the proportion of flights using continuous descents from 66% in 2000 to 90% in 2013. By working together airlines, Air Traffic Control (ATC) and airports, are looking to extend this success to other UK airports, targeting a 5% improvement in continuous descent operations for airports outside London. This would deliver over 30,000 quieter arrivals, save £2m in fuel and reduce CO_2 emissions by over 10,000 tonnes.

c. 3Di performance target

Our strategic target is supported by an incentivised flight efficiency measurement for our domestic en route services: 3Di, which measures on vertical and horizontal trajectories performance against an optimum flight path. It was adopted in 2012 by the Civil Aviation Authority (CAA) and our airline customers to incentivise our delivery of fuel savings and reductions in CO_2 emissions. While our strategic target captures structural changes in our operations (from projects and specific initiatives), 3Di reflects the day-to-day operation and includes both structural and tactical improvements.

By analysing historic performance, the CAA established par value calendar year targets against which to measure performance with an incentive bonus or penalty applying if performance is scored 3 points better or 3 points worse than par respectively. It set a par value of 24 for 2012 and 2013 and we met the target. The calendar year target for 2014 is 23. Our Swanwick and Prestwick centres have been set objectives which, if achieved, will meet the target. The units are able to monitor progress through our Business Intelligence platform, which provides environmental performance data.

The CAA estimates that achieving the 3Di target through Control Period 3 (CP3) (2011-2014) would generate around 600,000 tonnes of CO_2 savings compared to historic levels, worth c.£120m to airlines.

The Single European Sky (SES) performance scheme sets environment targets for en route horizontal flight efficiency only (the KEA metric). This is narrower than the 3Di metric which measures flight efficiency in vertical as well as horizontal profiles and across en route and terminal operations. Our analysis indicates that the opportunity for reducing en route track extension is small and, in our view, the proposed SES target would set the wrong focus for our efforts at delivering customer fuel savings in RP2. For this reason the CAA agreed with our recommendation that the 3Di metric should continue to be our primary focus for RP2.

Corporate responsibility
(Continued)

d. Other short term initiatives
As explained above, we also look to achieve short term fuel savings through annual joint initiatives with our customers in the OPA and FEP. These initiatives are mostly small scale procedural improvements across our airspace network that deliver fuel savings and also help us to achieve our strategic target.

Reducing the impact of our estate

Our direct carbon emissions relate mostly to the fuel and energy we use in operating our air traffic control facilities and infrastructure. We are committed to reducing our environmental impact.

Our overall energy consumption is down by 29% in absolute terms since 2006, saving energy costs of £14m cumulatively, based on what NATS pays today for electricity, gas and oil. This has been achieved through investing in more energy efficient facilities, energy efficiency targets and greater employee awareness.

We continue to reduce the amount of waste we generate across our sites. In 2013 (calendar year) 55% was recycled, 41% went to 'waste to energy' plants and just 4% to landfill. Our consolidation into three main sites since 2006 has dramatically reduced our water consumption, which is down by 50%. We are also reducing our commuting footprint by implementing a number of sustainable travel schemes such as car sharing, cycle to work and low emission car schemes.

We implemented an environmental management system and we are aiming to achieve certification based on ISO 14001 by the end of 2014.

Supporting charities and communities

We are sensitive to the needs of people who live and work at, or alongside, our operations. In 2008 we established the Footprint Fund which aims to encourage strong community partnerships, to support local projects and charities, and to support our colleagues with their volunteering, fundraising and environmental efforts. In 2014 the Footprint Fund donated around £31,000 to some 50 local causes (£160,000 since launch). Our employees also raised over £60,000 through their own fund raising events and 8% of our staff made Give As You Earn donations using the company payroll giving scheme, donating £126,000 to the charities they care about.

Many of our people have volunteered their services during the year too. Examples include working with local schools to give children an insight into science and technology, a maths mentoring programme and support to local food banks.

In addition, we have continued to strengthen our relationship with Aerobility, the disabled flying charity, and provided support through sponsorship, fund raising and expertise from within NATS. Since 2012, working with the trades unions, our employees have raised £180,000 for Aerobility.

We also support the Swanwick Lakes Nature Reserve, created and funded by NATS in partnership with the Hampshire and Isle of Wight Wildlife Trust. The reserve, adjacent to our Swanwick control centre, has a local community and educational centre. NATS is aiming to achieve the Biodiversity Benchmark through the partnership and continues to support the reserve with volunteering days to conserve and enhance its biodiversity.

Key performance indicators

We adopt a number of financial and non-financial key performance indicators (KPIs) that enable us to track progress against our business plan objectives and which are relevant to the different activities of our principal operating subsidiaries: NERL and NATS Services. For NERL, KPIs are aligned to the SES key performance areas ensuring management focus on meeting safety, service quality, environmental and cost efficiency targets. For NATS Services, the focus of management is on safety, customer service and on growing the business profitably. A number of the metrics are also used to set targets for remuneration purposes to align incentives with business objectives and strategy.

NATS' actual performance relating to financial and non-financial KPIs

Description	As at 31 March 2014	As at 31 March 2013
Financial KPIs		
Management EBITDA[1] – NERL	£308.4m	£316.6m
Management EBITDA[1] – NATS Services	£29.6m	£42.0m

[1] Management earnings before interest, tax, depreciation and amortisation (EBITDA) is stated before exceptional costs, the cost of employee shares, certain variances between actual and budgeted revenues and pension costs, the costs of business development and gains or losses on asset sales. This definition of profit reflects performance that managers are able to control.

Description	As at 31 March 2014	As at 31 March 2013	
Non-financial KPIs			
Safety: NATS Group KPI			
10% reduction in Weighted SSE index over CP3, all events (cumulative % reduction)	21%	28%	
Category A or B Airprox[2] attributable to NERL or NATS Services	1	Nil	
Service performance & resilience:			
NERL KPIs		Olympic period	Rest of year
T1: Average delay (seconds per flight, calendar year)	5.2	1.5	1.5
T2: Impact score (weighted seconds per flight, calendar year)	3.8	3.0	3.2
T3: Variability score (weighted seconds per flight, calendar year)	3,784.4	nil	1.0
T4: 3Di score (calendar year)	23.7	n/a	23.9
Customer satisfaction score	83%	82%	
NATS Services KPIs			
Average delay per flight (seconds, financial year)	0.1	0.1	
ATC service delivery events (number)	8	5	
ATC asset non-availability (hours)	15	42	
Environmental performance: NATS Group KPI 4% enabled CO_2 reductions by 31 December 2014 (cumulative reduction vs 2006 baseline)	2.2%	1.2%	

[2] Defined in the Safety section of the Strategic Report

The Strategic report was approved by the Board of directors on 26th June 2014 and signed on its behalf by:

Richard-Churchill-Coleman
Secretary

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Governance

Directors of NATS Holdings Limited

Director's biographies

The directors and officers of NATS Holdings Limited who were serving as at the date of approval of the accounts were as follows:

Chairman

John Devaney

John joined the Board in July 2005 and was appointed Chairman with effect from 1 September. He is also Chairman of Cobham plc and Tersus Energy plc. John was appointed Managing Director, Eastern Electricity plc in 1992 and became Chief Executive in August 1993. Following the acquisition of Eastern by Hanson plc, John assumed the role of Chairman. From 1983 to 1988 John was President of Perkins Engines and from 1988 to 1992 he was the Chairman and CEO of Kelsey-Hayes Corporation. He was also Chairman of Exel from 1999 to 2002 and, until December 2007, was Chairman of Telent plc, formerly Marconi, the global telecommunications equipment company. His previous non-executive directorships have included Northern Rock plc from 2007 to 2009, HSBC Bank from 1994 to 2000 and British Steel plc from 1998 to 1999. John chairs the Audit and Nomination Committees.

Executive Directors

Richard Deakin, Chief Executive Officer

Richard was appointed as Chief Executive Officer of NATS on 1 April 2010. He was previously Senior Vice President of Thales Group's Air Systems Division based in Paris and, before that, was Managing Director of Thales Group's Aerospace Division in the UK. Richard has over 25 years' experience of major programmes in the aerospace and defence industry sector with BAE Systems, TRW Aeronautical Systems, GKN Aerospace Services and Thales Group. A Chartered Engineer, Richard holds a first-class honours degree in Aeronautical Engineering from Kingston University and an MBA from Cranfield School of Management. He is also a Fellow of the Royal Aeronautical Society, and was awarded an Honorary Doctorate in Engineering from Kingston University in January 2007.

Nigel Fotherby, Finance Director

Nigel joined NATS in 1999 as Finance Director and led the finance team through the transition to PPP (2001) and, following the events of 9/11, the financial restructuring and refinancing of NERL in 2003. In addition to his current responsibilities for finance, Nigel leads NERL's economic regulatory team and represented the company in the economic regulator's review of NERL's charges for Control Period 3 and RP2. Previously, he worked for Lex Service plc as Finance Director of its retail group and then for BT Cellnet, where he was Deputy Finance Director. He began his career with Coopers & Lybrand where he qualified as a Chartered Accountant.

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Non-executive Directors

Martin Rolfe, Managing Director Operations

Martin was appointed Managing Director, Operations in 2012, with responsibility for NATS' economically regulated UK and North Atlantic services. An engineer by training, Martin holds a Master's degree in Aerospace Systems Engineering from the University of Southampton. He has 20 years of experience in the defence and aerospace industry, and previous to his role in NATS was the Managing Director of Lockheed Martin's Civil Division with responsibility for worldwide Air Traffic Management programmes as well as UK government business. Martin has also worked for the European Space Agency and Logica plc.

Chris Bennett

Chris is Finance Director at Monarch Airlines Limited and prior to joining Monarch in 2010 worked for British Airways and easyJet specialising in strategic financial planning roles. He began his career with PricewaterhouseCoopers where he qualified as a Chartered Accountant. Chris is a director of The Airline Group (AG), holds a private pilot's licence and is a member of the Audit Committee and director of NATS Employee Sharetrust Limited.

Warwick Brady

Warwick is Chief Operations Officer responsible for all of the easyJet operation. He joined easyJet in 2009 as the Procurement Director responsible for fleet management, airport, central procurement and regulation. In October 2010 he was appointed Director of Group Operations. Before joining easyJet Warwick was the CEO at Mandala Airlines in Asia. He also spent two years as Chief Operating Officer of Air Deccan/Kingfisher with commercial and operational accountability. Prior to this Warwick was Deputy Operations Director at Ryanair from 2002 to 2005. Warwick is a director of AG and a member of the Safety Review Committee.

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Dr Harry Bush CB
Harry is Vice Chairman of UCLH NHS Foundation Trust. He spent most of his career in HM Treasury where he focused latterly on policies towards growth, science funding and privatisation and private finance. He was UK Director at the European Investment Bank from 2001 to 2002. Harry left the Treasury in 2002 to join the CAA Board as Group Director Economic Regulation responsible for the economic regulation of the designated airports and NATS, as well as the CAA's economic analysis generally. He was a member of Eurocontrol's Performance Review Commission from 2005 to 2009 and of the UK's Commission for Integrated Transport from 2006 to 2010. Since leaving the CAA in 2011 Harry has been a consultant on economic regulation, undertaking assignments across a range of industries in the UK and overseas. He is a Fellow of the Royal Aeronautical Society and a Member of the Council of Management of the Regulatory Policy Institute, Oxford.

Roger Cato
Prior to his retirement from BAA in 2006, Roger was BAA's Chairman and Managing Director of Gatwick Airport Limited, and Chairman of Southampton Airport. Previously he was Managing Director of Heathrow Airport. Roger joined Heathrow as an engineering graduate trainee in 1969 and over the last 30 years, a variety of engineering posts have taken Roger to every BAA airport, terminal and airfield. Roger is a Fellow of both the Institute of Electrical Engineers and the Royal Aeronautical Society. He is a member of the Safety Review Committee, the Technical Review Committee and the Nomination Committee.

The Rt. Hon. Baroness Dean of Thornton-le-Fylde
Brenda is Chairman of Covent Garden Market Authority and a non-executive director of Taylor Wimpey plc. She was previously Chair of the Freedom to Fly Coalition, the Armed Forces Pay Review Body and the Housing Corporation and General Secretary of the Society of Graphical and Allied Trades. Brenda was created a life peer in 1993 and sits on the Labour benches in the House of Lords. Brenda chairs the NATS Employee Sharetrust and is a member of the Remuneration Committee.

Directors of NATS Holdings Limited

(Continued)

Richard Keys

Richard is a non-executive director of Sainsbury's Bank plc and the Department for International Development. He is also a Council member of the University of Birmingham. He retired from PricewaterhouseCoopers in 2010 where he was a former senior partner and Global Chief Accountant. Richard is a member of the Audit and Nomination Committees.

Andy Lord

Andy graduated from Manchester University in 1992 with an honours degree in Mechanical Engineering, having joined British Airways in 1989. He moved to Operations in 2004 having held various roles in Engineering and Flight Operations and is still the only non-flying manager in BA's history to have held the position of Chief Pilot. Andy was appointed Director of Operations in January 2009, as a member of the British Airways Executive Leadership Team. He is responsible for the delivery of customer service at all airports worldwide, excluding Gatwick, for the control and performance, safety, compliance and IT systems of the worldwide operation. He is a non-executive Board member of BA CityFlyer, a director of AG, and is Chairman of the Remuneration Committee.

Gavin Merchant

Gavin joined USS in 2011 as Senior Investment Manager with responsibility for sourcing, evaluating and monitoring co-investments within the infrastructure portfolio. Gavin serves on a number of portfolio company boards for USS as well as a number of advisory boards for infrastructure funds. Gavin has worked in the infrastructure sector in the UK and Australia for 15 years. Prior to joining USS, Gavin was a Director at Equitix Limited. Gavin graduated with an honours degree in Law from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Gavin is a director of AG and a member of the Remuneration Committee.

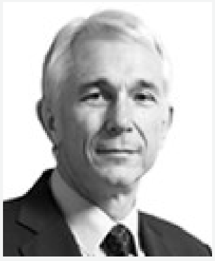
Directors of NATS Holdings Limited
(Continued)

Iain McNicoll CB CBE

Iain served 35 years in the Royal Air Force, retiring in 2010 as an Air Marshal. In his last appointment he was responsible for generating and delivering all of the RAF's front line operational capability. He was a member of the Air Command main Board and co-chaired the principal Board sub-committee. He had RAF responsibility for all safety and environmental matters, and was the RAF's first Chief Information Officer. Iain is now an aerospace, defence and security consultant. He is a Fellow of the Royal Aeronautical Society and a Chartered Director Member of the Institute of Directors. He is also a non-executive director of Jee Limited, a subsea engineering consultancy and training company. Iain chairs the Safety Review Committee and is a member of the Technical Review Committee.

Peter Read

Peter held a number of senior positions with British Airways, most recently as Director of Heathrow from 1997 until 2003, and as Director of Operations until 2005. He joined BA in 1972 as a pilot and flew as a Captain until 1996. He subsequently held senior positions in engineering and flight operations, and in leading major business change programmes in cargo and BA corporate. During 2006 and 2007 Peter was employed as Director of Operations for Malaysia Airlines, responsible for all operational areas during a major reconstruction of the company. Peter acted as a technical advisor to the Board of Iberia on safety matters from 2005 to 2011. Peter is Chairman of AG and a member of the Nomination Committee. He also chairs the Technical Review Committee.



Tony Tyler

Tony is the Director General and, since 1 July 2011, CEO of International Air Transport Association (IATA) with over three decades of airline industry experience. Prior to joining IATA, Tony built his career at John Swire & Sons in Hong Kong. He joined the company in 1977 and in 1978 moved within the Swire Group to Cathay Pacific Airways, rising to the position of Chief Executive (2007 to 2011). Tony graduated from Oxford University in Jurisprudence. At IATA, he works from both its main offices in Montreal, Canada and Geneva, Switzerland. He is a Fellow of the Royal Aeronautical Society.

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Officer

Richard Churchill-Coleman, General Counsel and Company Secretary

Richard is General Counsel and Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 25 years' experience in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express and holds a private pilot's licence.


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Governance report

NATS Governance framework

Introduction

NATS was formed as a Public Private Partnership in July 2001. In addition to its memorandum and articles, a key element in its governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA) (previously BAA Limited).

The SPA sets out the relative responsibilities of the signatories and, in particular, requires the company and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA.

The Board and directors

Ultimate responsibility for the governance of NATS rests with the Board of NATS Holdings Limited, which provides strategic direction and leadership and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets.

The boards of the subsidiary companies within the group are accountable to the NATS Holdings Board for all aspects of their business activities.

As at the date of approval of the accounts, the NATS Holdings Limited Board comprised a non-executive Chairman and 14 directors, as follows:

Executive directors

- Chief Executive Officer;
- Finance Director; and
- Managing Director, Operations.

Non-executive directors

- a non-executive Chairman, appointed by AG, subject to the prior approval of the Crown Shareholder;
- seven further non-executive directors appointed by AG, including the International Air Transport Association (IATA) representative;
- three non-executive Partnership directors, who are appointed by the Crown Shareholder; and
- one non-executive director appointed by LHRA.

Changes to the directors

From 1 April 2013 to the date of approval of the accounts, the following changes to the directors were made:

Executive directors	
Paul Reid	Resigned 6 December 2013
Martin Rolfe	Appointed 1 April 2013
Non-executive Partnership directors	
Richard Keys	Appointed 1 September 2013
Iain McNicoll	Appointed 1 September 2013
Sigurd Reinton	Resigned 31 August 2013
Andrew White	Resigned 31 August 2013
Non-executive AG directors	
Chris Bennett	Appointed 20 March 2014
Giovanni Bisignani	Resigned 27 June 2013
Dr Harry Bush	Appointed 29 May 2014
Warwick Brady	Appointed 23 May 2013
Barry Humphreys	Resigned 20 March 2014
Gavin Merchant	Appointed 20 March 2014
Mike Powell	Appointed 20 March 2014/ resigned 29 May 2014
Nigel Turner	Resigned 20 March 2014
Tony Tyler	Appointed 1 July 2013

Governance report
(Continued)

The Chairman's contract expires in July 2014. As explained in the Remuneration Committee report, a process to identify and recruit his successor is underway, and to facilitate this, the Chairman's contract will be extended for a further month.

The roles of the Chairman, Chief Executive Officer and executive management

The Chairman of the NATS group is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the group. Day-to-day management of the NATS group is the responsibility of the Chief Executive Officer, Richard Deakin, supported by the NATS executive team. The NATS executive team is responsible for delivering NATS' overall strategy, which currently focuses on defending and growing the business whilst improving the organisation's capabilities.

