

NATS

Annual Report and Accounts 2015

NATS Holdings Limited

Company Number: 04138218



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Strategic Report



Our business

Who we are

NATS Holdings Limited (NATS) is an Air Traffic Control (ATC) services provider which owns two principal operating subsidiaries: NATS (En Route) plc and NATS (Services) Limited.

NATS (En Route) plc (NERL) is our core business and the sole provider of ATC services for aircraft flying 'en route' in UK airspace and the eastern part of the North Atlantic. It is regulated by the Civil Aviation Authority (CAA) within the 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 ATC centres; Swanwick in Hampshire and Prestwick in Ayrshire.

NATS (Services) Limited (NATS Services) provides ATC at 14 UK airports, and to Gibraltar and RAF Wattisham under the UK military's Project Marshall contract. It also provides engineering, consultancy (including training) and aviation information management services to UK and overseas customers and to the UK military. FerroNATS, a joint venture with Ferrovial Servicios SA, provides air traffic services at 9 airports in Spain. Aquila, a joint venture with Thales UK Limited, is fulfilling the Project Marshall contract.

NATS' vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance. We keep the skies safe and deliver the best possible customer experience.

Our business



Our services

- Airports
- Airspace
- Consultancy
- Defence
- Engineering
- Information

Our customers

- Airlines
- Airports
- ANSPs
- Governments
- Military

Our purpose: To keep the skies safe and deliver the best possible customer experience

Highlights

Financial

(£m unless otherwise specified)	2015	2014	Change %	
Revenue	922.4	917.6	+0.5	1 Operating profit before the cost of redundancy and goodwill impairment
Operating profit before exceptional items ¹	252.8	240.3	+5.2	2 Excludes derivative financial instruments
Operating profit	226.6	167.5	+35.3	3 Ratio of the net debt to regulatory assets of the economically regulated business (NERL)
Profit before tax	200.3	157.5	+27.2	
Capital expenditure	153.5	129.7	+18.4	
Net debt ²	378.7	407.9	-7.2	
Gearing ³ (%)	53.4	54.0	-1.1	
Dividends	77.0	62.0	+24.2	

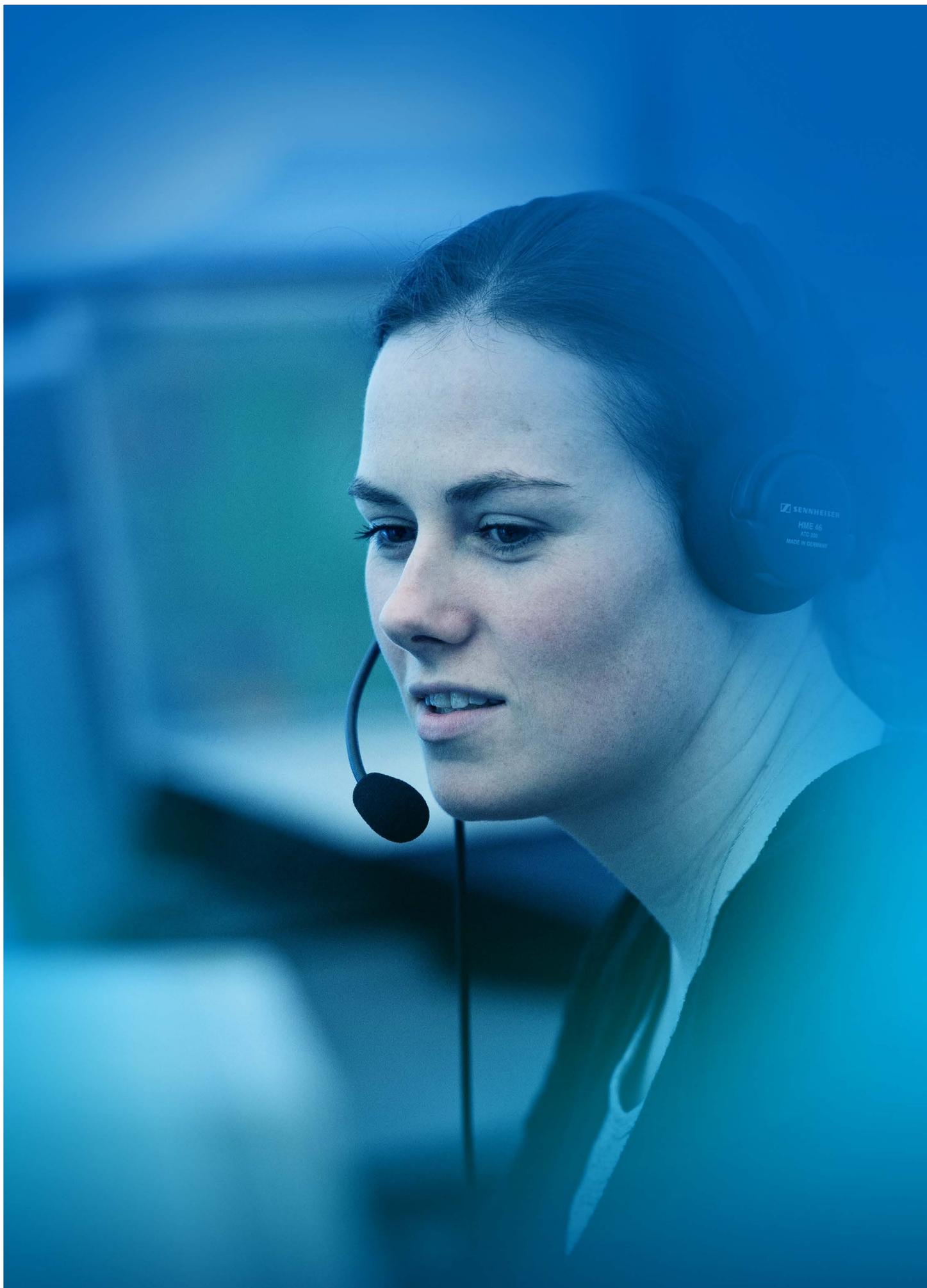
Operational

- > This year we handled 2.22 million flights (2014: 2.16 million) and maintained our safety record with one risk-bearing Airprox¹ attributable to NATS. The average ATC delay per flight attributable to NATS was 2.4 seconds (2014: 5.5 seconds).
- > We enabled a 4.3% reduction in CO₂ emissions on average per flight during the 2014 calendar year (against a 2006 baseline), exceeding our target of 4.0%. This represents an annual saving of almost 1 million tonnes of CO₂, which equates to around £117m in fuel savings to our airline customers.

Business developments

- > The European Commission confirmed that the joint UK-Ireland Performance Plan for Reference Period 2: 2015–2019 (RP2) is consistent with European Union-wide performance targets. This Plan, which determines the revenue allowances for Airspace (excluding the North Atlantic), delivers significant operational benefits to customers and real price reductions of about 21%.
- > The Ministry of Defence awarded the 22-year Project Marshall contract worth £1.5bn for the provision of military Air Traffic Management (ATM) and modernisation of air traffic infrastructure to Aquila, NATS' joint venture with Thales.
- > NATS Airports successfully renewed ATC contracts with Manchester Airport Group for Manchester and Stansted, extended the Luton contract and entered into a strategic partnership agreement with Heathrow. However, Birmingham took its service in-house in April 2015 and the Gatwick service was lost to a competitor and will transfer in March 2016.

¹ 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.



Chairman's statement



I am pleased to present my first statement as Chairman. My predecessor, John Devaney, retired in August after nine years. On behalf of the Board, I would like to thank him for his significant contribution over this period.

In May 2015, Richard Deakin stood down as Chief Executive Officer after five years. During that time, Richard led NATS through a period of continued operational and financial improvement. Under his leadership the company has delivered high levels of safety and service as well as a strong financial performance for our shareholders. When I became Chairman in September of last year, we were coming to the end of a five-year programme of operational improvement and the regulatory period (CP3/RPI). As the company embarks on the new regulatory period and prepares to implement the Single European Sky initiative, the Board and Richard have agreed that now is an appropriate time to make a change to the leadership of the company, and to bring a new perspective and approach. I would like to thank Richard and wish him well in the future. To ensure continuity, NATS' Managing Director of Operations Martin Rolfe has been appointed to the role. The Board has instigated a search process to identify and appoint a successor from both internal and external candidates.

I have been immensely impressed by the commitment and professionalism of everyone I have met at NATS. There is a clear focus on safety and a real drive for excellence in customer service.

Safety and performance

During the year, NATS provided customers with a safe and very efficient operational service with no ATC delay attributable to NATS for 99.8% of flights. However, a technical failure at our Swanwick Control Centre in December led to intense media and public focus on our service following a more significant but unrelated failure in the previous year. This prompted an independent enquiry, whose findings were made public in May 2015. The Board is pleased that the report acknowledged that safety was not compromised at any time and recognised the quality and timeliness of NATS' response. NATS accepts the majority of the enquiry's recommendations. On behalf of the Board, I apologise for the inconvenience caused to passengers and our customers as a result of this failure.

Profit before tax was £200m compared with £158m in 2014. This reflected strong underlying financial and operational performance coupled with a reduction in exceptional charges, which had a significant impact on the prior year. The economically regulated service achieved an average pre-tax real return of just over 8% for Control Period 3 (2011–2014) compared with the regulatory return of 6.76% assumed in the regulatory settlement. The company also paid dividends of £77m (2014: £62m).

Chairman's statement

(continued)

Business developments

NERL is the core of NATS' operations and represents more than 75 per cent of our revenue. Its safe and efficient operation is vital to the operation of UK airspace (in the UK, NATS Services compliments this by delivering efficient tower services at the largest airports). I am therefore pleased that the European Commission has endorsed our ambitious plan for NERL's UK en route service for RP2. This aims to maintain our high levels of safety and service, while handling projected traffic increases of 13%, together with real price reductions for NERL's customers of over 21% by the end of 2019. This will be very challenging as we seek to achieve this alongside the deployment of new Single European Sky (SES) technology. If traffic forecasts and other regulatory assumptions are achieved, NERL will earn revenues in RP2 approaching £3bn with a regulatory return of just under 6% (pre-tax real).

Turning to NATS Services, I am delighted with the award by the Ministry of Defence (MOD) of Project Marshall to our Aquila joint venture. This contract offers a genuine transformation for the provision of the UK's military ATM service, which will help achieve significant cost savings while upgrading its infrastructure.

This year Gatwick Airport Limited decided to award its air traffic control contract to one of our competitors, with the transition planned for March 2016. We were disappointed to lose this contract after many years of service during which we have played a key part in increasing capacity and efficiency at Gatwick airport. We are restructuring the cost base of NATS Services to make it more competitive.

Internationally, we are focusing our efforts on the Middle East and Asia Pacific – two regions where our skills and experience can help ATC providers cope with a significant growth in air traffic.

Board – other changes

Dr Harry Bush CB and Mr Will Facey joined the Board during the year. Dr Bush brings a deep knowledge of economic regulation and Mr Facey an airline customer perspective. Chris Bennett, Warwick Brady and Mike Powell left this year, and I thank them for their contribution.

Employees

The most important investment that a company can make is in its people. There is no doubt in my mind that NATS' success reflects the talent and commitment of its workforce. On behalf of the Board, I would like to thank them all.