To achieve these strategic priorities the executive team is structured as follows:

- Chief Executive Officer;
- Finance Director;
- Safety Director;
- Managing Director, Operations;
- Managing Director, Services;
- HR Director;
- Communications Director; and
- General Counsel and Company Secretary.

The responsibilities of the Board

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS executive team, and issues with political, regulatory or public relations implications.

In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership directors, AG directors and the LHRA Director. These include the following:

Partnership and AG directors

- adoption of the business plan;
- entry into significant debts, charges or contingent liabilities;
- major agreements outside the ordinary course of business;
- significant litigation proceedings; and
- external investments, and acquisition and disposal of material assets.

LHRA Director

- acquisition or disposal of any asset representing more than 10% of the total assets of the business;
- any aspects of the business plan which could adversely affect NERL's service to UK airports; and
- disposal of NATS Services shares by NATS.

Access to legal and professional advice

All directors have access to the advice and services of the General Counsel and Company Secretary, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the group's expense. This right was exercised by the Partnership directors during the year to receive independent legal advice in relation to aspects of the sale of shares in AG.

Governance report
(Continued)

Board meetings

The Board routinely meets 7 times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. During this year, the Board met 9 times with each member (who served as a director during the year) attending as follows:

Name	Number of meetings attended / Number of eligible meetings
John Devaney	8/8
Richard Deakin	9/9
Nigel Fotherby	9/9
Martin Rolfe	8/9
Paul Reid	4/5
Giovanni Bisignani	1/2
Warwick Brady	8/9
Roger Cato	9/9
Baroness Dean of Thornton-le-Fylde	8/9
Barry Humphreys	9/9
Richard Keys	5/6
Andy Lord	7/9
Ian McNicoll	6/6
Peter Read	8/9
Sigurd Reinton	2/3
Nigel Turner	8/9
Tony Tyler	5/7
Andrew White	3/3

The non-executive directors occasionally meet with the Chairman but without the executive directors present and did so once during the current year to discuss matters relating to executive remuneration.

Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to review the group's performance.

The company's performance is also reviewed monthly by the executive team. This includes reviewing performance against operational targets (including those relating to safety, delays, project performance and risk management) and against financial targets (including revenue and capital budgets).

The Board's performance

Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chairman is conducted each year. This year, the Board effectiveness review was administered by the Company Secretarial department using structured questionnaires. The results were assessed by the Board at its March 2014 meeting and appropriate actions agreed. The Board effectiveness review was last administered by an external party in 2012/2013, when it was facilitated by KPMG LLP and included detailed interviews with each director.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed.

During the year, such a programme was provided to both Richard Keys and Iain McNicoll. This programme included briefings on governance and the NATS business, presentations from relevant executive management, and visits to key operational centres.

Governance report
(Continued)

The Board's committees

The Board has established five standing committees which operate within approved terms of reference. The committee structure comprises the:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee;
- Safety Review Committee; and
- Technical Review Committee.

The number of meetings held by the principal Board committees, and individual directors' attendance, is provided in the table below:

	Number of meetings attended / Number of eligible meetings				
	Audit	**Nomination**	**Remuneration**	**Safety Review**	**Technical Review**
John Devaney	3/3	2/2			
Richard Deakin	3/3	2/2	5/5	4/4	
Nigel Fotherby	3/3				
Martin Rolfe				3/4	3/3
Paul Reid				2/2	1/2
Giovanni Bisignani					
Warwick Brady				1/2	
Roger Cato		1/2		3/4	3/3
Baroness Dean of Thornton-le-Fylde			5/5		
Barry Humphreys			4/4		
Richard Keys	2/2	1/1			
Andy Lord			5/5		
Ian McNicoll				3/3	2/2
Peter Read		2/2		2/2	3/3
Sigurd Reinton	1/1	1/1			
Nigel Turner	3/3				
Tony Tyler					
Andrew White				1/1	1/1

Governance report
(Continued)

The terms of reference for the Board and its committees are available to all staff and shareholders and can be made available externally with the agreement of the Company Secretary. Reports from each of the standing committees are set out on pages 57 to 75. However, in addition to the standing committees, from time to time the Board may form committees on an ad hoc basis to deal with specific business issues. During the year, the Board formed the following ad hoc committees:

1. Disclosure Review Committee
As explained in the Chairman's statement, USS acquired a 49.9% stake in AG in March 2014. Although this was a transaction in the shares of one of NATS' shareholders, AG's primary asset is its investment in NATS Holdings Limited. AG therefore requested that the company assist with the proposed transaction by permitting the disclosure of certain information about NATS, initially to enable the creation of an Information Memorandum on AG, and latterly to enable due diligence procedures to be undertaken by potential acquirers of the stake. The Board of NATS agreed to assist with the proposed transaction, subject to a range of controls being put in place to ensure that the interests of the company were not harmed by any disclosures and that all disclosures were carefully controlled. These controls included undertaking checks on all potential acquirers to assess whether they had any actual or potential conflicts of interest with NATS, obtaining comprehensive legal and other professional advice, and performing detailed scrutiny of all requests for disclosure. In respect of the latter, the Board formed a special purpose committee, the Disclosure Review Committee, in order to consider disclosure requests in detail on the Board's behalf. The Committee was chaired by the company Chairman, John Devaney; Sigurd Reinton and Peter Read were the other members. The Committee met twice, once in April 2013 and once in July 2013. The Committee is no longer active following completion of the transaction by USS.

2. Specific Contract Review Committee
The Board recognises that having representatives of some of its key customers as members of the Board could prima facie result in a conflict of interest, for example when the company is negotiating commercial contracts with those customers. The Board has put in place a range of controls to mitigate this risk, for example limiting the distribution of commercially sensitive papers to those Board members who are independent of the party with whom NATS is contracting. In addition, the Board may also delegate scrutiny of a contract to a specific sub-committee of non-conflicted Board members.

Meetings with shareholders
Shareholders meetings are held twice a year, linked to the planning and reporting cycles, and provide the company with an opportunity to update the shareholders on the progress of the annual business plan and long term strategy. The two meetings during the year were the Annual General Meeting held on 25 July 2013 and a further meeting on 30 January 2014. Shareholders may also meet informally with the Chairman, Chief Executive Officer, Finance Director and other members of executive management upon request.

Due to the manner in which non-executive directors are appointed by the shareholders under the SPA, there is no senior independent director.

Governance report

(Continued)

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The SPA requires the company and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA. For the financial year ended 31 March 2014, the applicable standard is the 2012 UK Corporate Governance Code (the Code). NATS has applied the principles of the Code to the extent considered appropriate by the Board throughout the year ended 31 March 2014. However, a number of principles and provisions in the Code are not relevant to the partnership nature of the NATS group ownership and the principal areas where NATS did not comply are summarised below.

Corporate Governance Code A.3.1: Independence of the Chairman

The Chairman is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Code and this affects NATS' compliance with a number of Code provisions.

Corporate Governance Code A.4.1, B.1: Independence of Directors and appointment of Senior Independent Director

The arrangements for appointing non-executive directors, as set out in the SPA, are such that none of the directors meet the Code's criteria for independence. This affects NATS' ability to comply with a number of the Code's provisions, including the requirement to appoint a senior independent director.

Corporate Governance Code B.2.1, D.2.1: Composition of the Nomination and Remuneration Committees

Details of the work of the Nomination and Remuneration Committees are set out above. However, the manner in which directors are appointed, as noted above, means that these committees' processes do not fully comply with the Code as regards independence.

Corporate Governance Code B.3.2: The terms and conditions of non-executive directors

As noted in the Remuneration Committee report, the AG Nominee directors and Partnership directors do not have service contracts with NATS and, as a result, the terms and conditions of appointment cannot be made available for inspection. The Partnership directors are engaged on 3-year fixed-term contracts and have letters of appointment from the Department for Transport. The Chairman has a service contract with NATS, details of which are set out in the Remuneration Committee report.

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Corporate Governance Code B.7: Re-election of directors

The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not subject to periodic re-election as stipulated by Section B.7 of the Code, although Partnership directors are appointed by the Government on 3-year fixed-term contracts, which is in line with the maximum period between re-election as recommended in B.7.1. Notwithstanding the above, the company is mindful of the principles behind the guidance in the Code relating to directors who have served longer than 9 years. The tenure of non-executive directors is as follows:

Corporate Governance Code Section E: Relations with shareholders

Within the PPP structure, there are no institutional or public shareholders. However, the nature of the Strategic Partnership is such that the shareholders have representatives amongst the directors with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions. The Board is therefore able to take decisions in the best interests of the company, having taken account of the views of the shareholders. The Chairman also has regular discussions with shareholders in addition to the formal meetings noted under the 'Meetings with shareholders' section above.

Name	Date of appointment	Years of service to 31 March 2014*
John Devaney	1 July 2005	8 years 9 months
Chris Bennett	20 March 2014	n/a**
Giovanni Bisignani	24 September 2002	11 years 6 months
Warwick Brady	23 May 2013	10 months
Dr Harry Bush	27 May 2014	n/a**
Roger Cato	28 April 2003	10 years 9 months
Baroness Dean of Thornton-le-Fylde	24 July 2006	7 years 8 months
Barry Humphreys	20 July 2004	9 years 8 months
Richard Keys	1 September 2013	7 months
Andy Lord	26 February 2009	5 years 1 month
Ian McNicoll	1 September 2013	7 months
Gavin Merchant	20 March 2014	n/a**
Mike Powell	20 March 2014	n/a**
Peter Read	23 September 2002	11 years 6 months
Sigurd Reinton	26 July 2007	6 years 8 months
Nigel Turner	1 January 2008	6 years 3 months
Tony Tyler	1 July 2013	9 months
Andrew White	24 July 2006	7 years 8 months

* Years of service to resignation, if earlier.
** Less than one month of service or appointed after 31 March 2014.

Reports from Board Committees

Audit Committee report

The role of the Audit Committee

The Audit Committee meets three times per year. It is chaired by the non-executive Chairman John Devaney; Richard Keys and Chris Bennett are the remaining two members of the Committee. The members all have wide-ranging commercial and management experience. Both Chris Bennett and Richard Keys have recent, relevant financial experience.

The Chief Executive Officer, Finance Director, Financial Controller, Head of Internal Audit and the external auditors are invited to attend each meeting by standing invitation.

Part of each meeting is set aside as required for members of the Committee to hold discussions without executive management present, including holding discussions with the external auditors.

The duties of the Committee include:

- monitoring the integrity and compliance of the company's financial statements;
- reviewing the effectiveness of the external auditors and the Internal Audit department;
- reviewing the scope and results of internal and external audit work; and
- reviewing NATS' systems of internal controls and risk management.

The Committee also advises on matters relating to the appointment, independence and remuneration of the external auditors and, to ensure independence, monitors the extent of non-audit services provided by the external auditors (as explained below).

The Committee also reviews arrangements under which staff may confidentially raise concerns about possible improprieties in financial reporting or other matters.

Main activities of the Committee during the year

a. Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditor the annual financial statements of the group and its subsidiaries and NERL's regulatory accounts, having regard to:

- the suitability of accounting policies adopted by the group;
- the clarity of disclosures and compliance with financial reporting standards, including the requirements of NERL's air traffic services licence;
- whether significant estimates and judgements made by management are appropriate; and
- whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

To aid its review the Committee considers reports from the Finance Director and from the external auditors on the outcome of the annual audit.

Reports from Board Committees
(Continued)

The Committee considered the following significant accounting judgements and sources of estimation uncertainty in the year:

The carrying values of goodwill, intangible and tangible assets

The group has goodwill of £319.0m, intangible assets of £330.0m and tangible assets of £604.1m. As we explain in our accounting policies, goodwill, intangible and tangible assets are tested annually for impairment. The judgement in relation to the carrying value of these assets relate to: the assumptions underlying the calculation of value in use, including the extent to which business plan cash flow projections are achievable taking account of the outcome of regulatory reference period reviews; and assessing net realisable values, including the extent of any premium to regulatory assets.

The Committee addressed these matters by considering: NERL's revenue allowances and the cash flows implied by the CAA's decision in respect of the Reference Period 2 (RP2) settlement for NERL, for determining value in use; the cost of capital assumption used to discount value in use; the value of NERL's regulatory assets, including the scope for outperformance of regulatory settlements as well as premia to regulatory assets implied by market transactions in regulated entities, for determining net realisable value; the outcome of internal asset impairment reviews; and appropriate sensitivities. Further information is provided in notes 13, 14 and 15.

Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made, including judgements in relation to long term interest rates, inflation, longevity and investment returns.

The Audit Committee reviews the basis for determining these assumptions annually and takes account of the Trustees' latest valuation and assumptions. The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary.

The Audit Committee also considered the restatement of prior period end pension balances resulting from a change to the international accounting standard, explained in note 2 to the financial statements. Note 28 sets out the main actuarial assumptions used, including sensitivity analysis.

Recoverability of revenue allowances

The economic regulatory price control for UK en route services allows for the recovery (or reimbursement) of revenue allowances where actual traffic volumes or inflation are different to the regulator's forecasts made at the start of the reference period, where actual service performance is different to the regulator's annual targets and for adjustments brought forward from the previous charge control period. The recoverability of these revenue adjustments relies on the consistency of EC Charging Regulations and NERL's air traffic services licence.

The Committee considered regulatory statements by the CAA and EC, and the status of discussions on RP2 in particular, in determining whether these revenue adjustments remain recoverable. The recoverable revenue allowances are reported in note 16.

b. Internal control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness.

NATS' system of internal control is designed to ensure that the significant financial, operational, safety, legal, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. This system was in place during the year and up to the date of approval of the Annual Report and Accounts. However, as with all such systems, internal controls can provide reasonable but not absolute assurance against misstatement or loss.

The Audit Committee's work in the area of internal control included reviewing reports by the internal and external auditors, reviewing reports of any attempted or actual frauds, and consideration of the circumstances of whistleblowing reports.

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c. Risk management

Risk management is essential in seeking to minimise the threat that an event or action might have on the group's ability to achieve its objectives and to execute its strategies effectively. Successful risk management ensures that the group is able to consistently deliver services to its customers and meet the needs and expectations of its shareholders in a fast changing and uncertain environment.

The Board takes the management of risk very seriously, paying particular attention to areas such as safety, service delivery, operating efficiency, financial control, project delivery, regulatory compliance and IT systems. Inevitably, NATS takes a special interest in the risk management of safety and service delivery.

This system for the identification, evaluation and management of risks is embedded within the group's management, business planning and reporting processes, accords with the UK Corporate Governance Code, and is aligned with the ISO 31000 risk management standard.

The Audit Committee reviews the processes in place to identify and manage risk in order to satisfy itself that they are appropriate.

The Board formally reviews the principal risks to NATS and the risk management process on a rolling basis. This is complemented by detailed risk identification at divisional level which is recorded and measured in a controlled and managed enterprise-wide database. The Audit Committee and Board have assessed the group's principal risks, the performance against mitigation plans during the year ended 31 March 2014, and agreed actions for the principal risks for the year ending 31 March 2015.

Reports to the Audit Committee on the process of risk management and internal control are supplemented by regular monthly reporting to the Managing Director, Operations; Managing Director, Services; and the NATS executive team which address business controls and the progress of mitigating actions associated with NATS' risks.

d. Treasury sub-committee

The Audit Committee has a treasury sub-committee which is chaired by Nigel Fotherby, Finance Director and meets three times per year. During the year, Nigel Turner and the Group Treasurer were also members, and representatives from UBS and PricewaterhouseCoopers LLP were invited to each meeting by standing invitation as special advisers.

The Committee focuses on matters such as liquidity risk, counterparty risk, interest rate, and currency risk, as described in the 'Principal risks and uncertainties' section of this report.

Following a review of the purpose of the Treasury Committee, from 2014/2015 the Treasury Committee will be reconstituted as a function of executive management rather than as a formal committee of the Board. A standing invitation to attend will be extended to Richard Keys, and reports of the Treasury Committee's activities will continue to be presented to the Audit Committee as a standing agenda item.

e. Internal audit

The company's Internal Audit department reviews the controls in place to manage NATS' business risks, which includes reviews of internal financial control. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, the Internal Audit function is operated as a co-source arrangement with PricewaterhouseCoopers LLP.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers. The Audit Committee oversees the performance of Internal Audit through the receipt of a report on its work presented at each Audit Committee meeting. It agrees the annual plan.

Reports from Board Committees
(Continued)

f. External audit

During the year, the company re-tendered the post of external auditor, to commence for the year ending 31 March 2015. After an extensive and rigorous tender process, which was overseen by the Audit Committee and resulted in the company receiving high quality proposals, the Audit Committee recommended the appointment of BDO LLP. This recommendation was endorsed by the Board in March 2014 and a resolution to appoint BDO LLP will be tabled at the Annual General Meeting on 31 July 2014.

g. Non-audit work performed by the external auditors

From time to time the external auditors perform non-audit services for the group. Part of the Audit Committee's remit is to ensure that such engagements do not impair the auditors' objectivity or independence. The Committee does this by implementing a policy on non-audit services and monitoring and/or approving work by the external auditors in accordance with this policy.

At its February 2014 meeting, the Audit Committee reviewed and enhanced its policy in this area, tightening the areas in which the auditor is prohibited from providing services and the financial limits on the value of non-audit services which the auditor can provide.

The principal non-audit services performed by Deloitte LLP in the year ended 31 March 2014 were:

- certification of compliance with NERL's licence conditions, including the audit of the regulatory accounts;
- certification of cost recovery claims; and
- access to research-based people strategies.

Details of the cost of these services are set out in note 6 of the 'Notes forming part of the consolidated accounts'.

The Committee has considered the nature and cost of these services and concluded that they do not impair the independence of the external auditors.

John Devaney
Chairman of the Audit Committee

Reports from Board Committees
(Continued)

Nomination Committee report

The role of the Nomination Committee

The Nomination Committee is chaired by the non-executive Chairman John Devaney and comprises three further non-executive directors, Peter Read, Richard Keys and Roger Cato. The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

Appointments to the Board are made by the relevant sponsoring shareholder under the terms of the SPA. The Committee has the task of evaluating the balance of skills, knowledge and expertise required on the Board and making recommendations to the shareholders with regard to any changes. It also reviews succession plans for directors and senior executives. The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender, on the Board.

Main activities of the Committee during the year

During the year, the Committee met twice as follows:

- in June 2013 to consider succession planning within the NATS group; and
- in December 2013, to consider the appointment of Catherine Mason as Managing Director, Services.