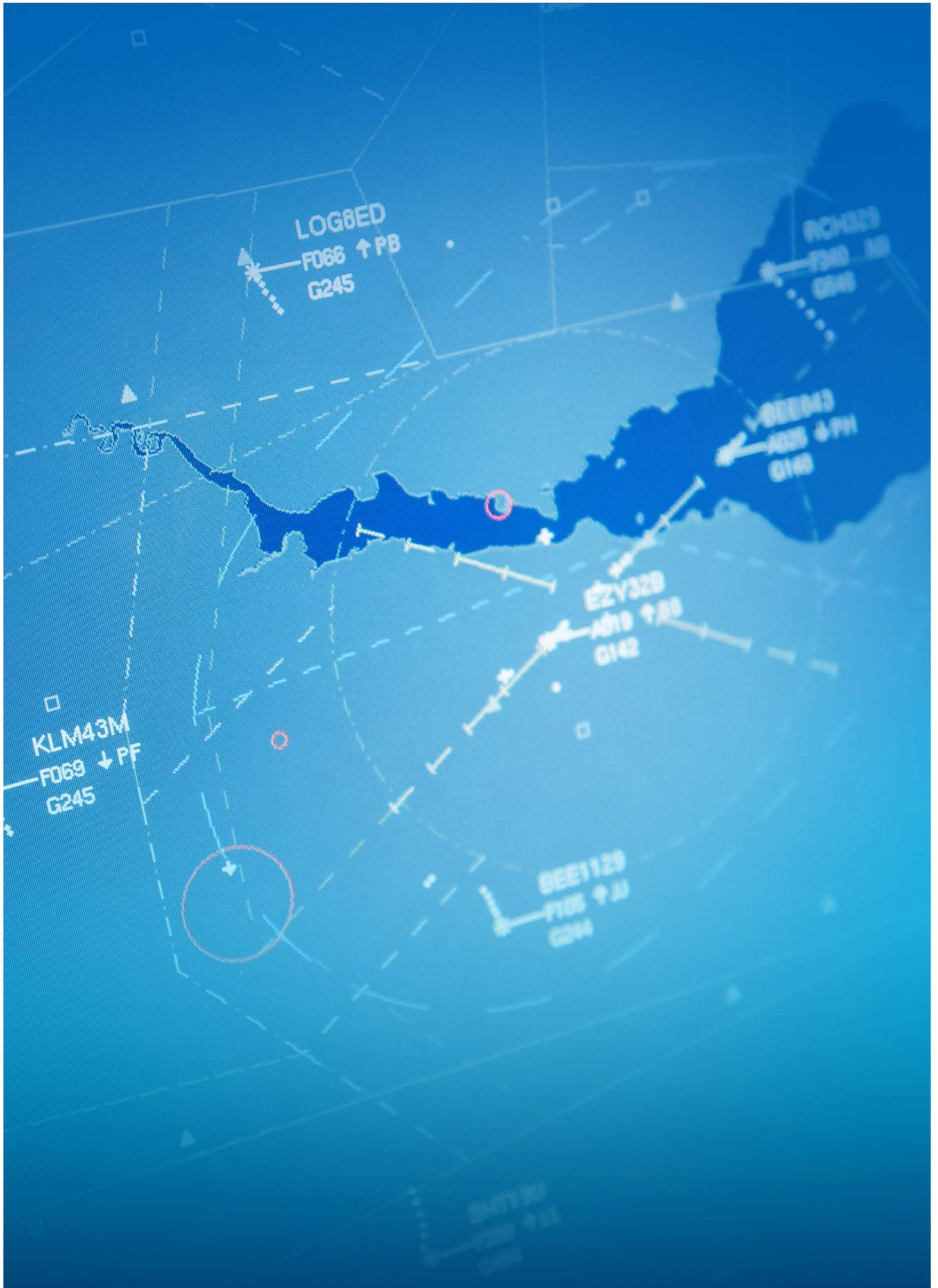
Outlook for 2016

Overall we expect a reduction in the group's revenue and profit margins over the medium term, following the RP2 price reductions, and as we respond to the increasingly competitive UK airport market. Also, taking into account other cost pressures including higher pension accounting costs and depreciation charges, group profit before tax is likely to be much lower in 2016.

We will continue to influence the development of air traffic services in Europe through engagement with our industry partners on deploying SES technology and in developing free route airspace through our Borealis Alliance with other ATC service providers.



Dr Paul Golby, CBE
Chairman



Chief Executive's review



I am pleased to report that 2014/15 was a year of good operational and financial performance on which to end the regulatory reference period². I would like to thank NATS staff for their support in achieving this outcome.

We handled 2.22 million flights carrying over 240 million

passengers, maintained our excellent safety record and outperformed our regulatory service targets for capacity. Overall, Air Traffic Flow Management (ATFM) delay³ was 2.4 seconds per flight (2014: 5.5 seconds), which was ten times better than the European average.

We also enabled a 4.3% reduction in CO₂ per flight in calendar year 2014, worth around £117m in annual fuel savings to customers. This exceeded the 4% commitment we made at the start of Control Period 3 (CP3).

We continued to innovate to enhance our service, with notable examples including: Time Based Separation (TBS) which has been used to improve landing rates and reduce delay when faced with strong headwinds at Heathrow; an arrivals management tool (XMAN) to reduce holding time and fuel burn for Heathrow arrivals by slowing aircraft en route up to 350 miles out; and Direct Route Airspace (DRA) in two sectors of airspace which offers airlines the opportunity to flight plan routes that better suit them.

Between now and 2020, a major focus for the business will be the deployment of new technology and operational procedures to deliver further safety, capacity, environmental and efficiency benefits to our stakeholders. This programme of work is known as Deploying SESAR⁴ and we plan to accelerate the delivery of it ahead of the mandated European requirements.

In parallel, through the Borealis Alliance with eight European air navigation service providers, we are aiming to extend the airspace for flight plan direct routing from the eastern

boundary of the North Atlantic to the western boundary of Russian airspace in the North of Europe. This will provide significant savings in fuel and CO₂ emissions to customers.

Our profit before tax was £200.3m (2014: £157.5m), which was £42.8m higher than the previous year. Our underlying performance remained strong and our results benefited from far lower exceptional charges for goodwill impairment and redundancy. The principal factors affecting our performance are explained in the Financial review and Review of service line performance sections of this report.

During the year, we secured or renewed UK and overseas orders worth about £1.1bn. About 30% of this relates to work we will perform for our Aquila joint venture for its Project Marshall contract. Awarded by the MOD, Project Marshall is a £1.5bn 22-year contract to modernise military air traffic provision and infrastructure at airbases in the UK and around the world. Progress in other areas is discussed in the Review of service line performance.

We faced a number of challenges in the year. The RP2 settlement, finalised last year, is even more challenging than the plan we previously recommended to our customers during the consultation process; we lost the Gatwick tower contract to a competitor; and our UK en route service suffered a technical failure in December 2014. The latter resulted in air traffic delays as we reduced the number of aircraft in UK airspace in order to maintain safety. This delay directly affected around 350 flights with a further 150 flights cancelled. I very much regret the disruption this caused to the public and to our customers. The event cost NATS £0.5m in service incentives.

The UK airport tower contract market is increasingly competitive. This year, after a competitive tender, Gatwick airport awarded the ATC contract to a competitor. This was very disappointing. NATS has provided the service for more than 30 years and achieved 55 runway movements per hour, making it the best performing single-runway operation in the world.

² The CAA's regulatory review for Control Period 3 covered the four calendar years 2011 to 2014. From January 2012 NERL's UK en route service was economically regulated under the Single European Sky performance scheme. Its first Reference Period covered the three calendar years: 2012 to 2014.

³ 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.

⁴ Single European Sky ATM Research Programme

Chief Executive's review

(continued)

To ensure we are better placed to defend our UK contracts and focus our resources where our proposition has most impact, we are re-organising NATS Services to make it more competitive through headcount reductions and site rationalisation.

Priorities for 2016

We expect more changes in NATS in the next five years than over the previous ten years, particularly as we integrate new technology into our operation. To meet these and other challenges, our priorities for next year include:

- > **Safety:** continuing to reduce safety risk and providing safety assurance on the deployment of new technology.
- > **Environment:** improving arrival and departures routes and associated procedures which will enable airline fuel savings.
- > **Airspace:** meeting RP2 performance targets, delivering capital investment programmes, and maximising the benefit of TBS at Heathrow.
- > **Airports:** meeting service performance targets for our UK tower contracts, transitioning the military airfields relating to the Project Marshall contract and transferring Gatwick to the new provider.
- > **Engineering:** starting the modernisation of military infrastructure required for the Project Marshall contract.
- > **Other Services:** continuing excellent service delivery to the MOD and executing existing contracts in the Middle East and Asia Pacific regions.

Our vision and strategy

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

In particular, this means keeping the skies safe and delivering the best possible customer experience.

Our business is founded on three values:

- > **Safety:** safe in everything we do;
- > **Customers:** delivering service excellence and further improved environmental performance; and
- > **People:** valuing the difference we can all make.

Our strategy is based on three principles:

- > to defend our existing market position;
- > to grow our business by providing new and innovative products and services; and
- > to develop the capabilities needed to deliver our business ambitions.

To defend our existing market position we must continue to make our customer proposition attractive by focusing on required service levels, our prices and the value we offer. These principles were at the heart of our approach to RP2 as well as key to our discussions with airport customers.

The UK is our core market and we intend to grow our airport tower, engineering and information services and support to the UK military. We will supplement this by taking advantage of overseas opportunities where we can demonstrate our

Chief Executive's review (continued)

value to governments, airlines and airport operators. Our overseas strategy is to focus on those customers and territories most likely to provide long term sustainable business at manageable risk. Our areas of focus are the Middle East, as one of the world's fastest growing aviation hubs, and the Asia Pacific region where rapid growth in the demand for air travel will require airport expansion and advanced airspace management. We now have offices in Dubai, Oman and Singapore to support our customers in these regions.

Our strategy depends on continuing to develop our commercial capabilities and partnerships. Our people strategy focuses on the recruitment, succession planning and talent development required to deliver our strategy.

We also have strategies for safety, the environment and technology which are discussed later in this report.

In conclusion, I am extremely proud of our overall performance last year. Looking to the year ahead we are well positioned to address the challenges that we expect and I am confident that we will continue to deliver the services and value that our many stakeholders rely on.



Martin Rolfe
Chief Executive Officer



Financial review



	2015	2014
	£m	£m
Revenue	922.4	917.6
Operating profit before exceptional items	252.8	240.3
Operating profit	226.6	167.5
Profit before tax	200.3	157.5
Profit after tax	156.9	129.3
Dividends	77.0	62.0

The group reported a profit before tax of £200.3m (2014: £157.5m), an improvement of £42.8m on last year – which included higher charges for redundancy costs (by £31.6m) and goodwill impairment (by £15.0m). Operating profit before exceptional items improved by £12.5m to £252.8m (2014: £240.3m) and reflected the group's strong underlying performance. The latter included a contribution from the Project Marshall contract, a service quality incentive and actions taken in 2014 to restructure the cost base to meet RP2 cost efficiency targets.

	£m	Profit before tax £m
2014 profit before tax		157.5
Revenue changes		
Airspace		
UK en route revenue (allowing for traffic volumes and inflation)	(13.8)	
Service performance incentive	6.7	
Pricing below the revenue cap in 2013/14	3.6	
Other revenue changes (net)	(0.3)	
		(3.8)
Airports		6.3
Engineering		3.3
Other NATS Service lines		(1.0)
Operating cost changes		
Staff costs	15.3	
Non-staff costs (net of other income)	(0.6)	
		14.7
Depreciation and amortisation, net of deferred grants	(3.8)	
Asset impairment charges	1.2	
Disposal of assets	(4.4)	
		(7.0)
Exceptional items:		
Redundancy costs	31.6	
Goodwill impairment	15.0	
		46.6
Net finance cost changes		
Fair value movement on derivative contract	(16.2)	
Other finance costs (net)	(0.9)	
		(17.1)
Share of post-tax results of associates and joint ventures		0.8
2015 profit before tax		200.3

Net finance costs were £17.1m higher at £27.3m (2014: £10.2m) due mainly to the change in the market value of an index-linked swap, explained below.

Financial review

(continued)

Regulatory return

We assess the performance of NERL's regulated activities by reference to the regulatory settlement. For the four years of CP3, NERL achieved a pre-tax real return of just over 8% compared with the regulatory return of 6.76% assumed in the regulatory settlement. This was mainly achieved through service performance incentives and operating cost efficiencies which offset the impact of lower traffic volumes.

The cost of capital for RP2 has been set at 5.86% (pre-tax real) which, together with challenging cost efficiency targets, will result in a reduction in NERL's revenue and is also very likely to result in lower regulatory profit in RP2.

Comparison between reported profit and regulatory return

The profits reported in these financial statements are prepared in accordance with International Financial Reporting Standard (IFRS) and policies described in note 2 to these accounts. As described above, the 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, mainly due to:

- > 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.

This difference in basis explains why NERL's reported operating profit is some £78m higher than its regulatory profit. This regulatory view is set out in NERL's audited published regulatory accounts.

Revenue

Revenue increased by £4.8m to £922.4m (2014: £917.6m). The RP2 settlement, which applied from January 2015, is reducing UK en route revenue allowances but during the year this was offset by the combined effects of air traffic volume growth, service quality incentives, airport contract indexation and the benefit of Project Marshall.

These and other factors are described in the Review of service line performance.

Operating costs

	2015	2014
	£m	£m
Staff costs	(403.8)	(419.1)
Services and materials	(74.7)	(79.3)
Repairs and maintenance	(40.6)	(36.4)
External research and development	(0.1)	(0.1)
Other operating charges	(44.8)	(40.3)
Other operating income	4.1	0.7
	(559.9)	(574.5)
Depreciation and amortisation	(109.6)	(105.7)
Asset impairment	(0.7)	(2.0)
Deferred grants	0.8	0.7
(Loss)/profit on disposal of assets	(0.2)	4.2
Operating costs	(669.6)	(677.3)

Operating costs, before exceptional charges, were £669.6m (2014: £677.3m) or 1.1% lower than the prior year.

The reduction in operating costs was largely due to lower staff costs following headcount reductions from redundancies, lower pension and employee share scheme charges, and more labour capitalised. These factors more than offset the cost of pay awards linked to the Consumer Prices Index (CPI).

Financial review

(continued)

The average number of staff employed during the year was 4,342 (2014: 4,519) and those in post at 31 March 2015 reduced by 3.8% to 4,252 (2014: 4,421).

Pension charges (before redundancy-related past service costs), were £7.2m lower at £110.1m (2014: £117.3m) mainly due to a reduction in the actual accrual rate for the defined benefit pension scheme to 32.5% (2014: 34.0%), before salary sacrifice.

Non-staff costs (net) at £156.1m (2014: £155.4m) were broadly in line with the previous year. Cost increases from network communications, contract staff and legal fees were largely offset by compensation following contract termination. The prior year also included one-off costs to establish the back-up Galileo facility at Swanwick.

Depreciation, amortisation and impairment charges increased in aggregate to £110.3m (2014: £107.7m), in part due to the reassessment of the useful lives of assets to reflect the early deployment of SES technology. This year's result also included a loss on asset disposals of £0.2m (2014: £4.2m profit).

Exceptional charges

The results for the last two years included charges which are exceptional by virtue of their nature and size.

	2015	2014
	£m	£m
Redundancy costs incurred by:		
NERL	-	(40.8)
NATS Services	(9.2)	-
	(9.2)	(40.8)
Goodwill impairment charge	(17.0)	(32.0)
Exceptional items before tax	(26.2)	(72.8)

Exceptional redundancy costs of £9.2m were recognised in 2015 by NATS Services as it reorganises its activities to improve its competitiveness. In the previous year NERL incurred costs of £40.8m, as it reduced its costs to meet the challenging cost efficiency targets set for RP2.

A goodwill impairment charge of £17.0m has also been recognised this year (2014: £32.0m) reflecting the company's assessment of reduced opportunities to outperform regulatory targets in RP2.

The carrying value of goodwill is intrinsically linked to NERL's regulatory settlements and its Regulatory Asset Base (RAB) in particular. NERL's RAB is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. Regulatory depreciation 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. These factors may give rise to goodwill impairment in future years.



Financial review

(continued)

Share of results of joint ventures and associates

	Total	2015 Group's share	Total	2014 Group's share
	£m	£m	£m	£m
Turnover				
FerroNATS	10.4	5.2	7.8	3.9
Aquila	28.0	14.0	-	-
ESSP	49.7	8.3	38.9	6.5
	88.1	27.5	46.7	10.4
Profit after tax				
FerroNATS	0.9	0.5	(0.1)	(0.1)
Aquila	0.3	0.1	-	-
ESSP	2.1	0.4	1.6	0.3
	3.3	1.0	1.5	0.2
Net assets				
FerroNATS	2.0	1.0	1.3	0.6
Aquila	0.5	0.2	-	-
ESSP	5.2	0.9	5.1	1.0
	7.7	2.1	6.4	1.6

The group has recognised £1.0m (2014: £0.2m) in respect of its share of the post-tax profits of its two joint ventures: FerroNATS and Aquila, and its associate European Satellite Services Provider SAS (ESSP). FerroNATS completed the transition of its Spanish airport tower contracts in the previous year. That process required costs to be incurred before the contractual service was provided, resulting in a small start-up loss. The joint venture traded profitably during 2015 as its contracts were revenue generating for the full year.

Aquila was established for the Project Marshall contract, which it won in October 2014, and started to execute that contract in the year. The group also generated income in the year from its ESSP associate, and received a dividend of £0.2m.

Net finance costs

Overall, net finance costs of £27.3m were £17.1m higher than the prior year (2014: £10.2m) which mainly reflected the change in market value of the index-linked swap derivative contract.

The swap was taken out in 2003 as an economic hedge of NERL's revenue allowance for financing charges, which is linked to inflation. It does not qualify for hedge accounting under international accounting standards, and changes in its 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. This year, changes in market conditions resulted in a smaller decrease in the swap's market value liability than the prior year, resulting in a credit of £1.5m (2014: £17.7m credit).

Excluding the swap, net finance costs were £0.9m higher at £28.8m (2014: £27.9m). This mainly reflected the cost of unwinding discounts on non-current assets and liabilities which offset the benefit of lower bond interest costs following repayments of bond principal, and interest earned on cash holdings.

Outlook for 2016

Looking ahead to the 2016 financial year, we expect profit before tax to be much lower than 2015. This is mainly due to the lower prices, higher accounting costs for the defined benefit pension scheme (based on market conditions at 31 March 2015) and higher depreciation charges.

Financial review

(continued)

Taxation

The tax charge of £43.4m (2014: £28.2m) was at an effective rate of 21.7% (2014: 17.9%). This is higher than the headline rate of 21%, mainly reflecting the goodwill impairment charge, which is not tax deductible, partly offset by a patent box claim relating to air traffic control software. The prior year also included the deferred tax impact of the reduction in the corporation tax rate to 20% from April 2015.

NATS taxes generally arise in the UK, though it undertakes business in other countries. Wherever we operate we organise our operations to pay the correct and appropriate amount of tax at the right time, according to relevant national laws, 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 direct and indirect taxes 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.

Balance sheet

	2015	2014
	£m	£m
Goodwill	302.0	319.0
Tangible and intangible fixed assets	977.3	934.1
Other non-current assets	67.4	72.4
Cash and short term deposits	267.0	241.3
Derivatives (net)	(128.6)	(128.8)
Pension scheme deficit	(353.0)	(12.3)
Borrowings	(645.7)	(649.2)
Deferred tax liability	(19.2)	(87.8)
Other net liabilities	(33.5)	(31.1)
Net assets	433.7	657.6

The principal changes in financial position since the prior year have been a deterioration in the defined benefit pension scheme funding position (net of related deferred tax), which is explained below, capital investment of £153.5m in the group's air traffic services infrastructure net of depreciation charges, and retained earnings. Movements in cash and borrowings and derivatives are explained elsewhere in this report.

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2015, measured under international accounting standards and the associated best estimate assumptions, the group's defined benefit scheme was in deficit with liabilities (£5,050.2m) exceeding assets (£4,697.2m) by £353.0m (2014: £12.3m). Shown below is a reconciliation from the prior year.

Defined benefit scheme liability	£m
At 1 April 2014	(12.3)
Charge to income statement	(105.0)
Actuarial gains/(losses):	
– on scheme assets	308.3
– on scheme liabilities	(682.7)
Employer contributions*	138.7
At 31 March 2015	(353.0)
Represented by:	
Scheme assets	4,697.2
Scheme liabilities	(5,050.2)
Deficit	(353.0)

*including salary sacrifice

Given the size of the scheme relative to the group, changes in market conditions can have relatively large impacts on the results and financial position. Although the value of scheme assets increased by 12.7% in the year this was more than offset by the growth in liabilities mainly due to a reduction in real discount rates.

Financial review

(continued)

b. Actuarial – funding basis

The scheme actuary's last triennial valuation was prepared as at 31 December 2012 and reported a scheme deficit of £382.6m. This valuation is for funding purposes and uses assumptions including a margin for prudence and gives rise to a different valuation than that disclosed under international accounting standards. It determines the contributions that NATS is required to make.

Following that triennial valuation, the Trustees and the group agreed a schedule of contributions and a deficit recovery plan. This included deficit repair payments of £26.6m for calendar year 2014 and £28.6m for calendar year 2015. Future service contributions were paid at a rate of 36.7% of pensionable pay (excluding salary sacrifice) until 1 January 2015 when these reduced to 29.4%, reflecting the cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Overall, excluding salary sacrifice contributions of £15.2m (2014: £15.6m) and redundancy past service costs for the defined benefit scheme of £2.2m (2014: £1.9m), the group's contributions in the year of £121.3m (2014: £127.9m) represented 45% of pensionable pay (2014: 46%).

The next triennial valuation is as at 31 December 2015 and may result in a change to the contribution schedule.

The scheme's Trustees are undertaking a liability driven investment programme to hedge the impacts of inflation and interest rates on liabilities. The group also 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.