The process to appoint Richard Keys and Iain McNicoll as Partnership directors was undertaken by the Department for Transport in accordance with the process for public appointments. NATS' Chairman, John Devaney, sat on the selection body on behalf of the company and the Nomination Committee.

The appointments of Chris Bennett, Dr Harry Bush, Mike Powell, and Gavin Merchant were made by AG in accordance with the terms of the SPA, following consultation with the other non-executive directors.

As noted above, a process is underway to identify a successor to my role as Chairman, and external consultant MWM Consulting has been retained to assist in this process. MWM Consulting has no other connections to the group.

John Devaney
Chairman of the Nomination Committee

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Remuneration Committee report

This report has been prepared by the Remuneration Committee and approved by the Board. The information in this report is not subject to audit.

Membership and responsibilities of the Remuneration Committee

The Remuneration Committee of the Board is comprised entirely of non-executive directors. During the year, it was chaired by Barry Humphreys with Baroness Dean of Thornton-le-Fylde and Andy Lord as members. On 27 March 2014, Andy Lord succeeded Barry Humphreys as Chairman and Gavin Merchant joined the Committee.

The Committee meets when necessary and is responsible for:

> approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group staff (comprising members of the executive team and other senior staff whose terms of employment are not subject to negotiation with the recognised Trades Unions through collective bargaining);

> approving company incentive targets and individual performance objectives for executive directors and other members of the executive team;

> considering and approving a statement of remuneration policy;

> confirming details of the remuneration of each executive director for inclusion in the Annual Report and Accounts; and

> confirming pay packages for executive team members.

The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current Corporate Governance Code. No director is involved in deciding his or her own remuneration.

Advisers and other attendees

As appropriate, the Chief Executive Officer and HR Director are invited to attend Committee meetings and the Committee may also seek advice on specific issues from independent consultants.

The independent consultants who advised the Committee during the year were Kepler Associates, who have no other connection with the company. Kepler Associates supported the Committee with its review of performance incentive plan arrangements.

Main activities of the Committee during the year

The Committee met five times in 2013/14 and its main activities during the year were to:

> review and agree the annual performance related incentive targets for the executive team and Personal Contract Group;

> review and agree the Long Term Incentive Plan cycle 3 target proposals 2013-2016 for the executive team; and

> agree the Personal Contract Group and executive pay review.

Performance management

The Committee continued to support the drive towards a more differentiated approach to management pay, taking account of relative individual performance. Coaching for Performance continues to be the required method of performance management for all Personal Contract Group staff.

Managers' rewards are related not only to what they achieve but to how they achieve it through their people. Managers understand that they are expected to achieve outstanding results to gain substantial payment of performance related incentives.

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In addition, a formal appraisal system is in place for all employees that enables staff to discuss their progress and performance with their managers. Supported by Coaching for Performance, the aim is that every team and individual in the company is clear about what they have to deliver and how it is measured. The success of the programme can be measured both in terms of the year's business results and by the outcome of the latest Employee Opinion Survey.

Policy on pay

It is the company's policy to establish and maintain competitive pay rates that 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. In fulfilling this policy, the company fully embraces the principles of and complies with the provisions of the UK Corporate Code on directors' remuneration as outlined below.

The level of executive directors' remuneration takes into account competitive practice across comparator companies (which are based on organisations from whom NATS might seek to recruit employees or which are similar to NATS in other respects) together with the need to attract and retain employees. Executive directors are rewarded on the basis of responsibility, competence and contribution, and salary increases take account of pay awards made elsewhere in the group. Performance-related elements form a substantial part of the total remuneration package and are designed to align the interests of directors with those of shareholders. Performance is measured against a portfolio of key business objectives and payment is made only for performance beyond that expected of directors as part of their normal responsibilities.

Remuneration principles

The Remuneration Committee has a strategic approach that it adopts on behalf of the Board with regard to remuneration and reward for the executive and leadership teams across NATS. The Committee's strategy is designed to focus on the following key principles:

> target performance levels must be stretching and in line with the Board's agreed business plans and strategic growth agenda, and the Committee sets performance incentive scheme targets taking into account approved business plans for the annual remuneration plan to support the Board's strategic growth plans for NATS; and

> it is a core principle that the reward methodologies in NATS will be fair, consistent and transparent in their structure and application and that they are designed to ensure the business can attract and retain the talent it needs, that it delivers shareholder expectations, that it is motivational in ensuring the business has appropriately incentivised leaders, and that it operates within the principles of governance best practice.

In support of these core principles, our strategy also ensures that:

> NATS' remuneration package is competitive against the appropriate market (using various forms of measurement including comparator groups) to help attract and retain our talent; and

> the remuneration of each position is reviewed periodically to ensure the total remuneration package is appropriate, takes into account an employee's overall performance, their specific individual contribution and experience, market competitiveness, internal and external relativities and pay awards elsewhere in the group.

Reports from Board Committees
(Continued)

Employment contracts

Richard Deakin's and Martin Rolfe's employment contracts provide for 12 months' notice in the event of termination by the company. Nigel Fotherby has an employment contract which provides for 6 months' notice from the company.

John Devaney has a fixed term contract with 6 months' notice and which terminates on 1 July 2014. He was due to retire on that date but, to facilitate an orderly transition to his successor, John has kindly agreed to delay his retirement to 31 July 2014.

Except for Roger Cato, the LHRA nominee director, other non-executive directors do not have contracts with the company. Roger Cato has a contract specifying the remuneration he receives from the company, which is terminable at LHRA's discretion or through resignation.

The Partnership directors are normally engaged on 3-year fixed-term contracts and have letters of appointment from the Department for Transport. However, to comply with the UK Corporate Governance Code, the contract of Baroness Dean of Thornton-le-Fylde's will expire on 25 July 2015.

Remuneration packages

The remuneration package for executive directors is reviewed each year and consists of: annual salary; pension and life assurance; annual and long term performance related incentive schemes; All-Employee Share Ownership Plan; company car or car allowance; and medical insurance. Their annual performance related incentive scheme is consistent with the overall performance related incentive scheme for all Personal Contract Group staff (see below). For executive directors there is a Long Term Incentive Plan based 75% on financial performance and 25% on achievement against strategic objectives assessed over a rolling 3 year period. Year 1 of the plan which vested on 31 March 2014 has been achieved and paid out at a 78.45% level.

Full details of directors' remuneration for 2013/14 are set out on page 66.

Salaries

The Remuneration Committee determines, where appropriate, annual increases to executive directors' salaries having regard to their experience, responsibility, individual contribution, market comparatives and pay increases elsewhere in the group.

Charges for the services of non-executive directors are determined in agreement with the relevant sponsoring body – the Department for Transport in the case of the Partnership directors, AG in the case of AG directors, and LHRA in the case of the LHRA director.

The Partnership directors and the LHRA director each received annual remuneration of £36,000 in the financial year. AG directors received no remuneration for their services to the NATS Board. However, a payment of £180,000 per annum is made direct to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Pensions and life assurance

Executive directors' pensions and life assurance are based on salary only, with performance related pay and other discretionary benefits excluded. There are two principal methods of securing pensions for executive directors. The first is through the Civil Aviation Authority Pension Scheme (CAAPS), a defined benefit scheme. Nigel Fotherby is a member of CAAPS. The second method is through the NATS Defined Contribution Pension Scheme which came into operation on 1 April 2009. Richard Deakin and Martin Rolfe are members of this scheme.

Following the PPP, CAAPS remains one scheme, although from 31 March 2001, it has been split into two sections. The NATS section of CAAPS was closed to new entrants with effect from 1 April 2009.

Reports from Board Committees
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Company performance related incentive schemes

The Committee oversees a process of objective setting and performance related incentive scheme arrangements. An annual performance related incentive scheme is in place for executive directors and all staff in the Personal Contract Group. In addition, a Long Term Incentive Plan is in place for executive directors and members of the NATS executive team. Non-executive directors do not participate in either of these schemes, which are designed to:

- ensure rigour and differentiation in the system of performance related incentive scheme rewards; and
- drive up management performance.

There are 2 annual performance related incentive schemes. The Company Performance Related Pay (CPRP) scheme is available to all employees (including fixed term contractors) and is linked to the achievement of the company's annual EBITDA target in line with the annual business plan. The scheme will pay out up to a maximum of £1,000 per employee for 105% achievement of EBITDA regardless of seniority, grade or salary level. The first cycle of the scheme operated for the year commencing 1 April 2013 with awards payable in July 2014 (subject to performance).

The other annual performance related incentive scheme opportunity is set at a range of levels for Personal Contract Group staff depending on role, responsibilities and accountabilities, generally in the range from 15% to 55% of salary (70% for the CEO). For the group in general, 50% of the performance related incentive scheme is determined by company performance on key targets and the remaining 50% is dependent on individual performance against targets and leadership behaviours.

For executive directors of the company and members of the executive team, more weighting is given to company performance: 75% with 25% dependent on personal performance. The scheme incorporates an overarching event clause whereby a reduced or zero payment will be made if there has been an incident which is sufficiently serious, in the view of the majority of the non-executive Board members, to justify such action.

Due to a technical ground communications failure on 7 December 2013 which impacted on operational performance levels, a series of performance limiting triggers were enacted. These triggers included the application of both a regulatory customer performance penalty and the application of the Total Reward Strategy overarching performance clause.

The triggering of both these measures resulted in a combined reduction in the company performance element of the annual performance incentive plan value of 12% for the executive team.

The long term incentive scheme for executive directors and members of the NATS executive team is based on the achievement of a set of financial and strategic targets for rolling 3 year periods commencing 1 April 2011. The scheme provides for a deferred performance related payment in the event of achieving profitability, growth and strategic targets, all subject to an overarching event clause and adjusted to take account of traffic levels.

Employee Share Plan

There are no share option schemes in place for executive directors.

The NATS All-Employee Share Ownership Plan is designed to give every member of staff (including executive directors but not non-executive directors) an equal opportunity to acquire a stake in the future success of the company. The share plan holds 5% of the shares in NATS and is administered by a special trustee company with three directors – one each appointed by HM Government, AG and the Trades Unions (collectively known as the Trustee). Baroness Brenda Dean chairs the Trustee meetings.

At the date of this report, Richard Deakin holds 1,100 shares, Nigel Fotherby holds 2,777 shares and Martin Rolfe holds 300 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2014 to 30 June 2014, values the shares at £4.50 each.

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Audited information
Directors' remuneration

Emoluments (excluding pension arrangements which are reported in the tables below) of the Chairman and directors were as follows:

	Notes	Salary or fees(*)	Benefits(*)	Performance related payments(*)	Long term incentive plan(*)	Total 2014(*)	Total 2013(*)
		£000	£000	£000	£000	£000	£000
Chairman							
John Devaney		160	-	-	-	160	160
Executive directors							
Richard Deakin	1	432	20	272	325	1,049	720
Nigel Fotherby	1	269	14	130	133	546	392
Martin Rolfe	1, 2	211	12	108	73	404	-
Non-executive directors							
Baroness Dean of Thornton-le-Fylde		36	-	-	-	36	36
Richard Keys	3	21	-	-	-	21	-
Iain McNicoll	3	21	-	-	-	21	-
Chris Bennett	4	-	-	-	-	-	-
Warwick Brady	4	-	-	-	-	-	-
Andy Lord	4	-	-	-	-	-	-
Gavin Merchant	4	-	-	-	-	-	-
Peter Read	4	-	-	-	-	-	-
Tony Tyler	4	-	-	-	-	-	-
Roger Cato	4	36	-	-	-	36	36
Former directors							
Giovanni Bisignani	4	-	-	-	-	-	-
Barry Humphreys	4	-	-	-	-	-	-
Mike Powell	4	-	-	-	-	-	-
Paul Reid	5	172	8	-	-	180	337
Sigurd Reinton	6	15	-	-	-	15	36
Nigel Turner	4	-	-	-	-	-	-
Andrew White	1, 6	14	-	-	-	14	36
		1,387	54	510	531	2,482	1,753

* For year, or from date of appointment or up to date of resignation.
1 These directors participate in a pension salary sacrifice arrangement. Therefore contributions paid to the pension scheme via salary sacrifice have been deducted from salary figures. The contributions paid via salary sacrifice are included within the pension figures reported in the analysis of pensions below.
2 Martin Rolfe was appointed to the Board on 1 April 2013.
3 Richard Keys and Iain McNicoll were appointed to the Board on 1 September 2013.
4 These directors are appointed by The Airline Group (AG) who charged NATS a total of £45,000 per quarter (2013: £45,000 per quarter) for the services of the directors. Warwick Brady was appointed on 23 May 2013, Tony Tyler was appointed on 1 July 2013 and Chris Bennett, Gavin Merchant and Mike Powell were appointed on 20 March 2014. Giovanni Bisignani resigned from the Board on 27 June 2013 and Barry Humphreys and Nigel Turner resigned on 20 March 2014. Mike Powell resigned from the Board on 29 May 2014.
5 Paul Reid resigned from the Board on 6 December 2013.
6 Sigurd Reinton and Andrew White resigned from the Board on 31 August 2013.

Dr Harry Bush was appointed to the Board on 29 May 2014. His emoluments from this date will be disclosed in the Annual Report and Accounts for the year ending 31 March 2015.

Reports from Board Committees
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Audited information
Directors' remuneration (continued)

Interests of the directors in long term incentive schemes:

From April 2011, the company introduced a rolling three year Executive Long Term Incentive Plan (LTIP), entitling the executive directors to performance related pay contingent on achieving a set of financial and strategic targets. The first cycle commenced in April 2011 and vested on 31 March 2014.

The maximum entitlement of each of the executive directors for each cycle as a percentage of average annual salary is shown below:

Richard Deakin	90.0%
Nigel Fotherby	62.5%
Martin Rolfe	62.5%

The outcome of the LTIP is not known until the end of each cycle. Accordingly, the emoluments table will reflect amounts when qualifying conditions in relation to each cycle are met.

The value of accrued pensions for directors who were members of the CAA Pension Scheme, a defined benefit pension scheme, were as follows:

		2014 £000	2013 £000
Executive directors			
Nigel Fotherby	1	88	74
Paul Reid	1, 2	-	8
		88	82

1 The pension value represents the additional benefit accrued in the year (excluding inflation as measured by the Consumer Prices Index (CPI)) multiplied by a factor of 20. The values are inclusive of contributions paid by the employer on behalf of the employee via a salary sacrifice arrangement.
2 Paul Reid ceased to be an active member of the pension scheme on 5 April 2012.

Richard Deakin, Martin Rolfe and Andrew White are members of the company's defined contribution pension scheme, whose terms are explained in note 28 to the financial statements. The company paid contributions for Richard Deakin of £85,426, Martin Rolfe of £41,662 and Andrew White of £1,440. Under the company's pension salary sacrifice arrangement, Richard, Martin and Andrew sacrificed £42,713, £20,831 and £720 of their salary in lieu of pension contributions respectively to the defined contribution pension scheme in the year.

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's All-Employee Share Ownership Plan. Details of shares sold during the year are as follows:

	Shares sold No.	Share price at date of sale £	Gain on sale £
Name of director			
Paul Reid	2,377	4.10	8,576

Reports from Board Committees
(Continued)

Audited information

Directors' remuneration (continued)

Details of shares held by directors who served during the year are as follows:

		Date from which exercisable:			Total holding	Value at	Value at
	Exercisable (brought forward)	17/09/2014 (brought forward)	28/02/2016 (brought forward)	25/09/2017 (brought forward)	(number of shares)	31 March 2014 (at £4.50 each)	31 March 2013 (at £3.95 each)
						£	£
Name of director							
Richard Deakin	400	-	200	200	800	3,600	3,160
Nigel Fotherby	2,177	200	200	200	2,777	12,497	10,969
	2,577	200	400	400	3,577	16,097	14,129

In May 2013 employees including executive directors were offered the option to participate in an award of up to 150 partnership shares each at fair value (the lower of the share price at the start of and the end of the accumulation period, being £3.95 per share) by deductions from gross salary over a 12 month accumulation period ending 30 April 2014. Participants also receive one free matching share for every partnership share purchased. Richard Deakin and Martin Rolfe participated in this offer and were each awarded 300 shares on 30 May 2014.

The executive directors received dividends during the financial year based on their shareholdings as of May and November 2013.

Andy Lord
Chairman of the
Remuneration Committee


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Reports from Board Committees
(Continued)

Safety Review Committee report

The role of the Safety Review Committee

The role of the Safety Review Committee is to support the Board in the discharge of its accountabilities for the safe provision of operational air traffic services, monitoring of NATS' safety performance, and for security arrangements in group companies. It meets quarterly as a formal committee and its remit includes the requirements to:

- monitor and review the effectiveness of the safety arrangements in place in the group;
- review the delivery of the group's safety and security objectives through its operations, structures and processes;
- review the quality of the company's safety performance;
- monitor the implementation of safety enhancement programmes; and
- make recommendations to the Board for improving the company's safety and security management systems.

The Committee is chaired by Iain McNicoll and there are two other non-executive directors as members, Warwick Brady and Roger Cato. Iain McNicoll and Warwick Brady joined the Committee in September 2013 replacing Andrew White and Peter Read respectively. The following are invited to attend each meeting by standing invitation:

- Chief Executive Officer;
- Director of Safety, NATS;
- Managing Directors of Services and Operations; and
- Operations Directors of Swanwick, Prestwick, and Airports.

The Head of Facilities Management and the Chief Information Officer formally report to the Committee on the security arrangements in NATS twice per annum.

During the year, the Committee took advice from the following special advisers, who were invited to each meeting by standing invitation:

- Dr Don Lloyd, Director Health & Safety and Environment for Genel Energy plc and Visiting Professor in Risk at Brunel University; and
- Professor Don Harris, Professor of Human Factors, Faculty of Engineering and Computing at Coventry University.

Main activities of the Committee during the year

a. Operational safety

As part of its safety governance and oversight of the NATS operations, the Committee receives regular in-depth reports and briefings on safety performance and associated improvement activities. Key topics throughout the last year were:

- **Infringements of controlled airspace:** Infringements are an issue for the UK regulator and, whilst NATS can, and has, taken mitigating actions to protect aircraft operating within controlled airspace from infringements, the real solutions to the causes of infringements lie with the CAA. The Committee has therefore fully supported the NATS executives in their efforts to engage with the CAA, culminating in the CAA's Director of Safety and Airspace Regulation, attending the December meeting of the Committee.

  Over the following year, we will continue to monitor the situation and progress with implementing an action plan that has now been jointly agreed between NATS, the CAA and industry stakeholders.