Net debt

	Cash and short term investments	Borrowings	Net debt
	£m	£m	£m
At 31 March 2014	241.3	(649.2)	(407.9)
Cash flow	25.7	4.8	30.5
Short term deposits	-	-	-
Non-cash movements	-	(1.3)	(1.3)
At 31 March 2015	267.0	(645.7)	(378.7)

At 31 March 2015, borrowings were £645.7m (2014: £649.2m) and cash and investments increased to £267.0m (2014: £241.3m). Net debt decreased by £29.2m to £378.7m (2014: £407.9m).

Cash flow

	2015	2014
	£m	£m
Net cash from operating activities	283.8	263.3
Net cash used in investing activities	(146.1)	(117.8)
Net cash used in financing activities	(112.0)	(131.9)
Increase in cash and cash equivalents	25.7	13.6
Cash and cash equivalents at end of year	237.3	211.6

Cash and cash equivalents increased by £25.7m to £237.3m (2014: £211.6m).

Net cash from operating activities at £283.8m was £20.5m higher than last year (2014: £263.3m). The group spent less in the year on operating costs and contributed less (in absolute terms) to pensions due to staff reductions. In part this was offset by higher redundancy payments and taxes, and lower receipts.

Financial review

(continued)

The cash from operations helped the group to finance a higher level of capital investment, to service debt obligations and pay dividends. The group drew down £25.0m on its bank facilities in the year (2014: repaid £9.0m).

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 2015 had access to £123.0m of undrawn committed bank facilities that are available until December 2016. The group's forecasts and projections, which reflect its expectations 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 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, the group 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 2015.



Nigel Fotherby
Finance Director



Key performance indicators

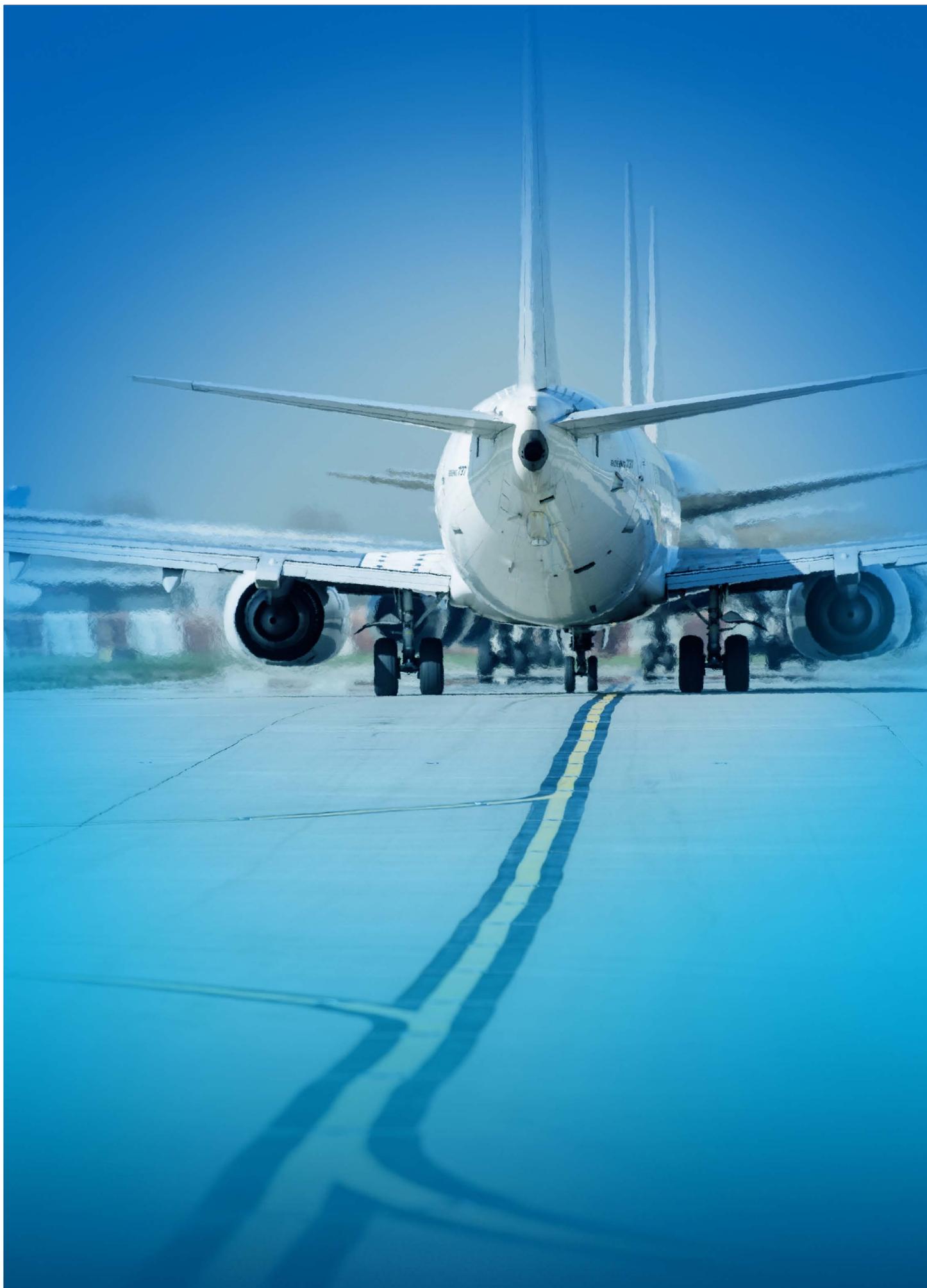
We adopt a number of financial and non-financial Key Performance Indicators (KPIs) that enable us to track progress against our business plan objectives and which are relevant to the different activities of our principal operating subsidiaries: NERL and NATS Services. For NERL, KPIs are largely aligned with 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 and so align incentives with business objectives and strategy.

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

Description	As at 31 March 2015	As at 31 March 2014
Financial KPIs		
Profit before tax: NATS group	£200.3m	£157.5m
NERL	£172.7m	£133.9m
NATS Services	£27.9m	£23.3m
Non-financial KPIs		
Safety: NATS group KPI		
10% reduction in Weighted SSE Index over CP3, all events (cumulative % reduction)	40%	21%
Category A or B Airprox ¹ attributable to NERL or NATS Services	1	1
Service performance and resilience:		
NERL KPIs		
T1: Average delay (seconds per flight, calendar year)	2.2	5.2
T2: Impact score (weighted seconds per flight, calendar year)	4.2	3.8
T3: Variability score (weighted seconds per flight, calendar year)	195.2	3,784.4
T4: 3 Dimensional Flight Efficiency Metric (3Di) score (calendar year)	23.2	23.7
Customer satisfaction score (%)	84%	83%
NATS Services KPIs		
Average delay per flight (seconds, financial year)	0.2	0.1
ATC service delivery events (number)	7	8
ATC asset non-availability (hours)	20	15
Environmental performance: NATS group KPI		
4% enabled CO ₂ reductions by 31 December 2014 (cumulative % reduction vs 2006 baseline)	4.3%	2.2%

¹ defined in the Safety section of the Strategic Report



Safety, regulatory and economic environment

Safety

Safety performance

Our priority is the safety of aircraft and the travelling public. Our commitment to improving operational safety performance is embedded in our RP2 plan which targets a reduction in safety risk (defined as the accident risk per flight) of 13% by 2020, in line with predicted traffic growth.

In 2011 we targeted a 10% reduction in the Weighted Safety Significant Event (SSE)⁵ Index by December 2014. We exceeded this target, with a 40% reduction over the 4 year period.

This year there was one category B Airprox⁶ event attributable to NATS (2014: one). The overall number of Airprox events was 37 in 2015 (2014: 43), with four attributable to NATS.

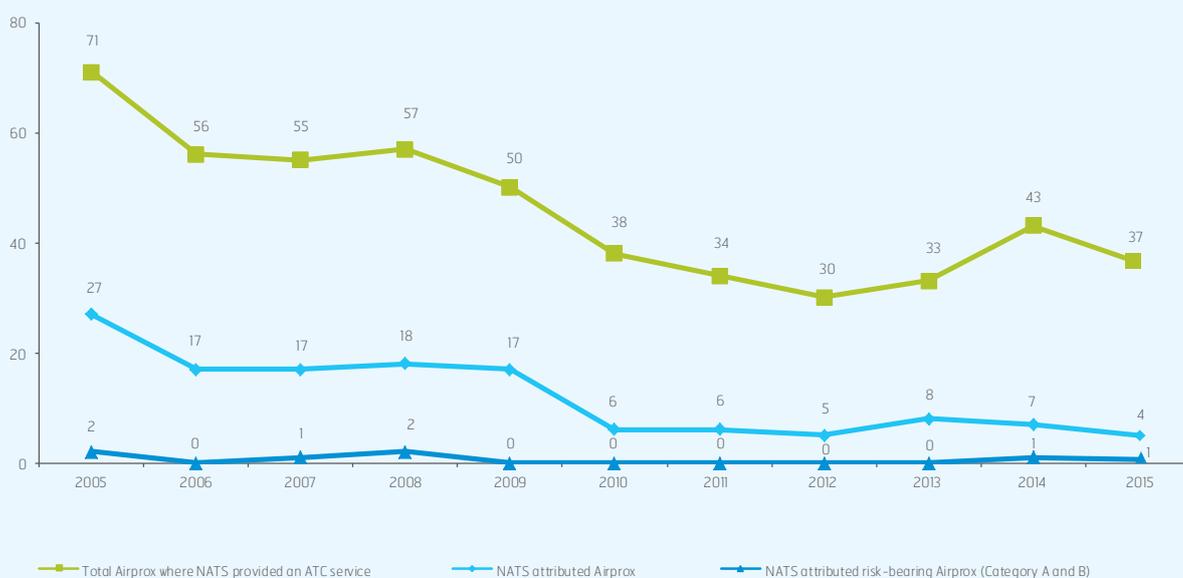
From January 2015, the SES performance scheme sets three targets to be met by the end of RP2. These relate to the effectiveness of safety management, the severity of safety events and the extent of Just Culture⁷ training. Our plans are to meet or beat each of these targets.

5 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 group 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.

6 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.

7 Training to promote an atmosphere of trust where front line staff feel encouraged to provide essential safety-related information, and with clear lines drawn between acceptable and unacceptable behaviour.

Airprox: Annual totals for the financial year ended 31 March



Note: Safety statistics for 2015 include NATS assessment of the outcome of UK Airprox Board reviews

Safety, regulatory and economic environment

(continued)

Managing safety

Our approach to safety is underpinned by our commitment to continually improve our operational safety performance and minimise our contribution to the risk of an aircraft accident. We do this in a formalised, explicit and proactive approach to safety management.

We prepare Safety Cases that analyse and assess the impact of changes in people, technology, operational software and airspace structures to provide assurance that such changes are safe to implement. For the same reason, we also conduct hazard analysis on any changes to ATC procedures. Additionally, we seek to optimise operational staff performance today and in the future through annual training, competency assessments and through the development of new systems.

Safety and strategic change

Over the next five years we expect significant change to our operational environment from our Deploying SESAR programme. During 2015 we assessed the safety improvements that this programme will deliver, and identified the safety case activities required.

Safety improvements

The most significant operational risks we deal with are infringements of controlled airspace, level busts⁸ and issues on the ground at airports, including runway-related events.

The Weighted SSE Index of level bust events reduced by almost 40% during the year. However, over the same period there has been a small increase in the number of events. Level busts can arise from changes in atmospheric pressure, which affect cockpit altimeter settings. To mitigate this we

developed guidance for air traffic controllers on defensive controlling techniques during periods of low pressure and briefed airlines. The CAA has also provided some mitigation strategies to airlines.

We continue to focus on infringements of controlled airspace by engaging with airfields and flying clubs. Although the number of infringements has remained at around 650 events per annum, our drive to educate and provide tools to pilots together with defensive controlling by air traffic controllers, reduced the Weighted SSE Index by approximately 10% during the year. In addition, to help identify potential infringements earlier, trials are being undertaken to test the use of GPS data which can be broadcast and received by an aircraft.

The UK's Airspace Infringement Working Group (AIWG) in conjunction with the Airport Operators Association (AOA) and NATS is also focusing its prevention activity on the five areas of highest risk: Stansted/Luton, Birmingham, Gatwick, Southampton and Heathrow.

At airports, NATS is trialling runway incursion sensors at Manchester and Aberdeen to assist in the development of these systems. We have also focused on aircraft pushback errors and identified a number of improvements for ground crew and air traffic controllers.

In our drive for continuous professional development we have introduced a more rigorous operational competence assurance scheme at airports and we have enhanced our training for those returning to frontline operations following an incident or absence from work.

⁸ An aircraft deviation of 300 feet or more from its assigned level

Safety, regulatory and economic environment

(continued)

Single European Sky (SES)

SES is a European Commission (EC) initiative to reform air traffic services to provide a safer, more environmentally sound and cost effective service. Performance schemes have been established under the SES legislative framework which regulates air traffic service provision. This also requires airspace management within Functional Airspace Blocks⁹ (FABs) to improve operational efficiencies and for technology to be modernised and interoperable.

Economic regulation

The economic regulatory framework for NATS' UK en route and Terminal Air Navigation Services (TANS) at large UK airports (more than 70,000 movements per annum) is governed by the SES performance scheme.

For en route services, European performance targets are set for safety, capacity, environment and cost efficiency and Member States are required to develop Performance Plans for FABs consistent with those targets. The UK and Ireland form a FAB and NERL's en route service forms a major part.

After consulting with customers in 2014, NERL submitted to the CAA a plan for RP2 which met each of the performance targets, including real price reductions of 18%.

After review, the CAA set even more challenging cost efficiency targets, requiring real price reductions of 21%. The revised plan, submitted as part of the joint UK/Ireland FAB plan, was assessed in March 2015 by the EC as consistent with European targets.

The main features (see table below) of NERL's plan are:

- > maintaining safety and service quality while handling a projected 13% increase in traffic volumes;
- > reducing prices in real terms by about 21%; and
- > enabling reductions in fuel and CO₂ emissions, delivering savings of up to £180m p.a. to airlines by 2019.

This is a challenging regulatory settlement which will reduce our revenue and margins. However, we will work hard to deliver the customer benefits associated with this plan by implementing our safety strategy, deploying new technology and supporting the UK's Future Airspace Strategy (see below).

Under the SES regulations, if market conditions do not exist for TANS, air traffic service providers may be subject to European cost efficiency targets and required to disclose their costs by airport.

⁹ A FAB is an airspace block based on operational requirements and established regardless of State boundaries, where the provision of air navigation services is enhanced through cooperation between air navigation service providers.

Summary of the main features of NERL's plan for RP2

Dimension	Performance measure	RP2 plan
Safety	% lower safety risk per flight	13%
Capacity	En route average delay per flight (all causes)	6-12 seconds
	En route average delay per flight (NERL attributable)	c. 6 seconds
Environment	Enabled fuel savings per annum by 2019	£180m
Return	Real return on regulatory assets	5.9%
Cost efficiency	Real price reduction through RP2 (c. £480m)	21%
Long term investment plan	Capital investment	£575m

Safety, regulatory and economic environment

(continued)

The CAA had previously advised that market conditions were not present but following the transfer of service in-house to Birmingham airport and the loss of the Gatwick contract, it concluded in May 2015 that market conditions did now exist within the UK. By the end of 2016, the CAA expects to see at least half of the airport operators whose contracts are nearing termination to have begun some form of open tender for TANS provision. In the absence of this, the CAA will conduct a further review of the market which could be a full competition assessment.

NATS remains focused on supporting positive outcomes for customers and passengers by improving performance. We also continue to support efforts by the EC, UK Government and regulators to encourage the liberalisation of those TANS markets across Europe that are closed to any meaningful competition.

Separate from SES regulation, over the past year the CAA has carried out further reviews of NERL's licence and is consulting on draft proposals for enhanced ring-fencing and governance. The company has submitted its response and recommendations to address the points that the CAA has raised.

Single European Sky ATM Research (SESAR)

As a step towards modernising air traffic systems, the Europe-wide SESAR deployment programme was set up to develop and validate innovative technologies. TBS, XMAN and DRA (discussed above) are examples of SESAR technologies.

The SESAR Deployment Alliance (SDA) was appointed in December 2014 by the EC to coordinate the deployment of SESAR technologies across Europe in the next decade. This organisation is known as the SESAR Deployment Manager (SDM). NATS played a key role in bringing together the SDM which comprises an alliance of the largest European air navigation service providers, four airlines and 25 airports. NATS aims to be at the forefront of efforts to improve the management of Europe's airspace and intends to influence the deployment schedule to secure benefits for customers as early as practicable. European funding is available to support the deployment of SESAR technology and we will seek to ensure that appropriate funding is provided for investments made by NATS.

Within NATS we are reviewing our own plans for deploying SESAR technologies. Our ambition is to accelerate their roll out in the UK in RP2 in order to realise benefits for customers as soon as we can, enabling us to reduce investment in legacy equipment and support further improvements in our service in the next Reference Period (RP3). However, this requires significant change to our infrastructure and will be challenging to deliver in the timescales. Our focus will be on two key projects: transitioning the area control operation at Swanwick into a temporary operations room, to allow the installation of a combined operations room for both area and terminal control using a common technology platform; and, on delivering the first deployment of a new flight data processing system at Prestwick.

Safety, regulatory and economic environment

(continued)

UK aviation strategy

The UK's Future Airspace Strategy (FAS) is designed to modernise airspace and the air transport route network to meet SES objectives. It includes the en route airspace managed collectively by the UK and Ireland FAB. It is part of the Government's transport policy and involves NATS, airlines, airports and other aviation stakeholders. The most significant changes to airspace will be in the South East of England where London's five big airports and many smaller aerodromes create some of the world's busiest and most complex skies.

NATS priorities in this respect are: to develop the terminal airspace design for the South East of England London Airspace Management Programme (LAMP) and the Northern Terminal Control Area (NTCA); to embed arrival management capabilities into en route to stream traffic efficiently into the terminal environment; and to enhance the performance of upper airspace as part of the UK-Ireland FAB.

LAMP will deliver high level network changes in phases. It will revise airspace and the route network around London and is an important enabler of improved flight efficiency and the fuel savings customers want for RP2. Public consultation on the first phase of LAMP was completed in the last financial

year and included changes to some of the airspace serving Gatwick, London City, Stansted, and to a lesser extent Biggin Hill and Southend airports.

As a result of the significant opposition Gatwick airport received from local communities to its consultation last summer and, in consultation with our FAS colleagues, it became necessary to postpone the submission of proposed high level network changes (above 4,000ft) relating to the airport which were part of Phase 1 of LAMP. This change is now scheduled for later in the LAMP programme. NERL will now progress with the implementation of changes for Stansted, London City and parts of the en route network.

The issues being addressed by FAS are necessary to accommodate the growth in demand for aviation and are independent of any decision which may be made to build new runway capacity in the South East, which is being considered by the Airports Commission. NATS contributed to the assessment of the safety and operational efficiency of the options being considered and has concluded that all are viable from an airspace and service delivery perspective and can support the traffic levels assumed. The Commission is expected to issue its report shortly.

Safety, regulatory and economic environment

(continued)

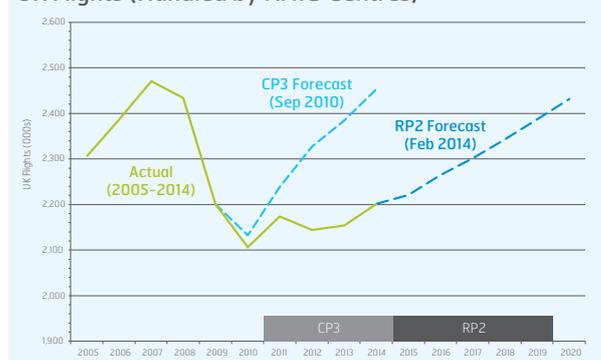
Outlook for air traffic

	2015	2014	Year on year change
	('000s)	('000s)	%
Chargeable Service Units	9,815	9,747	0.7%
Total UK traffic (flights):			
Domestic	375	377	(0.5%)
North Atlantic	321	314	2.2%
Other	1,520	1,471	3.3%
Total	2,216	2,162	2.5%
Oceanic traffic (flights):			
Chargeable flights	418	403	3.7%

Overall, the volume of UK flights handled by NATS increased by 2.5%, reflecting a generally improving economic outlook. Domestic flights were broadly unchanged as Flybe reduced its schedules, particularly at Gatwick.

Chargeable service units (the billing unit for UK en route services that is a function of aircraft weight and distance flown) benefited less from improved transatlantic traffic as flights took more southerly routes due to weather, which led to shorter distances flown in UK airspace.

UK Flights (Handled by NATS Centres)