Reports from Board Committees
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- **Improvement activities in NATS Airports service line:** The performance of the NATS Airports service line was not meeting target levels during the first half of the year. This performance, and the associated causal analysis, was presented to the Committee along with a comprehensive programme for improvement. The Committee has monitored this programme through the second half of the year and has seen progress in addressing the identified issues. Continued delivery of the improvements, and realisation of the expected benefits, will continue during 2014/15.
- **Creation and endorsement of the Safety Strategy and Safety Plan:** A fully revised NATS Safety Strategy and Safety Plan have both been endorsed by the Committee and have been published. Implementing this strategy and plan is intended to continue to enhance NATS' safety capability and performance. The Committee will monitor their implementation and delivery during 2014.
- **Review of the risk of NATS contributing to an aircraft accident:** As part of the Committee's on-going oversight, this risk was reviewed and updated to reflect changes to the mitigations employed for this risk. These mitigations now align around four key priorities:
  - the application of robust governance and assurance arrangements;
  - delivery of a programme of improvement that manages the overall risk to a pre-determined appropriate level;
  - implementation, regular review and update of the Safety Management System, and a dedicated post to manage its evolution; and
  - developing and maintaining the necessary behaviours, skills and resources to deliver the outlined risk mitigations.

b. Corporate / physical security (external threats)

NATS' Corporate Security department provides assurance reports, covering all aspects of physical security, threat assessments, vetting, data protection and business continuity. The principal focus for the Committee in the past year has been:

- **Governance:** This is designed to ensure and maintain engagement at all levels of the business, achieved through regular reviews at the Security Focal Point Group, Health, Safety & Security Steering Group, NATS Executive, and Safety Review Committee. Reporting to the Committee is on a bi-annual basis, in June and December, where confirmation that the governance processes are in place and are robust is sought.
- **Vetting:** NATS has a mature vetting process, with access to the Police National Computer and Parasol[7]. Key performance indicators are reported which demonstrate the effectiveness and coverage of the process. Historically all clearances have been made to Basic Check/Counter Terrorism Check (BC/CTC) with Security Clearance (SC) only being requested by exception, based upon a risk assessment of the role. 2013 saw a policy change, with all new clearances now carried out to SC, as standard. This further enhances the robustness of the vetting processes and is in line with expectations when NATS deals with its international peer groups.
- **Physical security:** In December 2013 a security penetration test was conducted at both Swanwick and Prestwick Centres, the key objectives being: to review open source information, effectiveness of the physical assets as a deterrent, operating processes and procedures; to check the awareness of staff; and to conduct a 'lessons learnt' post-test.

  In the coming year, the focus will be on closure of the key penetration testing actions and maturing the processes and procedures around overseas travel.

7 Parasol is the name of the computerised data system used by the security services to undertake counter terrorism checks on individuals.

Reports from Board Committees
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c. Cyber security

NATS is part of the UK's critical national infrastructure as the sole provider of UK en route air traffic management. NATS is also diverse in its business operations, with activities underway in the UK and overseas. NATS relies on effective digital operations to deliver services and therefore places a very high priority on cyber security.

It is recognised that NATS must be prepared for a variety of digital threats from a multitude of sources. Through regular review of the strategy, and of progress against the plan and performance, the Committee has sought to ensure that the protection of people, infrastructure and operations is maintained at a high level and that, within each of these domains, NATS maintains an active security management system.

Over the last year the Committee has been actively engaged in the management of security and is supporting achievement of ISO 27001 certification, the international quality standard for information security management. The Committee will continue to work with the Chief Information Officer to seek further improvements within NATS' operation.

Iain McNicoll CB CBE
Chairman of the Safety Review Committee

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Technical Review Committee report

The role of the Technical Review Committee

The role of the Technical Review Committee is to support the Board in the discharge of its accountabilities in respect of monitoring the development of NATS' planning and provision of adequate cost effective technical systems and services in support of the discharge of its operations, its remit includes:

- ensuring that business objectives are clearly reflected in the requirements laid on technology programmes;
- reviewing the technical strategies proposed to meet the agreed requirements, with appropriate regard to other (European and worldwide) initiatives and developments, and the likely impact on service provided to customers;
- reviewing the effectiveness of the operations, programmes, structures and processes employed in delivering the company's technical objectives; and
- making recommendations to the Board on means for improving the company's technical systems, their implementation through projects and their performance.

The Committee is chaired by Peter Read and there are two other non-executive directors as members, Iain McNicoll and Roger Cato. The following are invited to attend each meeting by standing invitation:

- Managing Director, Operations;
- Operational and Strategy Development Director;
- Chief Architect; and
- Engineering Director.

During the year under review the Committee took advice from the following special advisers, who were also invited to each meeting by standing invitation:

- Roger Graham OBE: Roger is the former Chairman of Programme Management Consulting Group, now Atkins and has been involved with the IT, communications and marketing services industries for over 40 years. Recently he has been a director and advisor to companies operating in the internet arena with particular focus on user experience and technical and business change.
- David Mann: David spent 25 years with Logica plc rising to become Group Chief Executive and finally Deputy Chairman. He has extensive Board-level experience of managing a range of IT-related businesses and ventures, from small start-ups to substantial operations, across many industry sectors in many different countries.

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Main activities of the Committee during the year

As part of its governance and oversight of the NATS operations, the Committee receives regular in-depth reports and briefings on the existing and planned investment programmes, and the technical risk profiles. Key topics throughout the last year were:

a. Interoperability Through European Collaboration (iTEC)

This is the new generation of core flight data processing systems which will replace the existing National Airspace System (NAS), after more than 40 years of service. It is a development programme whose deployment will be shared with the Spanish and German Air Navigation Service Providers, with additional elements to reflect the specific needs of each operator. It is the main building block for providing the capability to meet the specifications evolving from the European wide SES ATM Research (SESAR) programme. The principal objective is to ensure compatible competitively sourced systems across Europe designed to provide 'gate-to-gate' trajectory planning, with improvements in safety, efficiency and cost effectiveness. The first deployment in NATS will be in the Scottish Area Control Centre in Prestwick. A version of the system has already been successfully deployed in Karlsruhe, Germany, and the planning for Prestwick is making full use of the learning experience in close collaboration with the Germans. The single greatest risk is probably from the changes to individual working practices, and the subsequent implementation phase. Deployment will commence in 2016 and will be closely followed by the Committee at each stage.

b. London Airspace Management Programme (LAMP)

This programme involves the redesign of traffic flows in the South East airports area, in and beyond the London Terminal Movements Area. The fundamental change implied by this programme is for aircraft to be sequenced into an arrival stream which eliminates, as far as possible, the need for holding before commencing an approach. It requires two main elements to be delivered, firstly the control of descent paths and speed from much further out from destination, and secondly to use differentiated flight paths near to the arrival airfield on a planned basis, in order to separate and co-ordinate the arrival sequencing close in. Both elements represent a major change in concept for controllers, and hence carry implementation risk. Any changes to flight path patterns requires public consultation, and although this programme will bring major benefits to the airlines, the communities under the flight paths, and to the environment, all such changes require conscientious effort to gain informed support from all parties.

c. New controller workstation and other projects supporting the major programmes

The new generation of workstations will provide much of the additional functionality in support of the core system. This has benefits of redundancy, and architectural integrity. The additional elements of functionality or changes to procedures will enhance performance and service provision as NATS moves down the path of SESAR compliant systems. The long term aims of Single European Skies are still developing and it is important that the Committee retains an oversight of the emerging requirements, and has visibility of the contribution from individual elements.

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d. Review of 7 December failure

In addition to the above, on 7 December 2013 there was a failure of the ground communications system at Swanwick during a period of overnight changes that resulted in significant delay to customers. Following a system crash for unknown reasons the system failed to re-start. The consequences of the failure were that the configuration of sectors over the Southern UK could not be changed to the daytime condition. Hence, due to restricted capacity, there was significant disruption to flights throughout the day of 7 December, with over 300 flight cancellations and significant delays. At the request of the Chairman of the Board, the Committee was tasked with reviewing the event, and its subsequent management in respect of the systems. An external consultant was appointed to lead the investigation, and to make recommendations. The conclusions were, that although the staff immediately involved in rectifying the problem complied with established procedures, there were some learning points for the organisation about reducing the risks of similar levels of disruption in similar types of events. Procedures have been changed to ensure that a similar failure to the same system would not have similar outcomes.

Peter Read
Chairman of the
Technical Review Committee

Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditor's report for the year ended 31 March 2014. The Governance report is set out on pages 50 to 56 and forms part of this report.

Details of significant events since the balance sheet date are contained in note 31 to the financial statements. An indication of likely future developments in the business of the group is included within the Strategic report.

Information about the use of financial instruments by the group is given in note 19 to the financial statements.

Dividends

During the year interim dividends of £46.5m (32.51 pence per share) and £15.5m (10.84 pence per share) were approved (2013: £40.0m). The Board recommends a final dividend for the year of £nil (2013: £nil).

In May 2014, the Board approved and the company paid an interim dividend of £51.0m (35.65 pence per share) for the year ending 31 March 2015.

Directors and their interests

The directors of the company at the date of this report are set out on pages 43 to 48. Details of changes made to the Board during the year and to the date of this report are set out in the Governance report on page 50.

The interests of the directors in the share capital of the parent company, through their participation in the Employee Share Plan, are set out on page 68.

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

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Employees

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

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

Report of the directors
(Continued)

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

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

The group 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.

Going concern and subsequent events

The directors' assessment of going concern is explained in the financial review on page 32. Subsequent events are disclosed in note 31 to the financial statements.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

> 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 IFRSs are 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

> make an assessment of the company's ability to continue as a going concern.

Report of the directors
(Continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each person who is a director at the date of approval of these financial statements 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/she ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Auditor

As explained in the Governance report, following a market tender process, the Board recommends the appointment of BDO LLP as independent auditor for the financial year ending 31 March 2015. Deloitte LLP will tender its resignation on the date of the Annual General Meeting and a resolution to appoint BDO will be proposed at the Annual General Meeting.

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

Richard Churchill-Coleman
Secretary

26 June 2014

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

Registered in England and Wales
Company No. 04138218

Independent auditor's report to the members of NATS Holdings Limited

Opinion on the financial statements of NATS Holdings Limited

In our opinion:

> **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;**

> **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**

> **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**

> **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the parent company Balance Sheet, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 31 of the group and 1 to 8 of the parent company. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the International Accounting Standards Board (IASB)

As explained in note 2 to the group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the IASB.

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

Going concern

We have reviewed the directors' statement on page 32 that the group is a going concern. We confirm that:

> we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

> we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independent auditor's report to the members of NATS Holdings Limited

(Continued)

Our assessment of risks significant to our audit

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Revenue recognition and the recoverability of revenue adjustments Key judgements about the recoverability of revenue adjustments in the current and subsequent reference period are made by management in determining the amount of revenue recognised at the balance sheet date and which are material to the financial statements.	*We have tested the revenue recognised to ensure that it is in line with the provisions of the air traffic services licence and regulatory charging mechanisms for the reference period. We considered and, where appropriate, challenged the validity and recoverability of any revenue adjustments applied with reference to the contractual rights of the group. We have also reviewed the appropriateness of documentation gathered to support individual judgements including the discount rate applied to revenue adjustments.*
Valuation of the defined benefit pension scheme A number of judgements and actuarial assumptions are made by management which have a significant impact on the valuation of the pension scheme. This includes assessment in respect of recognition of any retirement benefit asset under IAS 19.	*We have considered the accounting assumptions with reference to appropriate benchmarks and evidence and also understood them in light of the assumptions made under the most recent triennial funding valuation. We engaged our pension specialists to aid us in this work and have liaised directly with the scheme's actuary to assess the validity of assumptions applied. In addition, we have performed audit procedures such as verifying asset values to substantiate the value of the scheme's material components.*
Carrying value of goodwill The group's goodwill is material and the assessment of its carrying value requires management judgment including: the forecast of future cash flows; the use of an appropriate discount rate; the value of the Regulatory Asset Base (RAB) to determine the realisable value of the group; and the premium applied to the RAB.	*As part of our procedures we have understood the latest status of pricing negotiations for the next regulatory reference period and assessed the impact this has on management's cash flow forecasts and RAB. We have challenged management's cash flow forecasts, discount rate assumption and the evidence available to support the RAB premium. We have also challenged the methodology applied by management to determine the impairment charge.*
Capitalisation of internal staff costs and the carrying value of fixed assets The group is required to invest in the sustainment and development of air traffic control infrastructure. This investment is achieved with the use of a significant portion of internal labour resource, a significant proportion of which is capitalised. We have also considered management's assessment of any indicators of impairment against the carrying value of fixed assets, including assets under construction.	*We have met with the group's project managers of the material capital projects to assess both the validity of costs capitalised and the feasibility of individual projects. Our work on capitalised labour costs includes testing the controls surrounding payroll systems, in addition to substantive tests of detail. We have also considered and challenged management's assessment of impairment indicators of fixed assets.*

Independent auditor's report to the members of NATS Holdings Limited
(Continued)

The Audit Committee's consideration of these risks is set out on page 58. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be £6.2m. This represents just under 1% of the group's economically regulated revenue allowances which have the most significant impact on the group's performance and financial position.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined our audit scope by gathering an understanding of the group and its environment, including internal group-wide controls, and assessing the risks of material misstatement to the financial statements. Based on that assessment, our group audit scope focused primarily on the location of the group's principal operating subsidiaries and finance functions in Hampshire and near Heathrow, as well as its transaction processing centre in Edinburgh. These locations enable the audit of 100% of the group's revenue and operating profit.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of NATS Holdings Limited

(Continued)

Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made. We have nothing to report arising from this matter.
Our duty to read other information in the Annual Report and Accounts	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report and Accounts is: > materially inconsistent with the information in the audited financial statements; or > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or > otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report and Accounts is fair, balanced and understandable and whether the Annual Report and Accounts appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

In our opinion the part of the directors' Remuneration Committee report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006.

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter 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.

Independent auditor’s report to the members of NATS Holdings Limited
(Continued)

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group’s and the parent company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Bell CA
(Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and
Statutory Auditor

London, UK
26 June 2014

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Financial Statements

Consolidated income statement

for the year ended 31 March

		2014			Restated[1] 2013
		Before exceptional items	Exceptional items	Result for the year	Result for the year
	Notes	£m	£m	£m	£m
Revenue	4	917.6	-	917.6	899.6
Staff costs	7	(419.1)	(40.8)	(459.9)	(420.8)
Services and materials		(79.3)	-	(79.3)	(77.2)
Repairs and maintenance		(36.4)	-	(36.4)	(37.9)
External research and development		(0.1)	-	(0.1)	(0.2)
Depreciation, amortisation and impairment	6	(107.7)	(32.0)	(139.7)	(105.1)
Profit on disposal of non-current assets		4.2	-	4.2	-
Other operating charges		(40.3)	-	(40.3)	(44.1)
Other operating income		0.7	-	0.7	-
Deferred grants released	6	0.7	-	0.7	0.8
Net operating costs		(677.3)	(72.8)	(750.1)	(684.5)
Operating profit	6	240.3	(72.8)	167.5	215.1
Share of results of associates and joint ventures	30	0.2	-	0.2	(1.2)
Investment revenue	8	6.0	-	6.0	4.8
Fair value movement on derivative contract	9	17.7	-	17.7	(20.5)
Finance costs	10	(33.9)	-	(33.9)	(37.4)
Profit before tax		230.3	(72.8)	157.5	160.8
Tax	11	(37.6)	9.4	(28.2)	(35.4)
Profit for the year attributable to equity shareholders		192.7	(63.4)	129.3	125.4

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

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*.

Consolidated statement of comprehensive income
for the year ended 31 March

	Notes	2014 £m	Restated[1] 2013 £m
Profit for the year after tax		129.3	125.4
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme		(58.4)	31.3
Deferred tax relating to items that will not be reclassified subsequently	22	13.0	(7.5)
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(0.7)	0.9
Transfer to income statement on cash flow hedges		0.4	(0.1)
Deferred tax relating to items that may be reclassified subsequently	22	0.1	(0.1)
Other comprehensive (expense)/income for the year net of tax		(45.6)	24.5
Total comprehensive income for the year attributable to equity shareholders		83.7	149.9

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*.

Consolidated balance sheet
at 31 March

	Notes	2014 £m	Restated[1] 2013 £m
Assets			
Non-current assets			
Goodwill	13	319.0	351.0
Other intangible assets	14	330.0	286.8
Property, plant and equipment	15	604.1	626.5
Interest in associates and joint ventures	30	1.6	1.2
Loan to joint venture	30	0.6	-
Retirement benefit asset	28	-	14.0
Trade and other receivables	16	70.2	59.4
		1,325.5	1,338.9
Current assets			
Loan to joint venture	30	0.1	-
Trade and other receivables	16	184.0	183.1
Short term investments	19	29.7	30.1
Cash and cash equivalents	19	211.6	198.0
Derivative financial instruments	18	0.4	1.6
		425.8	412.8
Total assets		1,751.3	1,751.7
Current liabilities			
Trade and other payables	20	(125.1)	(127.4)
Current tax liabilities		(17.4)	(18.8)
Borrowings	17	(28.6)	(27.2)
Provisions	21	(28.1)	(2.4)
Derivative financial instruments	18	(0.3)	(0.8)
		(199.5)	(176.6)
Net current assets		226.3	236.2
Non-current liabilities			
Trade and other payables	20	(36.2)	(23.6)
Borrowings	17	(620.6)	(658.0)
Retirement benefit obligations	28	(12.3)	-
Deferred tax liability	22	(87.8)	(104.6)
Provisions	21	(8.4)	(6.4)
Derivative financial instruments	18	(128.9)	(146.6)
		(894.2)	(939.2)
Total liabilities		(1,093.7)	(1,115.8)
Net assets		657.6	635.9
Equity			
Called up share capital	23	140.6	140.6
Share premium account	24	0.4	0.4
AESOP reserve		(0.3)	(0.3)
Hedge reserve		0.3	0.5
Other reserves		(34.7)	(34.7)
Retained earnings		551.3	529.4
Total equity		657.6	635.9

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*.

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 26 June 2014 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Consolidated statement of changes in equity
for the year ended 31 March

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	AESOP reserve £m	Hedge reserve £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2012	140.6	0.4	(0.3)	(0.2)	(34.7)	420.2	526.0
Profit for the year[2]	-	-	-	-	-	125.4	125.4
Other comprehensive income for the year [2]	-	-	-	0.7	-	23.8	24.5
Total comprehensive income for the year	-	-	-	0.7	-	149.2	149.9
Dividends paid	-	-	-	-	-	(40.0)	(40.0)
At 31 March 2013	140.6	0.4	(0.3)	0.5	(34.7)	529.4	635.9
At 1 April 2013	140.6	0.4	(0.3)	0.5	(34.7)	529.4	635.9
Profit for the year	-	-	-	-	-	129.3	129.3
Other comprehensive expense for the year	-	-	-	(0.2)	-	(45.4)	(45.6)
Total comprehensive (expense)/ income for the year	-	-	-	(0.2)	-	83.9	83.7
Dividends paid	-	-	-	-	-	(62.0)	(62.0)
At 31 March 2014	140.6	0.4	(0.3)	0.3	(34.7)	551.3	657.6

[1] Other reserves arose on the completion of the PPP transaction in July 2001.
[2] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*.

Consolidated cash flow statement
for the year ended 31 March

	Notes	2014 £m	2013 £m
Net cash from operating activities	25	263.3	255.6
Cash flows from investing activities			
Interest received on short term investments		1.2	1.3
Purchase of property, plant and equipment and other intangible assets		(122.1)	(128.7)
Proceeds of disposal of property, plant and equipment		2.9	0.1
Investment in joint venture		(0.4)	(1.4)
Changes in short term investments		0.4	0.4
Dividend received from associate		0.2	-
Net cash outflow from investing activities		(117.8)	(128.3)
Cash flows from financing activities			
Interest paid		(32.7)	(34.7)
Interest received on derivative financial instruments		0.9	1.3
Repayment of bond principal		(28.4)	(28.4)
Bank and other loans		(9.0)	(12.3)
Bank facility arrangement fees		-	(2.9)
Dividends paid		(62.0)	(40.0)
Loan to joint venture		(0.7)	-
Net cash outflow from financing activities		(131.9)	(117.0)
Increase in cash and cash equivalents during the year		13.6	10.3
Cash and cash equivalents at 1 April		198.0	187.7
Cash and cash equivalents at 31 March		211.6	198.0
Net debt (representing borrowings net of cash and short term investments)		(407.9)	(457.1)

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 78. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Strategic report.

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

2. Accounting policies

The following accounting policies have been applied consistently both in the current and prior years in dealing with items which are considered material in relation to the group'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 32. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported or the associated disclosures in these financial statements.

With effect from 1 April 2013, the group has adopted the new standard IAS 19 (revised 2011): *Employee Benefits*. IAS 19 (revised 2011) has been adopted retrospectively in accordance with IAS 8 and is reflected in the disclosures in note 28. The principal impacts on the reporting from adopting the new standard is as follows:

IAS 19 (revised 2011) replaces interest cost and expected return on plan assets with a finance cost on the pension deficit. The finance cost is calculated using the rate applied to discount defined pension liabilities. The discount rate is lower than the expected return on plan assets, increasing operating costs recognised in the income statement with corresponding adjustments to experience gains and losses recognised in other comprehensive income. The net pension surplus at 31 March 2013 is unchanged.

These changes have been applied retrospectively to the comparative information for the year ended 31 March 2013 and have had the following impact on the financial statements compared with the previous version of IAS 19:

	Year ended 31 March 2013 £m
Operating costs	(29.9)
Profit before tax	(29.9)
Tax	7.2
Net decrease in profit for the period	(22.7)
Actuarial gains on the defined benefit scheme	29.9
Tax on items that will not be reclassified to the income statement	(7.2)
Total comprehensive income for the period	-

Notes forming part of the consolidated accounts

(Continued)

The group has also adopted the amendments to IFRS 13: *Fair Value Measurement*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other standards within IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes additional disclosure requirements. The impact of applying the amendments to this standard is that there are additional disclosure requirements and the recognition of a credit value adjustment of £2.3m to reflect the group's assessment of its own credit risk when calculating the fair value of its financial instruments. See note 18.

IFRS 13 requires prospective application from 1 January 2013 and, under transitional provisions the disclosure requirements set out in the standard have not been applied to comparative information.

The group has applied the amendments to IAS 1: *Presentation of Items of Other Comprehensive Income*. The amendment increases the required level of disclosure within the statement of comprehensive income, requiring items within other comprehensive income that may be reclassified to the income statement to be grouped together, and the associated tax on these items to be analysed on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. This amendment is concerned with disclosure only and has no impact on the reported results or financial position of the group.

In the current year, the group has applied for the first time a package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements*, IFRS 12: *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011): *Separate Financial Statements* and IAS 28 (as revised in 2011): *Investments in Associates and Joint Ventures*. The impact of the application of these standards is set out below.

IFRS 10 changes the definition and criteria for control. This has no impact on the financial statements, as all entities that are consolidated are wholly-owned subsidiaries.

IFRS 11 relates to arrangements where there is joint control by two or more parties of another entity. IFRS 11 classifies the joint arrangement as either a joint operation (which requires the recognition of the investor's share of assets, liabilities, revenues and expenses) or joint venture (which requires the equity method of accounting under IAS 28 (revised 2011)), depending on the underlying rights and obligations of the parties of the arrangement. The group is party to a joint arrangement with Ferrovial which is determined to be a joint venture under IFRS 11. As a result the group accounts for the share of the joint venture using the equity method of accounting.

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (see note 30).

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9: *Financial Instruments*

IFRS 10, IFRS 12 and IAS 27 (amendments): *Investment Entities*

IAS 36 (amendments): *Recoverable Amount Disclosures for Non-Financial Assets*

IAS 39 (amendments): *Novation of Derivatives and Continuation of Hedge Accounting*

IFRIC 21: *Levies*

Notes forming part of the consolidated accounts
(Continued)

IFRS 9 will impact both the measurement and disclosures of financial instruments. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed. The directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements in future periods.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of investor's returns.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 (including volume risk sharing, service performance incentives and inflation adjustments) and airport contracts and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence and EC Charging Regulations.
- Sales of goods are recognised when they are delivered and title has passed.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.
- 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.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the company's Executive team, which is considered to be the chief operating decision maker. An operating segment represents a service line that provides a core set of products or services to customers. Operating segments' operating results are reviewed regularly by the Executive team to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment performance is assessed by service line revenue and contribution, where contribution represents revenue less costs directly attributed to individual service lines. Segment results that are reported to the Executive team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Costs that are not attributed to service lines include the cost of central support functions, depreciation and amortisation (net of government grants), pension accrual rate variances to budget, employee share scheme costs, goodwill impairment, redundancy and relocation costs, the cost of investing in business growth and any profit/loss on disposal of non-current assets.

Notes forming part of the consolidated accounts
(Continued)

Exceptional items

Items which are deemed by the directors to be exceptional by virtue of their nature or size are included under the statutory classification appropriate to their nature but are separately disclosed on the face of the consolidated income statement to assist in understanding the financial performance of the group.

Operating profit

Operating profit is stated after charging restructuring costs but before the group's share of results of associates, investment income, finance costs and taxation.

Goodwill

Goodwill 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 NATS 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 net realisable value and value in use. Net realisable value is assessed by reference to the Regulatory Asset Bases (RABs) of the economically regulated activities. In assessing value in use, the estimated future cash flows (with a RAB terminal value) are discounted to their present value using the pre-tax nominal regulated rate of return. A premium is applied to the RAB (see note 3).

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 group 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 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.

Notes forming part of the consolidated accounts
(Continued)

Borrowing costs

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

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

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

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

Deferred grants and other contributions to property, plant and equipment

Government grants as contributions to non-current assets are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful economic lives of the related assets. Grants of a revenue nature are credited to income in the period to which they relate.

Investments in associates and joint ventures

An associate is an entity over which the group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

A joint venture is an arrangement in which two or more parties have joint control. The investors in the joint venture have rights to the net assets of the jointly controlled entity. The results of joint ventures are incorporated in these financial statements using the equity method of accounting.

Investments in associates and joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate or joint venture, less any impairment in the value of individual investments.

Non-current assets held for sale

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

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

Internally-generated intangible assets – research and development expenditure

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

Notes forming part of the consolidated accounts

(Continued)

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 group 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 group 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 a valuation are now recognised at cost. Emissions allowances granted free of charge are recognised at nil 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 emissions certificates) of the recognised emissions 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.

Amounts recoverable on contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear

Notes forming part of the consolidated accounts
(Continued)

to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been, or are more likely than not to be, agreed with the customer.

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

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

Share-based payment

The company has applied the requirements of IFRS 2: *Share-Based Payment.*

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

Shares awarded by the Plan are treated as cash-settled liabilities. A liability is recognised for shares awarded over the period from award to when the employee becomes unconditionally entitled to the shares and are measured initially at their fair value. At each balance sheet date until the liability is settled, as well as at the date of settlement, the fair value of the liability is re-measured based on independent share valuations with any changes in fair value recognised in profit or loss for the year.

In respect of the award schemes, the group provides finance to the NATS Employee Sharetrust to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The group's share of the costs of running the employee share trust is charged to the income statement.

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it

Notes forming part of the consolidated accounts
(Continued)

is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Under the Finance Bill 2013 which was enacted on 17 July 2013, the corporation tax rate was reduced to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate.

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 group enters into forward contracts (see below for details of the group's accounting policies in respect of such derivative financial instruments).

Retirement benefit costs

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. The costs of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses and return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

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.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split in to three categories:

> current service cost, past service cost and gains and losses on curtailments and settlements;

> net interest expense or income; and

> remeasurement.

The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 28. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

Contributions to the defined contribution pension scheme are expensed as incurred.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group 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.

Notes forming part of the consolidated accounts
(Continued)

Financial instruments
Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 16 to 20.

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

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

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

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

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

Impairment of financial assets
Financial assets are rigorously assessed for indicators of impairment at half year and year end.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Impairment losses on trade receivables are recognised using allowance accounts. When a trade receivable is considered irrecoverable, it is written off against the allowance account, any subsequent recoveries are credited to the allowance account. Changes in the allowance account are recognised in the income statement.

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

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

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

Other financial liabilities: including bank, other borrowings, loan notes and debt securities
Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are accounted for on an accruals 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.

Notes forming part of the consolidated accounts
(Continued)

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 over 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 group 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 group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 18 and 19 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 group's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The group 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 group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

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

Notes forming part of the consolidated accounts
(Continued)

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 bases, market premiums for regulated businesses and the outcome of the regulatory price control determinations. The market premium was assessed at the balance sheet date to be 7-8% (2013: 10%). If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. Refer to notes 13, 14 and 15.

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 28 of the notes to the consolidated accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Recoverability of revenue allowances

The economic regulatory price control for UK en route services for Control Period 3 (2011 to 2014) established an annual revenue allowance that is recovered through a price based on the economic regulator's forecasts of traffic volumes and inflation made at the start of the price control period. Where traffic volumes or inflation differ from the regulator's forecasts, revenue actually recovered may be higher or lower than the revenue allowance. Where this is the case, the EC Charging Regulation allows an adjustment to be made to the price in subsequent years (from 2014 onwards, starting 2 years later) to reflect any over or under-recovery. Also, following the CP3 price control review, the economic regulator deferred the recovery of adjustments for traffic volume risk sharing and service performance incentives arising in the previous control period (CP2: 2006 to 2010) and allowed these to be recovered through an adjustment to prices in the last three years of CP3. The weakness of the economy in the early part of CP3 has resulted in traffic volumes which are lower than the regulator assumed for CP3. Inflation has also been higher than assumed. When combined with the remaining balances deferred from CP2 and service performance incentives from CP3, recoverable revenue allowances totalled £108.8m at 31 March 2014 (2013: £100.0m). The legal right to recover the revenue adjustments discussed above is provided by the EC Charging Regulation and NERL's air traffic services licence. The company expects to recover these amounts through adjustments to prices starting in 2014 and through into Reference Period 2 (RP2: 2015 to 2019).

Capital investment programme

The group is undertaking a significant capital investment programme to upgrade existing air traffic control infrastructure. This programme requires the group 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.

Notes forming part of the consolidated accounts
(Continued)

4. Revenue

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

	2014 £m	2013 £m
NATS Airspace	719.9	693.2
NATS Airports	170.2	169.5
NATS Engineering	13.4	19.9
Other NATS Service lines	14.1	17.0
	917.6	899.6
Other operating income	0.7	-
Investment revenue (see note 8)	6.0	4.8
	924.3	904.4

All revenue is derived from continuing operations. Note 5 summarises the source of revenue 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 group's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £0.4m loss (2013: £0.1m gain).

Notes forming part of the consolidated accounts
(Continued)

5. Business and geographical segments

Operating segments

The group's Executive team is considered to be the chief operating decision maker as defined by IFRS 8. The segmental analysis is based on the information that the Executive team uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The business is organised into service lines, each service line provides a core set of products or services to our customers. The performance of operating segments is assessed based on service line revenue and contribution.

Service line contribution represents the revenue and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), pension accrual rate variances to budget, employee share scheme costs, redundancy and relocation costs, the cost of investing in business growth and any profit/(loss) on disposal of non-current assets. A reconciliation of service line contribution to operating profit is set out below.

For management reporting purposes, the group is currently organised into service lines: NATS Airspace, NATS Airports, NATS Engineering, NATS Consultancy, NATS Defence and NATS Information. Reports to the Executive aggregate the performance of NATS Consultancy, NATS Defence and NATS Information and report these as a single service line, Other NATS Service lines. These service lines have similar economic characteristics and exhibit similar financial performance, the nature of the products and the services provided is in the support of air traffic solutions and services and the customer base is drawn predominantly from airport operators and airlines.

Principal activities

The following table describes the activities of each operating segment:

NATS Airspace	This includes all of NATS' economically regulated activities and encompasses en route, oceanic and terminal services provided from our Prestwick and Swanwick centres, together with all of the supporting communications, navigation and surveillance infrastructure and facilities. Airspace includes air traffic services for helicopters operating in the North Sea, approach services for London airports and the services to the Ministry of Defence.
NATS Airports	The provision of air traffic control and airport optimisation services at UK and international airports and engineering support services provided to contract airports.
NATS Engineering	The provision of engineering services to other airport operators, construction companies and Air Traffic Management (ATM) industry suppliers, integrating new ATM infrastructure and new airports.
Other NATS Service lines	Includes: NATS Defence providing a range of other defence services in the UK and internationally; NATS Consultancy, offering airspace development, capacity improvement and training and NATS Information, providing data to enable future efficiency and flight optimisation.

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5. Business and geographical segments (continued)

Segment information about these activities is presented below.

Revenue

Service line revenue includes intra-group revenue. This is eliminated in deriving the group's third party revenue below:

	2014			2013		
	Revenue £m	Intra-group revenue £m	External revenue £m	Revenue £m	Intra-group revenue £m	External revenue £m
NATS Airspace	740.7	(20.8)	719.9	711.7	(18.5)	693.2
NATS Airports	183.6	(13.4)	170.2	182.6	(13.1)	169.5
NATS Engineering	15.6	(2.2)	13.4	21.0	(1.1)	19.9
Other NATS Service lines	18.8	(4.7)	14.1	21.2	(4.2)	17.0
	958.7	(41.1)	917.6	936.5	(36.9)	899.6

Notes forming part of the consolidated accounts
(Continued)

5. Business and geographical segments (continued)

Operating profit

Service line contribution represents the revenue and costs which are directly attributed to a service line.

A reconciliation of service line contribution to operating profit is provided below:

	2014 £m	Restated 2013 £m
NATS Airspace	391.6	368.1
NATS Airports	57.3	60.0
NATS Engineering	2.2	4.4
Other NATS Service lines	3.9	6.7
	455.0	439.2
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(107.0)	(104.3)
Impairment of goodwill	(32.0)	-
Profit on disposal of non-current assets	4.2	-
Pension accrual rate variances to budget	(20.7)	(46.5)
Employee share scheme costs	(4.4)	(1.3)
Redundancy and relocation costs	(41.3)	(2.0)
Cost of investment in business growth	(6.2)	(3.7)
Other costs not directly attributed to service lines	(79.9)	(67.5)
Less: share of results of associates and joint ventures	(0.2)	1.2
	167.5	215.1

The performances of NATS Airspace and NATS Airports include the group share of the results of ESSP SAS and FerroNATS Air Traffic Services SA respectively (see note 30). Other costs not directly attributed to service lines include corporate costs providing central support functions.

Notes forming part of the consolidated accounts
(Continued)

5. Business and geographical segments (continued)

Geographical segments

The following table provides an analysis of the group's revenue by geographical area based on the geographical location of its customers, and non-current assets (excluding goodwill, financial assets and retirement benefit assets) by geographical location:

	Revenue from external customers		Non-current assets	
	2014	2013	2014	2013
	£m	£m	£m	£m
UK	486.1	485.8	1,002.3	970.4
Rest of Europe	260.7	244.3	2.2	1.7
North America	115.8	115.8	0.9	1.0
Other	55.0	53.7	-	-
	917.6	899.6	1,005.4	973.1

Information about major customers

Included in revenues arising from NATS Airspace are revenues of £83.0m (2013: £94.4m - NATS Airports) which arose from the group's largest customer.

Notes forming part of the consolidated accounts
(Continued)

6. Operating profit for the year

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

a. Redundancy and relocation costs

NATS (En Route) plc is undertaking a voluntary redundancy programme to reduce its operating costs to meet the challenging cost efficiency targets set for Reference Period 2 (RP2: 2015-2019). These costs are considered to be exceptional. The group also incurs other redundancy costs in the normal course of business.

Relocation costs were incurred as a result of the redeployment of staff following the closures of air traffic control centres and the training college at Hurn in previous years. Credits are reported where costs incurred were lower than originally estimated. To the extent that staff could not be redeployed, termination terms were agreed. In response to the economic downturn and changes in technology, voluntary redundancy was also offered to staff in some areas of the business.

	2014 £m	2013 £m
Exceptional redundancy costs	40.8	-
Other redundancy costs	0.6	2.1
Relocation of staff to the Prestwick area	(0.1)	-
Relocation of staff from Hurn to the Corporate & Technical Centre	-	(0.1)
	41.3	2.0

Redundancy costs include pension augmentation costs, see note 7a.