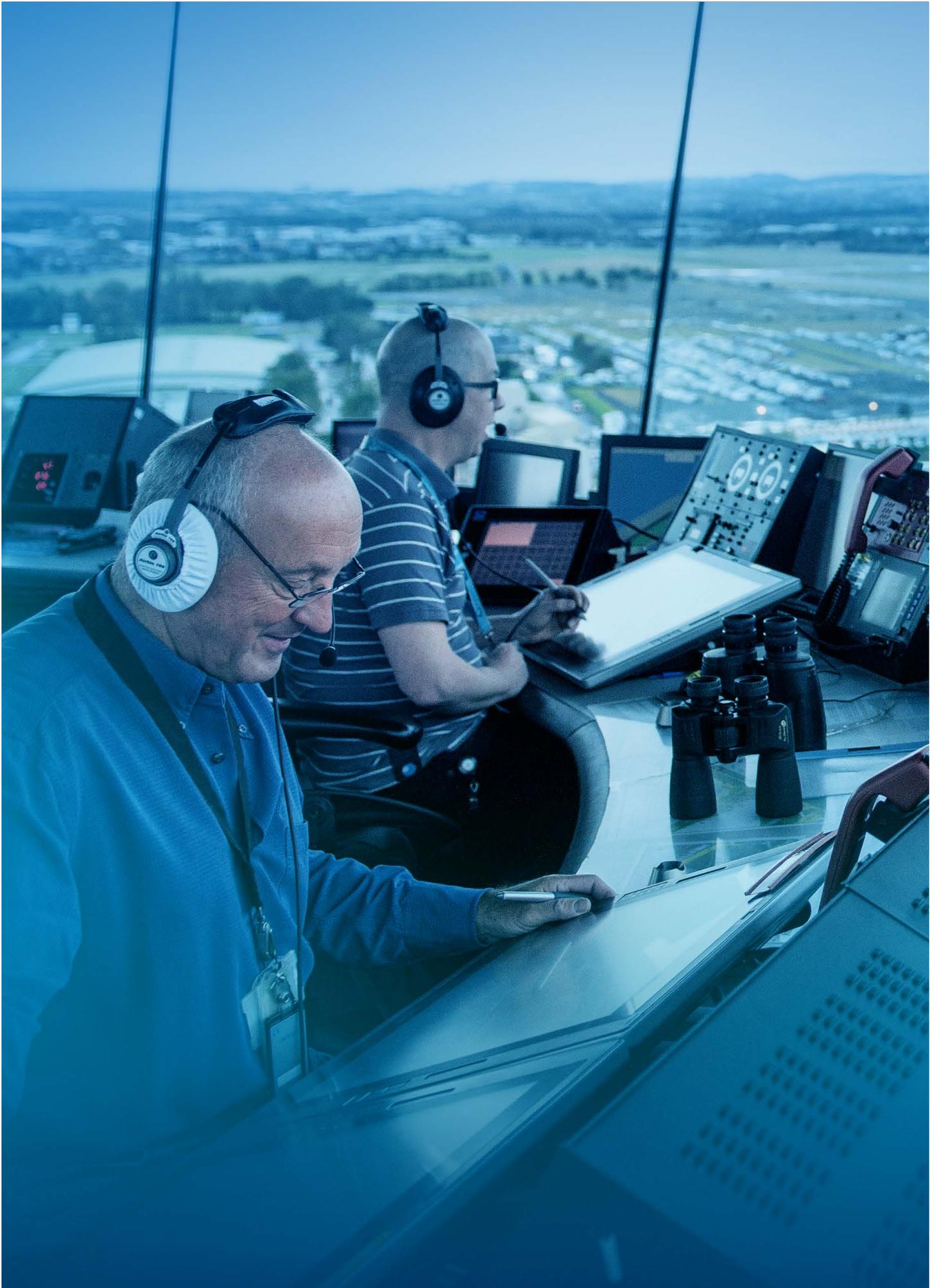


Historically, the growth in demand for air travel has been closely linked to the strength of the global economy, and for UK air traffic, to the economies of the UK, US and the Eurozone.

The UK economy is now growing at its fastest rate since 2006 and is set for another year of solid growth in 2015 of 2.8% (source: Oxford Economics), supported by lower oil prices and low inflation. The US economy is forecast to accelerate in 2015 based on strong domestic economic fundamentals. Eurozone economies continue to build momentum with a weaker euro supporting stronger exports. However, there remain significant risks to this outlook.

There are also risks to growth from a weaker outlook for emerging markets, with slowdowns in activity in China, Brazil and Russia likely to have an adverse impact on demand for air travel, and the potential escalation of conflicts in the Middle East and Ukraine.

The STATFOR (February 2014) forecast assumes that flight volumes will grow by 1.9% per annum on average through RP2. Traffic levels are expected to return to the pre-financial crisis peak (2007) shortly after the end of RP2. Our own internal forecast, produced in December 2014, and the most recent STATFOR forecast produced in February 2015 are materially consistent with the forecasts on which the RP2 settlement is based.

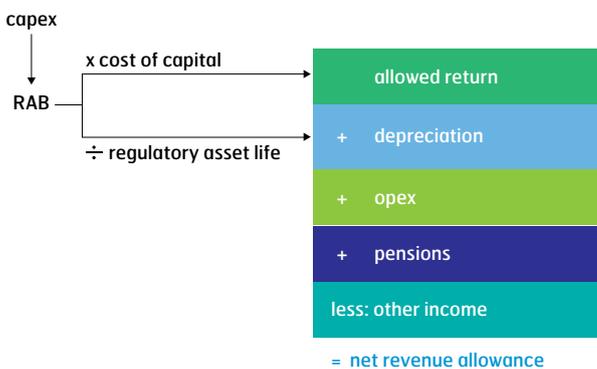


Our business model

We generate our income from the provision of ATC and related services. Our activities are mainly conducted through NERL and 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 under SES legislation. 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. Income generated outside of NERL's economically regulated activities is deducted under a 'single till', leaving a net revenue allowance. A price per service unit is set to recover this based on forecast traffic for the reference period. This regulatory model is illustrated below.



The price control for Reference Period 2 (2015 to 2019) was based on total revenues of £2.7bn (expressed by the CAA in 2012 prices) and provides for a cost of capital of 5.9%. The CAA also sets targets, and provides incentives, for service and environmental performance. If regulatory and other assumptions are borne out in practice, then NERL would earn a return of 5.9% p.a.. It can earn additional returns during RP2 if it outperforms the CAA's assumptions by being more cost efficient, by financing its business at lower cost, if traffic volumes are higher than forecast or if it out-performs service targets. NERL would earn lower returns if the opposite applied.

The EC legislation provides: a risk-sharing mechanism to protect against certain variations in traffic volumes from the level assumed; an adjustment to charges for differences between actual inflation and inflation assumed at the start of the reference period; and an adjustment to charges in subsequent reference periods where actual cash contributions to the defined benefit pension scheme differ from those assumed due to unforeseen financial market conditions. The CAA also sets a target and cap on the level of NERL's gearing at 60% and 65% of net debt to RAB, respectively. Charges may be adjusted on a year 'n+2 basis' for service performance incentives, traffic volume risk-sharing and for inflation.

NATS Services is organised between UK and international activities. The former represents about 95% of its revenue. The services provided to its customers include: Airports, Consultancy, Defence, Engineering and Information.

It provides air traffic control and related engineering services to 14 of the UK's civil airports and two airfields under the UK military's Project Marshall contract (Gibraltar and RAF Wattisham). The UK has 128 civil licensed aerodromes and of these 110 self-provide the service. Of the rest, 14 are outsourced to NATS Services and 4 to two other providers. Also, increasingly, NATS Services faces competition from other Air Navigation Service Providers (ANSPs). As noted above, large UK airports fall within the scope of European SES regulations. FerroNATS, our 50:50 joint venture, provides a service to 9 airports in Spain.

Our business model

(continued)

Our consultancy expertise has evolved from our operational ATC experience and enables us to help optimise the safety and operational performance of airports or ANSPs by providing practical advice on maximising the capacity of airport infrastructure. The consultancy market includes other environmental, engineering and infrastructure consultancy firms. NATS also provides training services. These are also offered by other ANSPs and specialist colleges.

Our defence service seeks to extend the range of services that NATS provides to the UK MOD and overseas military customers.

Our engineering service delivers complex turnkey engineering projects. Our competence is from maintaining and enhancing equipment at airports. We provide services to airports, construction companies and industry suppliers, mainly integrating new infrastructure at airports. Our principal competitors include systems integrators, equipment manufacturers and specialist engineering consultants.

Our expertise in information services derives from managing aeronautical and other related air navigation services data, and providing charting and other services.

We are uniquely placed to help airline and airport customers to realise value by making both airspace and airfield services more efficient. We understand the complex interactions at each stage of a flight between airlines, airport operators and NATS. We understand the benefit we can provide from fuel efficient flight profiles, approaches and departures, minimising delay, and through arrival and departure management. Our en route operation provides a seamless transition between the North Atlantic and UK en route services. We recognise that airport tower services are an intrinsic part of overall performance and our experiences at Heathrow, Gatwick and other airports demonstrate our ability to optimise runway performance and apron efficiency. This benefits airport operators and their investors, and airlines.

Principal risks and uncertainties

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 regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

A summary of internal control and risk management processes is on pages 59-60.

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.

As a provider of a safety critical service, safety is the company's highest priority. To embed a safety culture across the organisation and to mitigate safety risk, NATS is implementing a strategic plan for safety and maintains a safety risk management system.

Loss of service from ATC centre

A loss of service would result in a loss of revenues as flow management procedures would be introduced to maintain safe separation. 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 contingency arrangements which enable the recovery of its service capacity. A review of these arrangements will consider the recommendations of the independent enquiry into the December 2014 technical failure.

Operational systems resilience

Operational service provision is increasingly dependent on the performance and resilience of engineering systems and communications, surveillance and flight data infrastructure. A number of mechanisms exist to identify systems resilience risks. These include regular reviews of system health through a series of structured questions with evidence-based outcomes. In addition, tactical issues are assessed following engineering updates to NATS' Safety Tracking and Reporting System to determine whether immediate escalation is required and to identify any emerging trends requiring investigation. Further mitigations will be considered following the recommendations of the independent enquiry into December's technical failure.

Principal risks and uncertainties

(continued)

Political environment and economic regulation

Policy decisions by the regulator and by the UK Government and the European Commission (EC) directly affect our businesses. Changes in policy decisions may impact on the group's ability to meet the requirements of the UK and EC's aviation policies. We seek to mitigate this risk by providing independent input to policy studies (such as that conducted by the Airports Commission) and lobbying for policy guidance where we believe this is required.

Also, the group's air traffic services operate under a European regulatory regime which requires key performance areas to be met. Failure to meet these safety, service and efficiency targets could damage our reputation and lead to even more challenging regulatory arrangements.

Finally, the UK market for Terminal Air Navigation Services (TANS) is subject to the market conditions test within EC Single European Sky Regulations. If conditions are not met TANS are subject to economic regulation. In May 2015 the Department for Transport (DfT) accepted CAA's advice that market conditions are satisfied and wrote to the Commission asking for the UK TANS market to be deregulated. The Commission's response is expected by September 2015.

By the end of 2016, the CAA expects to see at least half of the airport operators whose contracts are nearing termination to have begun some form of open tender for TANS provision. In the absence of this, the CAA will conduct a further review of the market which could be a full competition assessment.

Defined benefit pension scheme

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, pensionable pay rises are capped and future service benefits as of 1 November 2013 are linked to the CPI. In June 2013 the Trustees agreed a new schedule of contributions with the group. The next formal review of the funding of the defined benefit scheme will follow the next 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 Reference Period 2 (RP2) price determinations. This in turn could impair shareholder returns. NATS monitors the key industry indicators on a monthly basis against RP2 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.

Principal risks and uncertainties (continued)

Electronic and other external and internal 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, staff awareness training and security processes and procedures, including monitoring political stability and security risks in countries where it conducts its business.

Employee relations

The deployment of SESAR technology and the group's response to the challenging competitive environment in the UK and overseas will require changes across the organisation. 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.

Technology

The deployment of new SESAR technology and retirement of legacy systems could affect the group's ability to maintain a continuous service during transition and require additional costs to sustain legacy systems. NATS maintains project governance and risk management processes which are overseen by the Executive and Board, including the Technical Review Committee.

Other matters: financial risks

In addition to the top risks set out above, 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.