Notes forming part of the consolidated accounts
(Continued)

6. Operating profit for the year (continued)

b. Other items	2014 £m	2013 £m
CAA regulatory charges in respect of NERL's air traffic services licence	5.5	5.3
CAA regulatory charges for safety regulation at airports	3.0	2.9
Impairment of goodwill	32.0	-
Depreciation of property, plant and equipment	78.0	79.1
Impairment of property, plant and equipment	2.0	0.1
Amortisation of intangible assets	27.7	25.2
Impairment of intangible assets	-	0.7
Deferred grants released	(0.7)	(0.8)
Research and development costs	7.4	9.2
Above the line tax credits relating to research and development costs	(0.5)	-
Auditor's remuneration for audit services (see below)	0.2	0.2

The analysis of auditor's remuneration for audit services is as follows:

	2014 £m	2013 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditor and their associates for other services to the group		
- The audit of the company's subsidiaries	-	-
Total audit fees	0.2	0.2

Total non-audit fees of £84,529 (2013: £28,590) include tax services of £nil (2013: £6,566) and other services of £84,529 (2013: £22,024). Total fees payable to the company's auditor for the audit of the subsidiary accounts was £40,800 (2013: £39,600).

Government grants relating to the purchase of property, plant and equipment and Ministry of Defence 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.

Research and development costs represent internal labour costs incurred in support of research and development activities.

Notes forming part of the consolidated accounts
(Continued)

7. Staff costs

a. Staff costs	2014 £m	Restated 2013 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	352.0	300.6
Social security costs	33.1	32.1
Pension costs (note 7b)	119.2	125.9
	504.3	458.6
Less: amounts capitalised	(44.4)	(37.8)
	459.9	420.8

Wages and salaries include redundancy costs of £39.5m (2013: £0.7m), share-based payment charges, other allowances and holiday pay.

Pension costs include £1.9m (2013: £1.4m) for redundancy related augmentation payments which staff elected to receive in lieu of severance payments.

b. Pension costs	2014 £m	Restated 2013 £m
Defined benefit pension scheme costs for year (note 28)	113.3	121.8
Defined contribution pension scheme costs for year	5.9	4.1
	119.2	125.9

The company operates a salary sacrifice arrangement for staff pension contributions. Wages and salaries and pension costs reflect this arrangement.

c. Staff numbers	2014 No.	2013 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,843	1,889
Air traffic service assistants	723	752
Engineers	996	976
Others	957	945
	4,519	4,562

Notes forming part of the consolidated accounts
(Continued)

8. Investment revenue

	2014 £m	2013 £m
Interest on bank deposits	0.9	1.1
Other loans and receivables	5.1	3.7
	6.0	4.8

All investment revenue has been earned on financial assets classified as loans and receivables, including cash and cash equivalents. Other loans and receivables includes the effect of unwinding the discount on amounts receivable after more than one year.

9. Fair value movement on derivative contract

	2014 £m	2013 £m
Credit/(charge) arising from change in the fair value of derivatives not qualifying for hedge accounting (before credit value adjustment)	15.4	(20.5)
Credit value adjustment on derivatives not qualifying for hedge accounting	2.3	-
	17.7	(20.5)

10. Finance costs

	2014 £m	2013 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	1.4	1.8
Bond and related costs including financing expenses	30.5	31.6
Other finance costs	2.0	4.0
	33.9	37.4

Other finance costs includes the effect of unwinding the discount on amounts payable after more than one year.

Notes forming part of the consolidated accounts
(Continued)

11. Tax

	2014 £m	Restated 2013 £m
Corporation Tax		
Current tax	32.5	34.4
Adjustments in respect of prior year	(0.6)	(1.9)
	31.9	32.5
Deferred tax (see note 22)	(3.7)	2.9
	28.2	35.4

Corporation tax is calculated at 23% (2013: 24%) 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:

	2014 £m	%	Restated 2013 £m	%
Profit on ordinary activities before tax	157.5		160.8	
Tax on profit on ordinary activities at standard rate in the UK of 23% (2013: 24%)	36.2	23.0%	38.6	24.0%
Tax effect of change in corporation tax from 24% to 23% from 1 April 2013	-	-	(4.5)	(2.8%)
Tax effect of change in corporation tax from 23% to 20% from 1 April 2015	(13.7)	(8.7%)	-	-
Patent box	(0.9)	(0.6%)	-	-
Profit on disposal	(0.6)	(0.4%)	-	-
Goodwill impairment	7.4	4.7%	-	-
Tax effect of prior year adjustments	(1.0)	(0.6%)	1.9	1.2%
R&D expenditure increased deductions	-	-	(1.3)	(0.8%)
Other permanent differences	0.8	0.5%	0.7	0.4%
Tax charge for year at an effective tax rate of 17.9% (2013: 22.0%)	28.2	17.9%	35.4	22.0%
Deferred tax (credit)/charge taken directly to equity (see note 22)	(13.1)		7.6	

Notes forming part of the consolidated accounts
(Continued)

12. Dividends

	2014 £m	2013 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of 32.51 pence per share (2013: 20.97 pence per share) paid in May 2013	46.5	30.0
Second interim dividend of 10.84 pence per share (2013: 6.99 pence per share) paid in November 2013	15.5	10.0
	62.0	40.0

In May 2014, the Board declared an interim dividend for the year ending 31 March 2015 of 35.65 pence per share, totalling £51.0m which was paid in June.

13. Goodwill

	£m
Cost	
At 31 March 2013 and 31 March 2014	351.0
Accumulated impairment losses	
At 31 March 2013	-
Impairment losses for the year	32.0
At 31 March 2014	32.0
Carrying amount	
At 31 March 2014	319.0
At 31 March 2013	351.0

The group 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 UK Air Traffic Services and North Atlantic Air Traffic Services, representing the cash generating units, including opportunities for outperformance of regulatory settlements and market premia for economically regulated businesses (assumed at 7-8%, 2013: 10%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of Reference Period 2 (31 December 2019 for UK Air Traffic Services and 31 March 2020 for North Atlantic Air Traffic Services) as assumed in the group's business plans, and a terminal value at that date, reflecting the regulatory asset bases of £1,174.8m (2013: £1,214.7m) and a market premium which is assessed annually. The company's business plans reflect the outcome of the latest price control review which included forecasts of traffic volumes reflecting the current economic environment. The discount rate is a pre-tax nominal rate of 10.28% (2013: 9.74%) for cash flows arising in the current control period and 9.87% for cash flows arising in Reference Period 2. See note 3.

Notes forming part of the consolidated accounts
(Continued)

14. 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 2012	140.3	41.1	21.0	145.7	348.1
Additions internally generated	3.3	-	0.3	11.6	15.2
Additions externally acquired	2.0	2.3	0.1	29.2	33.6
Disposals during the year	-	(0.3)	(0.9)	(0.1)	(1.3)
Other transfers during the year	24.0	3.3	0.7	(26.0)	2.0
At 1 April 2013	169.6	46.4	21.2	160.4	397.6
Additions internally generated	2.5	0.6	0.1	19.8	23.0
Additions externally acquired	2.0	3.2	0.2	40.7	46.1
Other transfers during the year	6.3	8.3	1.2	(14.1)	1.7
At 31 March 2014	180.4	58.5	22.7	206.8	468.4
Accumulated amortisation					
At 1 April 2012	38.1	20.6	11.3	16.3	86.3
Charge for the year	18.0	5.5	1.7	-	25.2
Provisions for impairment	-	0.3	-	0.4	0.7
Utilisation of impairment provision	-	(0.3)	-	(0.1)	(0.4)
Disposals during year	-	(0.1)	(0.9)	-	(1.0)
At 1 April 2013	56.1	26.0	12.1	16.6	110.8
Charge for the year	17.8	8.1	1.8	-	27.7
Utilisation of impairment provision	-	-	-	(0.1)	(0.1)
At 31 March 2014	73.9	34.1	13.9	16.5	138.4
Carrying amount					
At 31 March 2014	106.5	24.4	8.8	190.3	330.0
At 31 March 2013	113.5	20.4	9.1	143.8	286.8

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

Notes forming part of the consolidated accounts
(Continued)

15. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2012	230.9	49.0	1,157.1	19.8	79.5	1,536.3
Additions during the year	3.5	3.2	25.4	0.3	47.7	80.1
Disposals during the year	(2.6)	-	(10.7)	(1.5)	-	(14.8)
Other transfers during the year	7.0	0.5	44.2	0.1	(53.8)	(2.0)
At 1 April 2013	238.8	52.7	1,216.0	18.7	73.4	1,599.6
Additions during the year	2.6	0.6	33.3	0.1	24.0	60.6
Disposals during the year	(4.4)	(1.0)	(48.4)	(0.2)	-	(54.0)
Other transfers during the year	3.0	0.5	44.0	1.1	(50.3)	(1.7)
At 31 March 2014	240.0	52.8	1,244.9	19.7	47.1	1,604.5
Accumulated depreciation and impairment						
At 1 April 2012	98.2	34.7	764.5	10.9	0.1	908.4
Provided during the year	7.3	2.0	68.2	1.6	-	79.1
Provisions for impairment	-	-	0.1	-	-	0.1
Utilisation of impairment provision	-	-	(0.1)	-	0.3	0.2
Disposals during the year	(2.6)	-	(10.6)	(1.5)	-	(14.7)
At 1 April 2013	102.9	36.7	822.1	11.0	0.4	973.1
Provided during the year	7.6	2.1	66.5	1.8	-	78.0
Provisions for impairment	-	-	2.0	-	-	2.0
Utilisation of impairment provision	-	-	-	-	-	-
Disposals during the year	(4.4)	(0.9)	(47.2)	(0.2)	-	(52.7)
At 31 March 2014	106.1	37.9	843.4	12.6	0.4	1,000.4
Carrying amount						
At 31 March 2014	133.9	14.9	401.5	7.1	46.7	604.1
At 31 March 2013	135.9	16.0	393.9	7.7	73.0	626.5

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £2.0m (2013: £0.8m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full.

During the year the group capitalised £1.2m (2013: £1.5m) of general borrowing costs at a capitalisation rate of 1.9% (2013: 2.1%), in accordance with IAS 23: *Borrowing Costs*.

Notes forming part of the consolidated accounts
(Continued)

16. Financial and other assets

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

Trade and other receivables

	2014 £m	2013 £m
Non-current		
Other debtors	0.5	0.8
Prepayments	1.6	0.1
Accrued income	68.1	58.5
	70.2	59.4
Current		
Receivable from customers gross	74.3	63.1
Allowance for doubtful debts	(4.8)	(5.1)
	69.5	58.0
Amounts recoverable under contracts	0.9	1.0
Other debtors	7.2	4.5
Prepayments	12.6	8.4
Accrued income	93.8	111.2
	184.0	183.1

The average credit period taken on sales of services is 32 days (2013: 29 days). Interest is charged by Eurocontrol to UK en route customers at 10.89% (2013: 11.57%) 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 £4.8m (2013: £5.1m). Full provision is made for receivables from UK en route customers that are overdue. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation or where there is evidence of a reduction in the recoverability of the cash flows.

Accrued income which is non-current represents revenues earned in the previous Control Period (CP2), regulatory adjustments for calendar year 2013 and the period January to March 2014 which will be recovered through 2015 and 2016 charges. Accrued income which is current includes unbilled revenues for services provided in March 2014 and regulatory adjustments for calendar year 2012.

Notes forming part of the consolidated accounts
(Continued)

16. Financial and other assets (continued)

Ageing of past due but not impaired trade receivables

	2014 £m	2013 £m
31-90 days	0.3	0.4
91-365 days	0.9	2.0
> 365 days	0.6	0.3
	1.8	2.7

Movement in the allowance for doubtful debts

	2014 £m	2013 £m
Balance at the beginning of the year	5.1	4.6
Increase in allowance recognised in the income statement	0.3	1.0
Foreign exchange movement in the year	(0.1)	-
Release of provision	-	(0.1)
Amounts written off as irrecoverable	(0.5)	(0.4)
Balance at end of year	4.8	5.1

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 include within UK en route annual revenue allowances of £1.0m to cover bad debts. 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 £3.2m (2013: £3.6m) 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

	2014 £m	2013 £m
31-90 days	0.2	0.5
91-365 days	0.6	1.0
> 365 days	4.0	3.6
	4.8	5.1

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 group 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 £481.3m (2013: £462.1m).

Notes forming part of the consolidated accounts
(Continued)

17. Borrowings

Secured loans at amortised cost	**2014 £m**	**2013 £m**
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	527.5	555.7
Bank loans (variable rate revolving term loan and revolving credit facility expiring 2016)	127.0	136.0
Gross borrowings	654.5	691.7
Unamortised bond issue costs	(3.6)	(4.2)
Unamortised bank facility arrangement fees	(1.7)	(2.3)
	649.2	685.2
Amounts due for settlement within 12 months	28.6	27.2
Amounts due for settlement after 12 months	620.6	658.0

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 £127.0m made by NERL under its £275.0m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and by NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is c. £1,391m (2013: £1,419m), including the carrying amount of balance sheet goodwill of £319.0m.

The average effective interest rate on the bank loans in the year was 1.5% (2013: 1.8%) and was determined based on LIBOR rates plus a margin and utilisation fee.

Costs associated with the issue of the £600m bond are being amortised over the life of the bond. Costs incurred to refinance bank facilities are being amortised over the facility term.

Undrawn committed facilities	**2014 £m**	**2013 £m**
Undrawn committed facilities expire as follows:		
> two years	148.0	139.0

At 31 March 2014, NERL had outstanding drawings of £127.0m on its committed bank facilities. These facilities expire in December 2016.

NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2014 and 31 March 2013 and is not included in the table above.

Notes forming part of the consolidated accounts
(Continued)

18. Derivative financial instruments

Fair value of derivative financial instruments

	2014 £m	2013 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.4	1.6
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.3)	(0.8)
Non-current liabilities		
Derivative financial instruments classified as held for trading		
Index-linked swaps	(128.9)	(146.6)
	(129.2)	(147.4)

Further details on derivative financial instruments are provided in note 19. The index-linked swap is classified under international accounting standards as held for trading as it does not qualify for hedge accounting. The index-linked swap was taken out in August 2003 to hedge against the risk of low inflation and previously qualified as a hedge under UK generally accepted accounting principles prior to the group's adoption of international accounting standards.

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments

Capital risk management

The group manages its capital to ensure that entities in the group are able to continue as going concerns, to ensure that NERL is able to meet its obligations under the air traffic services licence, for NATS Services to meet obligations to its customers and to fund returns to shareholders.

The capital structure of the group consists of debt as disclosed in note 17, cash and cash equivalents and short term investments, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

External capital requirements

NERL's 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 group to target a credit profile for NERL that exceeds BBB-/Baa3.

As at 31 March 2014, NERL had a corporate rating of AA- (negative outlook) from Standard & Poor's (2013: AA- negative outlook) and A2 (stable outlook) from Moody's (2013: A2 stable outlook).

Gearing ratio

The group does not seek to maintain a target gearing level at group level but rather sets a gearing target for NERL, the economically regulated subsidiary, based on a ratio of net debt to its Regulatory Asset Base (RAB). Following the price control review for the years 2011 to 2014, the CAA has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement for NERL to remedy the position if this cap is exceeded. NATS Services and NATS Limited, the group's intermediate holding company, have no borrowings.

Significant accounting policies

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

Categories of financial instrument

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

	2014 £m	2013 £m
Financial assets		
Loans and receivables, excluding prepayments and accrued income	78.8	64.3
Cash and cash equivalents and short term investments	241.3	228.1
Derivative financial instruments in designated hedge accounting relationships	0.4	1.6
	320.5	294.0
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.3)	(0.8)
Derivative financial instruments classified as held for trading	(128.9)	(146.6)
Other financial liabilities at amortised cost	(678.9)	(714.9)
	(808.1)	(862.3)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding accruals and deferred income and including tax and social security), the bond and bank borrowings (excluding unamoritsed bond issue costs and bank facility arrangement fees).

The index-linked swap is categorised as held for trading. The gain on the movement in its market value of £17.7m has been recorded in the income statement in the year (2013: £20.5m loss).

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Financial risk management objectives

The group's treasury function is mandated by the Board to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets three times a year to approve strategy and to monitor compliance with Board policy. The treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the group's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk. NATS Limited and NATS Services had no borrowings. The principal financial risk in these entities is credit risk. Specific policies on interest rate and liquidity risk management apply principally to NERL.

Market risk

The group'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 group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:
- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in Euro, and purchases from foreign suppliers settled in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- index-linked swaps to mitigate the risk of low inflation.

Foreign currency risk management

The group's principal exposure to foreign currency transaction risk is in relation to UK en route services revenue, accounting for 67% of the group's turnover (2013: 66%). 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 NERL, forward foreign currency contracts are entered into. NERL seeks to hedge 95% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a monthly basis.

The group also enters into contracts for the purchase and sale of goods and services with overseas suppliers and customers who operate in foreign currencies. 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 group's foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2014	2013	2014	2013
	£m	£m	£m	£m
Euro	86.8	92.2	(12.4)	(11.3)
US Dollar	0.2	0.1	(0.1)	(0.1)
Canadian Dollar	0.1	-	(0.2)	(0.2)
Qatari Riyal	2.4	1.5	-	(0.2)
Kuwaiti Dinar	0.2	0.3	-	-
Singapore Dollar	0.1	0.1	-	-
Norwegian Krone	-	0.2	(0.1)	(0.2)
Danish Krone	0.1	0.1	-	(0.1)
	89.9	94.5	(12.8)	(12.1)

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Foreign currency sensitivity analysis

The group holds foreign currency cash balances of £5.3m at 31 March 2014 (2013: £11.2m) in Euro, US Dollars, Canadian Dollars, Qatari Riyals, Kuwaiti Dinar and Danish Krone.

The following table details the group's sensitivity to a 10% increase or decrease in the value of sterling against relevant foreign currencies. 10% is the sensitivity rate that represents 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 (to the nearest £0.1m). 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	2014 Impact £m	2013 Impact £m
Euro	6.3	4.1
Canadian Dollar	(0.3)	(0.1)
Qatari Riyal	(0.2)	0.4
	5.8	4.4

The group's sensitivity to the Euro increased during the year reflecting a net reduction in Euro monetary assets and a net increase in Euro denominated forward contracts taken out to hedge future receipts. Exposure to other currencies has remained fairly constant. NATS believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Notes forming part of the consolidated accounts
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19. Financial instruments (continued)

Forward foreign exchange contracts

The group entered into forward foreign exchange contracts to sell Euro forecast to be received from Eurocontrol in respect of UK en route revenues and to sell other currencies it will receive on its overseas contracts. In addition, the group entered into other forward foreign exchange contracts to fund purchases of equipment. The group has designated these forward contracts as cash flow hedges. The following contracts were outstanding at year end:

2014			Average exchange rate
Euro sold	**£m**	**€m**	
0-3 months	144.4	174.3	0.8285
Euro bought	**€m**	**£m**	
0-3 months	6.3	5.3	0.8361
Over 3 months	1.6	1.3	0.8268
	7.9	6.6	0.8352
US Dollar bought	**US$m**	**£m**	
0-3 months	0.1	0.1	1.6592
Canadian Dollar bought	**C$m**	**£m**	
0-3 months	1.5	0.8	1.8244
Over 3 months	3.3	1.8	1.8503
	4.8	2.6	1.8422
Qatari Riyal sold	**£m**	**QARm**	
0-3 months	0.2	1.1	6.0519
Over 3 months	-	-	n/a
	0.2	1.1	6.0519
Qatari Riyal bought	**QARm**	**£m**	
0-3 months	-	-	n/a

2013			Average exchange rate
Euro sold	**£m**	**€m**	
0-3 months	125.8	147.5	0.8528
Euro bought	**€m**	**£m**	
0-3 months	3.5	2.9	0.8500
Over 3 months	1.2	1.0	0.8293
	4.7	3.9	0.8393
US Dollar bought	**US$m**	**£m**	
0-3 months	-	-	n/a
Canadian Dollar bought	**C$m**	**£m**	
0-3 months	0.4	0.2	1.5985
Over 3 months	1.7	1.1	1.6057
	2.1	1.3	1.6045
Qatari Riyal sold	**£m**	**QARm**	
0-3 months	0.5	2.7	5.7526
Over 3 months	5.0	28.6	5.7002
	5.5	31.3	5.7047
Qatari Riyal bought	**QARm**	**£m**	
0-3 months	2.7	0.5	5.5550

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

	2014				2013		
Kuwati Dinar sold	£m	KWDm	Average exchange rate	Kuwati Dinar sold	£m	KWDm	Average exchange rate
0-3 months	-	-	n/a	0-3 months	0.2	0.1	0.4538
Over 3 months	-	-	n/a	Over 3 months	0.1	0.1	0.4537
	-	-	n/a		0.3	0.2	0.4862

Norwegian Krone bought	NOKm	£m		Norwegian Krone bought	NOKm	£m	
0-3 months	0.9	0.1	9.0079	0-3 months	-	-	n/a

Danish Krone bought	DKKm	£m		Danish Krone bought	DKKm	£m	
0-3 months	-	-	n/a	0-3 months	1.3	0.1	9.2176
Over 3 months	-	-	n/a	Over 3 months	0.7	0.1	9.2112
	-	-	n/a		2.0	0.2	9.2154

At 31 March 2014, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.3m (2013: £0.5m unrealised gain). The majority of these contracts will mature within the first three months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2014 to sell Euro anticipated to be received in July 2014 in respect of UK en route revenues. The value of these cash flows is £57.8m. These contracts are also designated as cash flow hedges. They are not included in the table above.

Interest rate risk management

The group 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, which are kept under continuous review, are specific to NERL. NATS Services and NATS Limited had no borrowings at 31 March 2014 (2013: £nil).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL 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 group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2014 (2013: none).

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19. Financial instruments (continued)

Economic interest rate exposure

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

2014

	Cash			Short term deposits			
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Total £m**
Sterling	206.3	0.4	7	29.7	0.5	183	236.0
Euro	4.7	-	1	-	-	-	4.7
US Dollar	0.1	-	1	-	-	-	0.1
Canadian Dollar	0.1	-	1	-	-	-	0.1
Qatari Riyal	0.2	-	1	-	-	-	0.2
Kuwaiti Dinar	0.1	-	1	-	-	-	0.1
Danish Krone	0.1	-	1	-	-	-	0.1
	211.6			29.7			241.3

2013

	Cash			Short term deposits			
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Total £m**
Sterling	186.8	0.4	11	30.1	0.4	186	216.9
Euro	10.5	-	5	-	-	-	10.5
US Dollar	0.1	-	5	-	-	-	0.1
Qatari Riyal	0.1	-	5	-	-	-	0.1
Kuwati Dinar	0.2	-	5	-	-	-	0.2
Norwegian Krone	0.2	-	5	-	-	-	0.2
Danish Krone	0.1	-	5	-	-	-	0.1
	198.0			30.1			228.1

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

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

The economic interest rate exposure of the group's 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 rate is fixed years
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	527.5	-	-	527.5	5.26%	6.1
Bank loans	127.0	127.0	-	-	1.50%	0.4
Total	654.5	127.0	-	527.5		
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	555.7	-	-	555.7	5.27%	7.0
Bank loans	136.0	136.0	-	-	1.49%	0.5
Total	691.7	136.0	-	555.7		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time rate is fixed years
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	327.5	-	-	327.5	5.27%	6.1
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.86%	0.5
Bank loans	127.0	127.0	-	-	1.50%	0.4
Total	654.5	127.0	200.0	327.5		
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	355.7	-	-	355.7	5.28%	7.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.72%	0.5
Bank loans	136.0	136.0	-	-	1.49%	0.5
Total	691.7	136.0	200.0	355.7		

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

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of group 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.

	2014		2013	
	£m		£m	
Net debt	407.9		457.1	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	323.9	79.4	351.5	76.9
Index-linked	200.0	49.0	200.0	43.8
Floating (net of cash, short term investments and facility costs)	(116.0)	(28.4)	(94.4)	(20.7)
	407.9	100.0	457.1	100.0

At 31 March 2014, NERL had net debt, including an intercompany loan of £22.5m, of £570.5m (2013: net debt £605.5m), NATS Limited held cash balances of £5.6m (2013: cash £5.8m), NATS Services had cash of £134.0m (2013: cash £119.9m), NATSNav had cash of £0.4m (2013: cash £0.2m) and NATS (USA) Inc had cash of £0.1m (2013: cash £nil).

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of NERL net debt, reflecting the application of the interest rate risk management policies that are specific to NERL.

	2014		2013	
	£m		£m	
Net debt	570.5		605.5	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	323.9	56.8	351.5	58.1
Index-linked	200.0	35.1	200.0	33.0
Floating (net of cash, short term investments and facility costs)	46.6	8.1	54.0	8.9
	570.5	100.0	605.5	100.0

In order to reduce its exposure to interest rate risk on its cash balances, NERL adopts 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 a reasonably possible change in interest rates.

The following table shows the effect of a 1% increase in interest rates on the group's 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.

	2014 Impact	2013 Impact
	£m	£m
Cash on deposit (2014: £241.3m, 2013: £228.1m)	2.4	2.3
Borrowings (2014: £127.0m, 2013: £136.0m)	(1.3)	(1.4)
	1.1	0.9

Overall the group's sensitivity to interest rates is slightly higher than prior year, reflecting increased cash and reduced borrowing levels.

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation. To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, NERL 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 3.43% 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 certain of NERL's inflation-linked revenues.

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

Inflation rate sensitivity analysis

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

	2014 Impact £m	2013 Impact £m
Change in swap interest and mark to market value	(23.2)	(29.3)

The mark to market value of the index-linked swap is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £10.9m (2013: £14.1m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 16. With regard to funds or contracts held with financial institutions, the group's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's and Fitch Ratings.

The group's policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's and Moody's; the Fitch rating is only used if one of these agencies does not provide a rating. Where there is a difference in the rating then the lowest of the ratings is applied.

Currently, the group's investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch and A3 and A1 respectively from Moody's. However, dependent on market conditions, tighter restrictions on rating requirements and lower limits maybe placed on the duration of deposits. Money market fund investments are restricted to AAA-rated liquidity funds.

The table below sets out the investment limits that are applied to each institution based on its credit rating:

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

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

	2014			2013		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	4	55.3	22.9	4	60.6	26.6
AA-	4	80.0	33.2	3	45.5	20.0
A+	3	42.4	17.6	7	78.1	34.2
A	7	54.2	22.4	4	31.5	13.8
A-	2	9.4	3.9	3	12.4	5.4
		241.3	100.0		228.1	100.0

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity risk management, the risk that the group will have insufficient funds to meet its obligations as they fall due, rests with the Board with oversight provided by the Treasury Committee. The group manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows, including contributions to the defined benefit pension scheme, and ensuring funding is diversified by source and maturity and available at competitive cost. Specific liquidity policies are maintained for NERL, NATS Services and NATS Limited had no debt at the year end.

With regard to NERL, the group's 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 £29.7m used to fund interest, fees and bond amortisation payments scheduled in the next 6 months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;

b. ensure access to bank facilities sufficient to meet 110% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. At 31 March 2014 NERL had access to bank facilities totalling £275m available until 21 December 2016. The new facilities comprise a £245m revolving term loan facility and a £30m revolving credit facility;

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 started to amortise in 2012 and has a final maturity date of 2026 and by having available shorter dated committed bank facilities.

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

	2014 £m	2013 £m
Average monthly UK en route services income	51.2	49.3
Free cash at 31 March	50.2	50.8
Ratio of free cash to UK en route services income	1.0	1.0

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

	2014 £m	2013 £m
Bank borrowings	127.0	136.0
Gross borrowings	654.5	691.7
Bank borrowings as a percentage of gross borrowings	19.4%	19.7%

It is company policy not to issue new guarantees in respect of the borrowings of subsidiaries or to allow the creation of any new mortgages or other charges over group assets.

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Maturity of borrowings

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

	2014			2013		
	Secured loans £m	Other liabilities £m	Total £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	60.1	24.4	84.5	60.2	23.2	83.4
Between one and two years	60.1	-	60.1	60.4	-	60.4
Due between two and five years	329.9	-	329.9	333.6	-	333.6
Due in more than five years	412.7	-	412.7	478.0	-	478.0
	862.8	24.4	887.2	932.2	23.2	955.4
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(213.6)	-	(213.6)	(247.0)	-	(247.0)
	649.2	24.4	673.6	685.2	23.2	708.4

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

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19. Financial instruments (continued)

The following table sets out the maturity profile of the group's derivative financial liabilities. Cash flows under the index-linked swap are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the index-linked swap have been derived from the group'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	Due between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2014					
Net settled:					
Index-linked swap receivable/(payable)	2.0	1.7	(22.7)	(142.6)	(161.6)
Gross settled:					
Foreign exchange forward contract receivables	153.9	-	-	-	153.9
Foreign exchange forward contract payables	(153.7)	-	-	-	(153.7)
	2.2	1.7	(22.7)	(142.6)	(161.4)
2013					
Net settled:					
Index-linked swap receivable/(payable)	2.3	2.1	(8.4)	(144.1)	(148.1)
Gross settled:					
Foreign exchange forward contract receivables	137.7	-	-	-	137.7
Foreign exchange forward contract payables	(136.3)	-	-	-	(136.3)
	3.7	2.1	(8.4)	(144.1)	(146.7)

Notes forming part of the consolidated accounts
(Continued)

19. Financial instruments (continued)

Fair value measurements

The information set out below provides information about how the group determines fair values of various financial assets and financial liabilities.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements recognised on the balance sheet

	2014				2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.4	-	0.4	-	1.6	-	1.6
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.3)	-	(0.3)	-	(0.8)	-	(0.8)
Derivative financial instruments classified as held for trading	-	(128.9)	-	(128.9)	-	(146.6)	-	(146.6)
	-	(129.2)	-	(129.2)	-	(147.4)	-	(147.4)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

The fair value of the financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of the financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling;
- the fair value of the index-linked swap is calculated by adding a credit value adjustment to an amount provided by bank counterparties using proprietary financial models. This is validated using discounted cash flow modelling and observable forward inflation indices at the reporting date and contracted inflation rates, discounted at a rate that reflects the credit risk of the various counterparties. The credit value adjustment is determined by the group to reflect own credit risk by reference to bank margins appropriate to NERL's credit rating; and
- the fair value of the £600m bond has been derived from its externally quoted price.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m
Financial liabilities				
£600m 5.25% Guaranteed Secured Amortising Bond	(527.5)	(555.7)	(593.4)	(661.0)

Notes forming part of the consolidated accounts
(Continued)

20. Financial and other liabilities

Trade and other payables

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

	2014 £m	2013 £m
Current		
Trade payables	11.9	11.8
Other payables	2.0	1.4
Tax and social security	10.5	10.0
Accruals and deferred income		
- Deferred grants	0.8	0.8
- Other	99.9	103.4
	125.1	127.4
Non-current		
Accruals and deferred income		
- Deferred grants	6.0	7.0
- Other	30.2	16.6
	36.2	23.6
	161.3	151.0

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 33 days (2013: 32 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Notes forming part of the consolidated accounts
(Continued)

21. Provisions

	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2013	1.6	0.6	6.6	8.8
Additional provision in the year	41.4	-	2.9	44.3
Release of provision in the year	-	(0.1)	(0.1)	(0.2)
Utilisation of provision	(16.1)	(0.3)	-	(16.4)
At 31 March 2014	26.9	0.2	9.4	36.5

	Total £m
Amounts due for settlement within 12 months	28.1
Amounts due for settlement after 12 months	8.4
	36.5

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the group's redundancy programme at 31 March 2014. The ageing of the provision reflects the expected timing of employees leaving the group.

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

The other provisions represent the best estimate of other liabilities. These include the contractual obligation to reinstate leased properties to the same condition as at inception of the lease. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

Notes forming part of the consolidated accounts
(Continued)

22. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits[1] £m	Financial instruments £m	Other £m	Total £m
At 1 April 2012	120.6	(9.1)	(15.0)	(2.4)	94.1
(Credit)/charge to income	(0.4)	4.8	(2.3)	0.8	2.9
Charge to equity	-	7.5	0.1	-	7.6
At 31 March 2013	120.2	3.2	(17.2)	(1.6)	104.6
At 1 April 2013	120.2	3.2	(17.2)	(1.6)	104.6
(Credit)/charge to income	(18.1)	7.3	7.5	(0.4)	(3.7)
Credit to equity	-	(13.0)	(0.1)	-	(13.1)
At 31 March 2014	102.1	(2.5)	(9.8)	(2.0)	87.8

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*.

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.

	2014 £m	2013 £m
Deferred tax liabilities	(102.1)	(123.4)
Deferred tax assets	14.3	18.8
	(87.8)	(104.6)

Notes forming part of the consolidated accounts
(Continued)

23. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2014 and 31 March 2013	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2014 and 31 March 2013	54,272,594	43.4	12,048,193	9.6
		187.5		140.6

Special share

The authorised and issued share capital of NATS Holdings Limited includes one special rights redeemable preference share with a nominal value of £1. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:
- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

If an attempt is made to approve any of these events or to pass a resolution to wind up the company at a general meeting, on an ordinary resolution the special shareholder will have no less than one vote more than the total number of all other votes cast and, on a special resolution, he shall have no less than one vote more than 25% of the total votes cast.

24. Share premium account

	£m
Balance as at 31 March 2014 and 31 March 2013	0.4

Notes forming part of the consolidated accounts
(Continued)

25. Notes to the cash flow statement

	2014 £m	Restated 2013 £m
Operating profit from continuing operations	167.5	215.1
Adjustments for:		
Impairment of goodwill	32.0	-
Depreciation of property, plant and equipment	78.0	79.1
Amortisation of intangible assets	27.7	25.2
Impairment losses	2.0	0.8
Deferred grants released	(0.7)	(0.8)
Profit on disposal of property, plant and equipment	(4.2)	-
R&D above the line revenue adjustment	(0.5)	-
Adjustment for pension funding	(32.1)	(20.5)
Operating cash flows before movements in working capital	269.7	298.9
Increase in trade and other receivables	(3.2)	(27.8)
Increase in trade, other payables and provisions	28.8	12.1
Cash generated from operations	295.3	283.2
Tax paid	(32.0)	(27.6)
Net cash from operating activities	263.3	255.6

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 3 months or less.

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26. Financial commitments

	2014 £m	2013 £m
Amounts contracted but not provided for in the accounts	44.8	52.5
Minimum lease payments under operating leases recognised in the income statement	23.5	22.7

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

	2014 £m	2013 £m
Within one year	23.6	23.8
In the second to fifth years inclusive	61.5	70.8
After five years	31.6	35.8
	116.7	130.4

Operating lease payments represent rentals payable by the group 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 (MoD) in relation to NERL's performance under its contract with the MoD.

As part of the tendering process for new contracts, the NATS group may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2014 was £4.6m (2013: £6.4m).

Notes forming part of the consolidated accounts
(Continued)

27. Share based payments

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

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

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2014	No. employee shares outstanding at 31 March 2013
Free share awards			
21 September 2001	3,353,742	443,320	490,211
20 October 2003	2,459,000	414,934	454,534
10 September 2004	1,966,000	661,039	748,977
11 January 2008	1,071,840	550,080	636,520
18 September 2009	963,200	738,820	777,400
Partnership shares			
1 March 2011	694,783	611,041	639,335
1 September 2012	714,959	672,112	703,452
Matching shares			
1 March 2011	694,783	611,041	639,335
1 September 2012	714,959	672,112	703,452
		5,374,499	5,793,216
Dividend shares issued on 28 June 2005	247,017	52,978	57,812
Total employee shares in issue at 31 March		5,427,477	5,851,028

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

	Movement in the no. of shares during the year ended 31 March 2014	Movement in the no. of shares during the year ended 31 March 2013
Balance at 1 April	5,851,028	4,870,370
Granted during the year	-	1,429,918
Forfeited during the year	(9,443)	(10,811)
Exercised during the year	(414,108)	(438,449)
Balance at 31 March	5,427,477	5,851,028

These shares are valued every 6 months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2014 the price of an employee share was valued at £4.50 (2013: £3.95). A valuation at 30 June 2013 valued the shares at £4.10. The liability on the balance sheet for the employee shares at 31 March 2014 was £21.7m (2013: £17.4m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £1.7m (2013: £1.7m).

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes

Defined contribution scheme
The group provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The scheme was established on 1 April 2009 for staff who joined from that date. The assets of the scheme are held separately from those of the group in funds under the control of a board of Trustees.

The group operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. NATS matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2014 employer contributions of £3.9m (2013: £2.7m), excluding employee salary sacrifice contributions of £2.0m (2013: £1.4m), represented 13.6% of pensionable pay (2013: 13.5%).

The defined contribution scheme had 672 members at 31 March 2014 (2013: 622).

Defined benefit scheme
NATS Limited, the company's wholly-owned subsidiary, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within CAAPS. CAAPS was divided into 2 sections to accommodate this and a series of common investment funds was established in which both sections participate for investment purposes. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chairman.