Review of service line performance

Service line performance

We organise our activities according to service lines, which reflect the products and services that we offer. A brief description is provided under the section entitled 'Our business model'. This section explains the financial and operational performance of each service. The principal financial measures are revenue and contribution. The former includes intra-group revenue, while the latter reflects the operating costs which 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

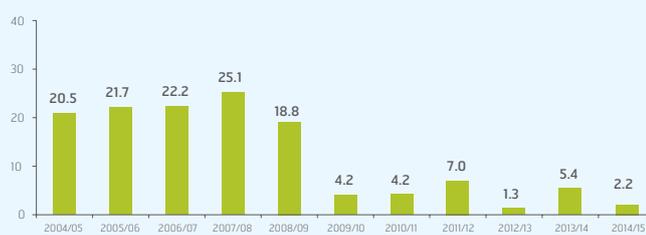
	2015	2014
Financial performance:		
Revenue (£m)	738.5	740.7
Service line contribution (£m)	380.2	391.6
Capital expenditure (£m)	152.3	125.5
Operational performance:		
Flights handled ('000s)	2,216	2,162
Risk-bearing airprox (no.)	1	1
Average delay per flight (seconds)	2.2	5.4
Enabled fuel savings (tonnes)	189,000	21,000*

* restated

NATS Airspace includes all of NERL's economically regulated activities. It generated revenue of £738.5m, a 0.3% reduction on the previous year. This included the impact of RP2 price reductions from January 2015 which offset an improved service incentive and the impact of pricing below the level of permitted revenue allowances in 2014. Last year's income also included a one-off benefit for the back-up Galileo satellite monitoring facility at Swanwick.

Service line contribution of £380.2m was 2.9% lower and reflected higher budgeted pension costs (used in assessing service line performance only and reflecting market conditions when the budget was set), pay awards and non-staff cost increases which offset the benefit of headcount reductions and higher capitalised internal labour.

Airspace: average delay per flight in seconds



The level of delay attributable to NATS Airspace for the financial year was 2.2 seconds per flight (2014: 5.4 seconds), with 99.8% of flights not delayed (2014: 99.7%).

CP3 metrics: 2014 calendar year	Target adjusted for traffic	Actual
T1: avg. delay per flight (secs)	8.3	2.2
T2: delay impact (score)	23.4	4.2
T3: delay variability (score)	1,400.3	195.2
T4: 3Di metric (score)	23.0	23.2

Each of the CAA's delay targets was met, including the impact of the December technical failure. This out-performance earned a service incentive of £5.7m (2014: penalty £1.0m). Overall, this was a good performance in a year which included the operational challenges of the Commonwealth Games and a NATO Summit in the UK.

In addition to measures of delay, we are targeted on flight efficiency (the environmental performance of our

Review of service line performance

(continued)

network) and we achieved this. The flight efficiency metric is discussed in more detail under Corporate Responsibility. We aim to deliver short term tactical benefits to our customers from changes to procedures. This year we enabled fuel savings of 189,000 tonnes (2014: 21,000 tonnes) worth £94.5m to our customers (based on average fuel prices of £500 per tonne over the year). This is equivalent to 602,000 tonnes (2014: 66,000 tonnes) of CO₂ emissions.

OPA performance targets for 2014/15

	Target	Stretch	Actual
Hotspot projects	4.0	n/a	7.0
Short term flow measures (% < = 45 minutes duration)	95%	96%	98%
Enabled fuel savings (tonnes)			
Flight efficiency (small scale procedural changes)	10,000	15,000	46,000

Our customers also set us targets under our Operational Partnership Agreement (OPA) to achieve short term operational improvements, and we met these.

NATS Airspace invested £152.3m (2014: £125.5m) on its air traffic control infrastructure in the year. Of most significance was progress with SESAR projects, including the next generation of flight data processing systems for deployment by the Prestwick centre in 2016 and projects accelerated at customer request such as TBS. We also invested in our communications network and in systems for the North Atlantic en route service in a joint project with NAV CANADA, the Canadian air traffic service provider, which improves safety and flight and fuel efficiency.

NATS Airports

	2015	2014
Financial performance:		
Revenue (£m)	190.2	183.6
Service line contribution (£m)	62.1	57.3
Capital expenditure (£m)	0.3	0.5
Operational performance:		
Airports served: UK (no.)	16*	15
Airports served: Overseas, incl. JV (no.)	10	10
Risk-bearing airprox (no.)	nil	nil
ATC service delivery events (no.)	7	8
ATC asset non-availability (hours)	20	15
Average delay per flight (seconds)	0.2	0.1

*15 from 1 April 2015 following the transfer of Birmingham in-house.

Airports revenue improved by 3.6% to £190.2m, largely due to contract price indexation. It also included the RAF's Wattisham airfield for the first time and a contribution from Project Marshall. Revenue growth was also the principal reason for better service line contribution of £62.1m (2014: £57.3m) and this offset higher staff pay and budgeted pension costs. The FerroNATS joint venture now trades profitably and its financial performance also contributed to the improved result.

At customer request we agreed ten-year contracts with Manchester Airport Group for both Manchester and Stansted airports, the third and fourth largest UK airports respectively, and extended the contract with Luton airport by two years to November 2017. We also established a strategic partnership agreement with Heathrow airport.

Review of service line performance

(continued)

We will also continue to provide a service to military facilities at Aberporth and The Ranges following the award of a seven year contract by Qinetiq. In April 2015 the Birmingham contract transferred back to the airport for in-house provision and in February 2016 Gatwick will transfer to the new provider.

We continued to provide a safe service at airports with no risk-bearing airprox during the period. The average delay per flight attributable to NATS Airports in the period was 0.2 seconds. We also track events which impact service delivery, such as equipment failure and staff shortages.

NATS Engineering

	2015	2014
Financial performance:		
Revenue (£m)	18.6	15.6
Service line contribution (£m)	4.8	2.2
Capital expenditure (£m)	0.2	3.3
Significant milestones:		
Multi-static Surface Radar at Heathrow		September
Runway visual range equipment at Newcastle		November
Time Based Separation at Heathrow		March
Manchester Receiver Site		March

Revenues grew by £3.0m to £18.6m (2014: £15.6m) in the year due mainly to engineering support provided to the Aquila joint venture for its Project Marshall contract and from TBS at Heathrow airport. The improvement in the service line's contribution by £2.6m to £4.8m (2014: £2.2m) also reflected income generated from the Aquila joint venture.

This year we worked with Newcastle airport to deliver an innovative solution to low visibility runway operations. We also provided an upgraded radar system at Heathrow which enhances ground surveillance within the new Terminal 2 apron areas at the airport. We continued to support developers and energy suppliers in mitigating the impact of windfarms, which can generate false returns on radar.

Contracts awarded in the year, which will be delivered during 2016, include changes to the instrument landing system at Heathrow and a refresh of Electronic Flight Progress Strips (EFPS) at Luton airport. Revenue from Aquila will also become more significant as we upgrade systems at military airfields.

Other NATS Service lines

	2015	2014
Financial performance:		
Revenue (£m)	18.5	18.8
Service line contribution (£m)	4.3	4.8
Capital expenditure (£m)	0.7	0.4
Secured order value:		
UK contracts (£m)	40.5	43.5
Overseas contracts (£m)	5.8	13.1

Other NATS Service lines include Consulting, Defence and Information. Revenues at £18.5m were broadly in line with the previous year (2014: £18.8m) and service line contribution was £4.3m (2014: £4.8m). The major part of revenues is derived from the production of aeronautical data, services to windfarm developers and to help improve airport performance.

We continued to support Heathrow airport with a capacity management tool which has improved its scheduling capability and airfield management, enabling it to declare a new early morning landing slot, and continued to work on delivering 4 UK airspace design contracts.

People and corporate responsibility

People

We recognise that employee engagement has a real impact on the group's performance. This is particularly relevant as NATS faces some significant challenges in delivering the plan for RP2 and our existing and new contracts, including Project Marshall.

Given this context it was important to understand how staff felt about the group. Earlier in the year 2,970 employees (67%) responded to our staff opinion survey. In addition, 215 staff participated in focus groups to consider the key themes emerging from the survey. Since the results were published the executive team has spent time with all areas of the business to update staff on strategic developments, performance and priorities. Updates are also provided monthly for managers to discuss with their teams and action plans have been developed to address those areas staff felt less positive about.

Development of our people and the way we manage that talent is an important determinant of performance. We continued to roll out our succession and personal development programme called PATH. This provides staff with access to the latest thinking and developments in business practice and enhances the skills and competencies required for their current and future roles. It also ensures NATS has the capability and resilience in its talent pool to support customer service. This year PATH offered a mentoring programme to support personal development.

Developing leadership skills is an important factor in managing the changes that we will ask our staff to support over the RP2 period. Within NERL deploying new technology will shape the way we organise our workforce and deliver our service. In response to the challenges facing NATS Services we are reviewing its organisation. We expect to vacate our office near Heathrow airport by the

end of March 2016 and relocate staff to our head office or to the Swanwick Control Centre, and we are seeking to reduce headcount in NATS Services by up to 20% through voluntary redundancy and staff turnover. We have consulted and engaged with Trades Unions on these proposals and staff reductions are being managed after careful consideration of the resource required to maintain safety standards and performance levels.

Corporate responsibility

We are committed to playing our part in limiting the impact of our operations on the environment. Our strategy is to: improve airspace efficiency to reduce aviation CO₂ emissions, fuel burn and noise; reduce the impact of our facilities and travel on the environment; and to support local communities.

Environmental performance (financial year unless otherwise specified)	2015	2014
Enabled reductions in CO ₂ emissions (calendar year)	4.3%	2.2%
3Di score (calendar year)	23.2	23.7
Scope 1 emissions (tonnes CO ₂) ¹	2,660	2,528
Scope 2 emissions (tonnes CO ₂) ^{1,2}	30,138	29,688
Intensity (tonnes CO ₂ per £m of revenue)	35.5	35.1
Waste (tonnes) ²	451	354
Energy consumption (GWh)	73.6	80.3
Water consumption (m ³)	47,032	50,563

The data has been collected using the financial control approach and covers the UK sites of the NATS Group.

¹ Measured and reported in accordance with the DEFRA guidance (2013) on greenhouse gas emissions reporting

² Corporate & Technical Centre and the Swanwick and Prestwick air traffic control centres

People and corporate responsibility

(continued)

Minimising the environmental impact of Air Traffic Management (ATM)

The environmental impact of ATM is a key issue for our customers, regulators and communities. We have a number of targets that reflect our customers' high priority for reduced CO₂ emissions and fuel burn. These include:

- A strategic target to reduce ATM related CO₂ emissions by an average 10% per flight by 2020, from a 2006 baseline. This applies to UK and North Atlantic airspace and airport tower services;
- Annual flight efficiency target (3Di), which financially incentivises our performance in line with our strategic target. 3Di measures the efficiency of flight profiles in UK airspace;
- Specific short term fuel savings targets agreed annually with customers via the OPA and the Fuel Efficiency Partnership (FEP). These target UK and North Atlantic airspace and airport tower services.

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. Each of our operational units has embedded business plan targets to deliver this outcome. We are targeting a reduction of 32,000 tonnes in CO₂ emissions in calendar year 2015.