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

During 2009 the group introduced a number of reforms to manage the cost and risk of pensions. The defined benefit pension scheme was closed to new joiners with effect from 31 March 2009. In addition, from 1 January 2009, annual increases in pensionable salaries were limited to a maximum increase in the retail prices index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners (see above). Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

During 2013 the group consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on annual increases in pensionable salaries to a maximum of the consumer prices index (CPI) plus 0.25%. In addition, the Trustees consulted members of the scheme on a change to the indexation of future service at CPI, rather than RPI. These reforms were agreed by staff.

The defined benefit scheme had the following membership at 31 March:

	2014 No.	2013 No.
Active members	3,711	3,890
Deferred members	1,089	1,067
Pensioners	2,154	2,026
	6,954	6,983

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

Trustees' funding assessment

A Trustees' funding assessment of the NATS section is prepared at least every 3 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 the future.

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2012 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 pensionable salaries and pensions. For the purpose of the Trustees' funding assessment, it was assumed that the annual investment returns before retirement will be 3.37% higher than the annual general increases in pensionable salaries (allowance is also made for further salary increases due to promotions) and the annual investment returns for pensions in payment will be 0.22% higher than the annual increases in pensions.

The market value of the NATS' section's assets as at 31 December 2012 was £3,527.5m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £382.6m, corresponding to a funding ratio of 90.2%.

The 2012 valuation showed that, based on long term financial assumptions, the contribution rate required to meet future benefit accrual for RPI-linked benefits was 39.0% of pensionable salaries (33.3% employers and 5.7% employees) and for the CPI-linked benefits which accrue from 1 November 2013 was 34.4% of pensionable salaries (28.7% employers and 5.7% employees). In addition, NATS makes payments to the scheme to cover administration costs, including the Pension Protection Fund (PPF) levy, of 0.7% of pensionable salaries.

Contributions to the pension scheme

Following the 2012 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2023. Under the schedule of contributions, normal contributions are paid at 36.7% of pensionable pay until 31 December 2014 and at 29.4% from 1 January 2015 to 31 December 2023. Deficit recovery contributions for the period 1 April 2013 until 31 December 2013 were made at £2.1m per month and are being made at £2.2m per month for calendar year 2014. These will then be made at £2.4m per month for calendar year 2015 and increase by 2.37% annually thereafter.

During the year the group paid cash contributions to the scheme of £145.4m (2013: £142.3m). This amount included £15.6m (2013: £15.3m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 46.0% (2013: 45.9%) of pensionable pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2015 is £137.7m, including salary sacrifice contributions estimated at £15.5m.

Contributions to the scheme are ultimately funded by NATS' two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls.

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

Company's accounting valuation under international accounting standards

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 IAS 19: *Employee Benefits*.

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2012, 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.

On transition to IFRS, NATS elected to adopt a 'clean start' approach which recognised all actuarial gains and losses at 1 April 2004, and NATS has reported under an immediate recognition approach in subsequent periods. If an accounting valuation reveals a surplus at the balance sheet date, this is recognised in full to the extent that it can be realised in full by the company.

The Trustees' funding assessment was carried out as at 31 December 2012 and updated to 31 March 2014 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:

	2014	2013	2012
RPI Inflation	3.35%	3.35%	3.25%
CPI Inflation	2.35%	2.45%	n/a
Increase in:			
- salaries	2.60%	2.70%	3.25%
- deferred pensions	3.35%	3.35%	3.25%
- pensions in payment	3.35%	3.35%	3.25%
Expected return on:			
- equities	n/a	n/a	7.10%
- property and other assets	n/a	n/a	6.60%
- bonds	n/a	n/a	3.45%
Discount rate for net interest expense (for 2012, for scheme liabilities)	4.50%	4.45%	5.05%

The mortality assumptions have been drawn from actuarial tables 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long term improvement of 1.5% p.a. (2013: 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long term improvement of 1.5% p.a). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 30.9 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.2 years and for females to 32.7 years.

An adjustment is applied to past and future service liabilities as an allowance for members electing to take some of their benefits as cash at retirement.

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

The principal risks to the financial performance of the company arising from the scheme are in respect of:

a. asset volatility: for accounting purposes, scheme liabilities are determined using a discount rate set by reference to high quality corporate bond yields. If scheme assets under-perform relative to this yield, this will create a deficit. As explained below, NATS and Trustees are reviewing measures to de-risk the scheme by investing more in assets which better match the liabilities.

b. changes in bond yields: a decrease in the yield on high quality corporate bonds will increase scheme obligations, although this is partly mitigated by an increase in the value of the scheme's holdings of bonds.

c. inflation risk: the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the scheme's assets (such as equities) are real in nature and so provide some inflation protection, but overall, an increase in inflation will adversely impact on the funding position.

d. life expectancy (mortality): the majority of the scheme's obligations are to provide benefits for the life of a member, so an increase in life expectancy will result in an increase in the scheme's obligations.

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

Assumption:	**Change in assumption:**	**Impact on scheme liabilities:**
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 11.0%/increase by 12.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.6%/decrease by 11.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.8%/decrease by 3.5%
Rate of mortality	1 year increase in life expectancy	Increase by 2.3%

Each sensitivity above is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognised on the balance sheet.

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

	2014 £m	**Restated 2013 £m**
Current service cost	(113.5)	(122.0)
Past service cost	(1.9)	(1.4)
Net interest expense	3.9	1.6
Administrative expenses	(1.8)	-
Components of defined benefit costs recognised within operating profit	(113.3)	(121.8)

Administrative expenses for 2013 were included in current service cost above, and within benefits paid in the movement in fair value of scheme assets below.

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

Remeasurements recorded in the statement of comprehensive income are as follows:

	2014 £m	Restated 2013 £m
Return on plan assets (excluding amounts included in net interest expense)	71.0	266.8
Actuarial gains and losses arising from changes in financial assumptions	45.2	(391.5)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(174.6)	156.0
	(58.4)	31.3

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

	2014 £m	Restated 2013 £m
Present value of defined benefit obligations	(4,178.7)	(3,859.1)
Fair value of scheme assets	4,166.4	3,873.1
(Deficit)/surplus in scheme	(12.3)	14.0

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

	2014 £m	Restated 2013 £m
At 1 April	(3,859.1)	(3,415.1)
Current service cost	(113.5)	(122.0)
Past service costs	(1.9)	(1.4)
Interest expense on defined benefit scheme obligations	(169.6)	(170.4)
Actuarial gains and losses arising from changes in financial assumptions	45.2	(391.5)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(174.6)	156.0
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	94.9	85.4
At 31 March	(4,178.7)	(3,859.1)

The average duration of the scheme's liabilities at the end of the year is 24.3 years (2013: 25.7 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2014 £m	Restated 2013 £m
Active members	2,317.8	2,154.0
Deferred members	291.7	278.0
Pensioners	1,569.2	1,427.1
	4,178.7	3,859.1

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

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

	2014 £m	Restated 2013 £m
At 1 April	3,873.1	3,377.3
Interest income on scheme assets	173.5	172.0
Return on plan assets (excluding amounts included in net interest expense)	71.0	266.8
Contributions from scheme members	0.1	0.1
Contributions from sponsoring company	145.4	142.3
Benefits paid	(94.9)	(85.4)
Administrative expenses	(1.8)	-
At 31 March	4,166.4	3,873.1

The major categories of scheme assets were as follows:

	2014 £m	Restated 2013 £m
Cash and cash equivalents	122.7	130.0
Equity instruments		
– UK	302.2	994.5
– Europe	87.8	277.3
– North America	257.0	307.9
– Japan	36.4	147.3
– Pacific (excluding Japan)	103.1	70.5
– Emerging markets	321.5	70.7
– Global	595.8	193.3
	1,703.8	2,061.5
Bonds		
– Corporate bonds	855.2	565.3
– Index-linked gilts over 5 years	692.6	678.5
	1,547.8	1,243.8
Other investments		
– Property	258.5	197.3
– Hedge funds	181.8	167.4
– Global tactical asset allocation	104.1	94.9
– Private equity funds	118.0	113.6
	662.4	573.2
Derivatives		
– Futures contracts	129.7	(135.4)
	4,166.4	3,873.1

Notes forming part of the consolidated accounts
(Continued)

28. Retirement benefit schemes (continued)

The scheme assets do not include any investments in the equity or debt instruments of group companies or any property or other assets used by the group.

Virtually all equity and debt instruments have quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the assets consist of equities and bonds, although the scheme also invests in property, cash and investment (private equity and hedge) funds.

NATS Limited and Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

At NATS' request, Trustees have also considered further de-risking over time to protect the scheme from the impact of volatility in the value of return-seeking assets. This would involve progressively converting from return-seeking assets into hedging assets to increase the level of matching of the scheme's liabilities. As changing the mix of assets changes the returns achieved, this would impact on contributions payable. Before implementing this strategy, NATS and Trustees will consult with the CAA and NATS' customers. The strategy will aim to maintain an appropriate balance between the potential impact on contributions and the reduction in volatility of return-seeking assets, and therefore reduced investment risk.

Derivative instruments are used by investment managers to reduce risk or gain exposure to investment classes without the requirement to hold the underlying investment. Trustees monitor derivative positions to ensure that, when combined with the underlying physical position, the aggregate falls within specified investment guidelines.

The actual return on scheme assets for the year ended 31 March 2014 was £244.5m (2013: £438.8m).

Notes forming part of the consolidated accounts
(Continued)

29. Related party transactions

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

AG is a consortium of eight members: British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, Monarch Airlines Retirement Benefit Plan Limited, Thomas Cook Airline Limited, Thomson Airways Limited, Virgin Atlantic Airways Limited and (as from March 2014) USS Sherwood Limited. AG has a 42% stake in NATS Holdings Limited. The directors of NATS Holdings Limited are satisfied that the eight members of 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.

Contractual arrangements existed during the year between LHR Airports Limited and NATS Services in relation to air navigation services provided at Aberdeen, Glasgow, Heathrow and Southampton airports.

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Trading transactions

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

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
LHR Airports Limited	89.3	95.2	9.9	6.3	7.6	7.7	-	6.0
Ministry of Defence (MoD)	50.1	51.8	3.2	5.0	5.5	5.7	19.5	13.2
The Airline Group	-	-	0.2	0.1	-	-	-	-
Department for Transport (DfT)	0.5	1.8	-	-	-	-	-	-
Meteorological Office	0.7	-	0.6	0.6	-	-	-	0.1

Sales are made to related parties at the group'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 (2013: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

Notes forming part of the consolidated accounts
(Continued)

29. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures*. Key management includes the Board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee report.

	2014 £m	2013 £m
Short term employee benefits	5.9	6.4
Post-employment benefits	1.2	1.1
Other long term benefits	0.9	0.5
Termination benefits	0.1	-
	8.1	8.0

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30. Subsidiaries, joint ventures and associates

The group's principal subsidiaries at 31 March 2014, all of which have been consolidated in these accounts were:

Name of company	Principal activity	Proportion of ordinary shares held	Proportion of voting rights held	Country of registration	Country of operation
NATS Limited*	Corporate services	100%	100%	England and Wales	United Kingdom
NATS (En Route) plc	En route air traffic services	100%	100%	England and Wales	United Kingdom
NATS (Services) Limited	Airport air traffic services	100%	100%	England and Wales	United Kingdom
NATSNav Limited	Satellite based navigation	100%	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited	Corporate trustee of employee share plan	100%	100%	England and Wales	United Kingdom
NATS (USA) Inc	Engineering and ATM consultancy	100%	100%	USA	USA
NATS Sverige AB	Airport air traffic services	100%	100%	Sweden	Sweden

* NATS Limited is held directly by NATS Holdings Limited. Other investments are held by subsidiaries.

The group had one associate and one joint venture as at 31 March 2014, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
ESSP SAS	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA	Airport air traffic services	28 January 2011	50.0%	Spain

Notes forming part of the consolidated accounts
(Continued)

30. Subsidiaries, joint ventures and associates (continued)

Summarised financial information relating to the associate and joint venture

ESSP SAS

On 1 September 2008, the group acquired 16.67% of the issued share capital of ESSP SAS for cash consideration of €0.2m (£0.1m).

The associate is accounted for using the equity method. Pursuant to the shareholder agreement, the group has the right to cast 16.67% of the votes at shareholder meetings. The financial year end is 31 December 2013. For the purposes of applying the equity method of accounting, the financial statements of ESSP SAS for the year ended 31 December 2013 have been used (no adjustments are required to be made for the effects of significant transactions between that date and 31 March 2014).

Although the group holds less than 20% of the equity shares of ESSP SAS, the group exercises significant influence by virtue of representation on the Board of directors, participation in policy making decisions of ESSP SAS and the provision of essential technical information to ESSP SAS.

Summarised financial information in respect of ESSP SAS is set out below. These amounts have been prepared in accordance with French GAAP and converted from Euro, ESSP SAS' functional currency.

FerroNATS Air Traffic Services SA

In January 2011, the group acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA for a cash consideration of €0.1m (£0.1m). In June 2011 the group purchased an additional €0.4m (£0.3m) of share capital, maintaining a 50% holding of the issued share capital.

FerroNATS draws up its accounts as at 31 December. For the purpose of these financial statements management accounts have been used to derive its performance as at 31 March 2014.

During the year the group provided loan finance of €0.85m (£0.7m) in April 2013 and a further €0.45m (£0.4m) in December 2013 to FerroNATS. In December 2013 €0.5m (£0.4m) of these loans was converted to equity.

Notes forming part of the consolidated accounts
(Continued)

30. Subsidiaries, joint ventures and associates (continued)

The summarised financial information above is reconciled to the carrying amount recognised in the consolidated financial statements as follows:

	Associate ESSP 2014 £m	Joint venture FerroNATS 2014 £m	Associate ESSP 2013 £m	Joint venture FerroNATS 2013 £m
Current assets	19.0	4.0	16.0	1.7
Non-current assets	0.4	1.5	0.4	1.0
Current liabilities	(14.3)	(3.1)	(11.5)	(2.0)
Non-current liabilities	-	(1.1)	-	-
Net assets of associate/joint venture	5.1	1.3	4.9	0.7
Group share	1.0	0.6	0.9	0.3
Revenue	38.9	7.8	33.4	1.1
Profit/(loss) after tax for the year	1.6	(0.1)	1.2	(2.7)
Group share	0.3	(0.1)	0.2	(1.4)
Dividends received	(0.2)	-	-	-

31. Events after the reporting period

In May 2014, the Board declared an interim dividend for the year ending 31 March 2015 of 35.65 pence per share, totalling £51.0m which was paid in June.

Company balance sheet

Balance sheet
at 31 March

	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Net assets		141.0	141.0
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings		-	-
Total equity		141.0	141.0

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 26 June 2014 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Company statement of changes in equity

Statement of changes in equity
at 31 March

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 April 2012	140.6	0.4	-	141.0
Profit for the year	-	-	40.0	40.0
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	40.0	40.0
Dividends paid	-	-	(40.0)	(40.0)
At 31 March 2013	140.6	0.4	-	141.0
At 1 April 2013	140.6	0.4	-	141.0
Profit for the year	-	-	62.0	62.0
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	62.0	62.0
Dividends paid	-	-	(62.0)	(62.0)
At 31 March 2014	140.6	0.4	-	141.0

Notes forming part of the company accounts

Notes to the financial statements

1. Cash flow statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are designated as held to maturity and stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year.

Profit for the year has been arrived at after charging:

	2014 £m	2013 £m
Staff costs	-	-
Auditor's remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2013: £nil).

Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the period:		
First interim dividend of 32.51 pence per share (2013: 20.97 pence per share) paid in May 2013	46.5	30.0
Second interim dividend of 10.84 pence per share (2013: 6.99 pence per share) paid in December 2013	15.5	10.0
	62.0	40.0

Notes forming part of the company accounts
(Continued)

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2014 and 1 April 2013	141.0

The company's investments in subsidiary undertakings are part of the group's principal subsidiaries as set out in note 30 to the consolidated financial statements.

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

5. Share capital and share premium accounts

The movements on these items are disclosed in the consolidated statement of changes in equity and notes 23 and 24 of the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2014 (2013: £nil).

7. Ultimate controlling party

The ultimate controlling party of NATS Holdings Limited is The Airline Group Limited, a company incorporated in Great Britain and registered in England and Wales.

8. Events after the reporting period

In May 2014, the Board declared an interim dividend for the year ending 31 March 2015 of 35.65 pence per share, totalling £51.0m which was paid in June.


NATS

Appendix

Abbreviations and definitions

2013	Financial year ended 31 March 2013
2014	Financial year ended 31 March 2014
3Di	3 Dimensional Inefficiency Score
A-CDM	Airport Collaborative Decision Making
AG	The Airline Group Limited
ANS	Air Navigation Service
ANSP	Air Navigation Service Provider
ATC	Air Traffic Control
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
BAT	Barometric Pressure Setting Advisory Tool
CAA	Civil Aviation Authority
CAAPS	Civil Aviation Authority Pension Scheme
CANSO	Civil Aviation Navigation Services Organisation
CEO	Chief Executive Officer
CP2	Control Period 2 (2006-2010)
CP3	Control Period 3 (2011-2014)
CPI	Consumer Prices Index
CPRP	Company Performance Related Pay
DCIS	Data Communication Integrated Services
DfT	Department for Transport
EC	European Commission
EU	European Union
FAA	Federal Aviation Administration
FAB	Functional Airspace Block
FAS	Future Airspace Strategy
FEP	Fuel Efficiency Partnership
IAA	Irish Aviation Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IATA	International Air Transport Association
IFR	Instrument Flight Rules
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ISO	International Organisation for Standardisation
KPI	Key Performance Indicator
LAMP	London Airspace Management Programme
LHRA	LHR Airports Limited
LIBOR	London Interbank Offered Rate
LTIP	Long Term Incentive Plan
MAG	Manchester Airports Group
MoD	Ministry of Defence
NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
NATS (Services)	NATS (Services) Limited
NATSNav	NATSNav Limited
NERL	NATS (En Route) plc
NESL	NATS Employee Sharetrust Limited
NHL	NATS Holdings Limited
OPA	Operational Partnership Agreement
PCS	Public and Commercial Services Union
PPP	Public Private Partnership
RAB	Regulatory Asset Base
RAT	Risk Analysis Tool
RP1	Reference Period 1 (2012-2014)
RP2	Reference Period 2 (2015-2019)
RPI	Retail Prices Index
SES	Single European Sky
SESAR	SES ATM Research
SPA	Strategic Partnership Agreement
SSE	Safety Significant Event
STATFOR	Eurocontrol Statistics and Forecast Service
TANS	Terminal Air Navigation Services
USS	USS Sherwood Limited