Following an external review of our methodology for calculating the enabled savings in fuel and CO₂ emissions from airspace changes and day to day improvements, we have restated our baseline and values reported since 2008 to enhance the precision of our reporting.

a. Progress in 2015

To monitor progress against our strategic target, we set ourselves an interim target to reduce ATM related CO₂ emissions by an average 4% per flight (from a 2006 baseline) by the end of calendar year 2014. We actually achieved 4.3%, which equates to a reduction in CO₂ emissions of over 1 million tonnes, or around £117m per annum in enabled fuel savings per annum to airline customers. This had improved to 4.55% at 31 March 2015. The improvements are the result of changes to UK airspace that allow for more direct routes and improved vertical profiles; the use of more efficient procedures, such as continuous instead of stepped climbs and descents; and the introduction of new air traffic control technologies. Many changes to UK airspace and procedures have been made over the past six years to provide more efficient routes to airlines. This includes more flexible use of military airspace when not in use, which has reduced CO₂ emissions by 30,000 tonnes alone, and the use of controller tools that provide the most efficient altitudes across the North Atlantic which has enabled a reduction of 110,000 tonnes of CO₂ emissions.

In 2014 NATS developed a tool which combines radar data with NATS' 3Di airspace efficiency metric to produce a graphical representation of every flight in UK airspace. This enables controllers to review the 3Di score for every flight handled on their shift and to identify operational improvements by analysing the efficiency of flight profiles.

Since April 2014, NATS has reduced airborne holding times through better arrivals management, saving airlines over £1 million in fuel and reducing CO₂ emissions by 7,000 tonnes.

Tonnes ('000s)	Financial years ended							
	2008	2009	2010	2011	2012	2013	2014	2015
Fuel enabled savings	6	3	25	16	41	35	21	189
CO ₂ enabled savings	17	11	80	52	131	113	66	602

People and corporate responsibility (continued)

NATS has also been leading the Sustainable Aviation coalition's campaign to achieve a 5% increase in Continuous Descent Operations (CDO), which reduce noise, fuel burn and CO₂ emissions. NATS is providing performance information to 23 airports and 8 airlines, enabling the first broad insight into UK CDO performance.

Procedural changes and trials in service of the FAS have provided greater certainty of aircraft routes and the ability to trial noise respite options for some communities. We continue to work with all stakeholders to develop innovative solutions to airport noise management.

b. 3Di performance target

The 3Di score is an indicator of fuel efficiency for flights within UK airspace. It compares actual trajectories from radar data with an airline preferred flight trajectory which minimises fuel burn and CO₂ emissions. The 3Di scores for each flight are combined to provide an annual score for NATS which is compared to the CAA's target. Scores range from nil, which represents zero inefficiency, to over 100. For the 2014 calendar year the average score was 23.2 compared with a target of 23.0.

The 3Di score allows NATS to monitor the environmental efficiency of the service it provides and identify opportunities to reduce aviation's environmental impact.

Minimising the environmental impact of our estate

NATS has voluntarily chosen to report greenhouse gas emissions this year. Our direct CO₂ emissions (scope 1, in the table above) relate mostly to the fuel and energy we use in operating our air traffic control facilities and infrastructure. Our environmental impact goes beyond CO₂ emissions and we are committed to reducing this impact. Our overall energy consumption (GWh) was down by 12.2% in CP3, and by over 8% in 2015 and was achieved by investing in more energy efficient facilities and through greater employee awareness.

We continue to reduce the amount of waste we generate across our main sites. In 2015 55% was recycled, 44% went to 'waste to energy' plants and just 1% to landfill. Our water consumption reduced by 7% in 2015 helped by the consolidation of our sites and other improvements.

We also continue to support our employees in reducing our indirect CO₂ emissions through a number of sustainable travel initiatives including: car sharing, a low emission car scheme and Cyclescheme. In 2016 we plan to install electric vehicle charging points at our three main sites.

Supporting charities and communities

In 2008 we established the Footprint Fund to encourage staff to support local community projects and charities. In 2015, the Fund donated £31,000 to 53 local causes. Also, 8% of staff made charitable donations through the payroll giving scheme.

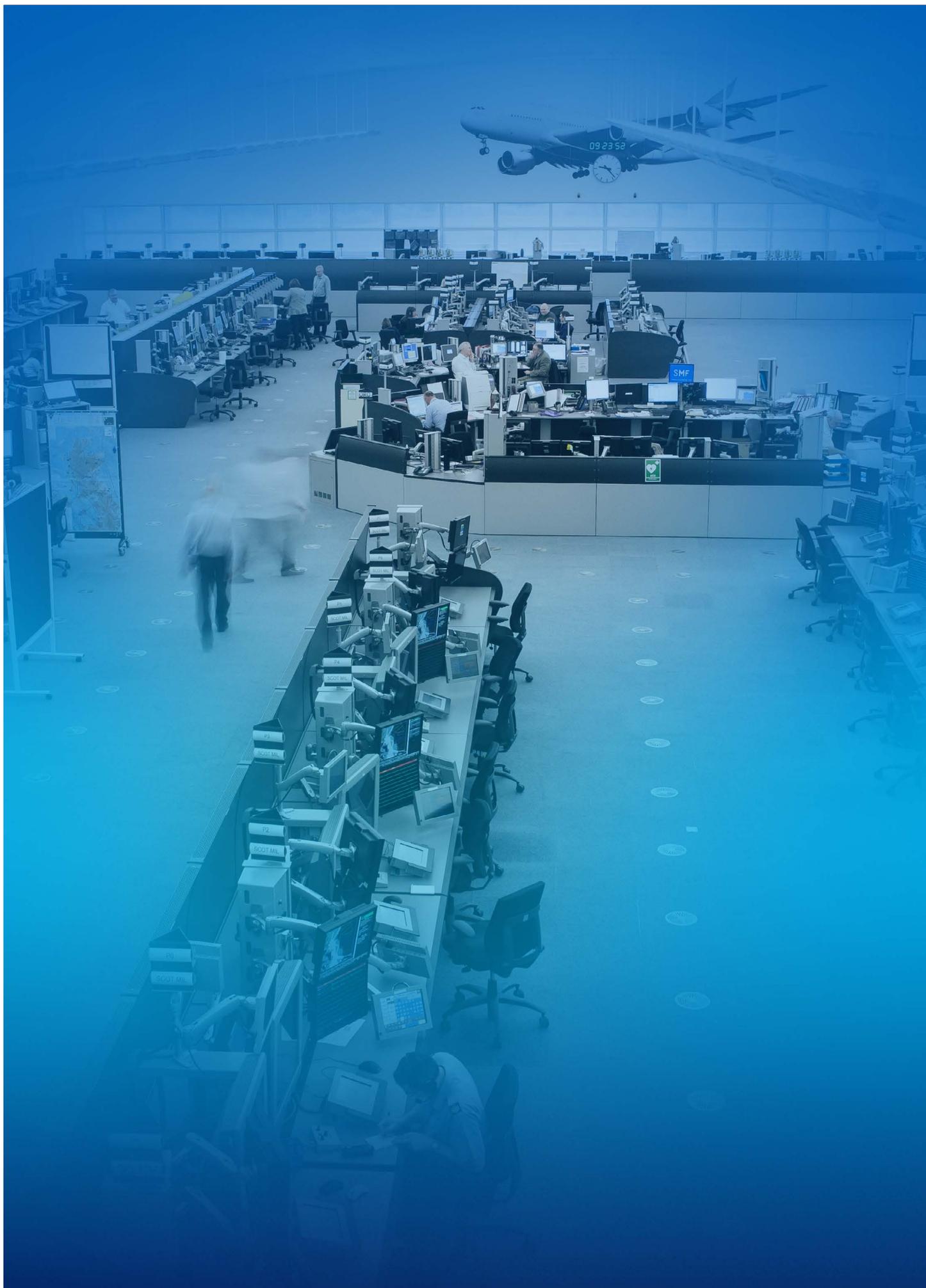
NATS continues to support Aerobility, the disabled flying charity, with sponsorship, fund raising and expertise. Since 2011, staff and trades unions have raised £200,000 for the charity.

Finally, NATS supports the Swanwick Lakes Nature Reserve and was awarded the Biodiversity Benchmark by the Wildlife Trust for managing the reserve.

The Strategic report was approved by the Board of directors on 25 June 2015 and signed on its behalf by:



Richard Churchill-Coleman
Secretary



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



Dr Paul Golby CBE

Paul served as Chief Executive Officer of E.ON UK plc from 2002 to 2011, is a Fellow of the Royal Academy of Engineering and was appointed Pro-Chancellor and Chair of the Council for Aston University in 2009. He is also a non-executive director of National Grid plc. Paul chairs the Nomination Committee and is a member of the Audit Committee.

Executive directors



Martin Rolfe, Chief Executive Officer

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 prior to joining 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.



Nigel Fotherby, Finance Director

Nigel joined NATS in 1999 as Finance Director and led the Finance team through the transition to Public Private Partnership (PPP) (2001) and, following the events of 9/11, the financial restructuring and refinancing of NERL in 2003. In addition to his 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 CP3 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.

Directors of NATS Holdings Limited

(continued)

Non-executive directors



Dr Harry Bush CB

Harry is Vice-Chairman of UCL Hospitals 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 HM 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. Harry is a director of The Airline Group (AG) and NATS Employee Sharetrust Limited and a member of the Audit Committee.



Roger Cato

Prior to retiring from BAA in 2006, Roger was BAA's Chairman and Managing Director of Gatwick Airport, and Chairman of Southampton Airport. Previously he was Managing Director of Heathrow Airport. Roger joined Heathrow as a trainee engineering graduate in 1969 and over the last 30 years, a variety of engineering posts took 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, Technical Review Committee and Nomination Committee.



The Rt. Hon. Baroness Dean of Thornton-le-Fylde

Brenda is Chairman of Empiric Student Property plc and a Board member of Places for People regulated company. She is Chairman of the Advisory Board of Runways UK. She was previously Chair of the Freedom to Fly Coalition, the Armed Forces Pay Review Body, the Housing Corporation, Covent Garden Marketing Authority, a non-executive director of Taylor Wimpey plc 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 is a director of, and chairs, the NATS Employee Sharetrust and is a member of the Remuneration Committee.

Directors of NATS Holdings Limited

(continued)



Will Facey

Will is the Director for Network Operations at easyJet Airline Company. He joined easyJet in 2008 having previously worked for DHL Express for 20 years. His last role within DHL was as the Director of Network Control for the European overnight delivery network. Previous positions included a mix of operational leadership and European regional functional roles. He has spent most of his working career based in continental Europe – primarily in Denmark and Belgium and moved back to the UK to take up the role with easyJet. Will is a director of AG and a member of the Safety Review Committee.



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 chairs the Audit Committee and is a member of the Nomination Committee.



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 was 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 was a non-executive Board member of BA CityFlyer, and is a director of AG, and chairs the Remuneration Committee.

Directors of NATS Holdings Limited

(continued)



Gavin Merchant

Gavin joined Universities Superannuation Scheme (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.



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.

Directors of NATS Holdings Limited

(continued)

Officer



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.



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 30 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.



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 group 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 13 directors, as follows:

Executive directors

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

Non-executive directors

- > a non-executive Chairman, appointed by AG, subject to the prior approval of the Crown Shareholder;
- > six 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 2014 to the date of approval of the accounts, the following changes to the directors were made:

Chairman	
John Devaney	Resigned 31 August 2014
Paul Golby	Appointed 1 September 2014
Executive director	
Richard Deakin	Resigned 18 May 2015
Non-executive AG directors	
Chris Bennett	Resigned 4 March 2015
Harry Bush	Appointed 29 May 2014
Warwick Brady	Resigned 10 September 2014
Will Facey	Appointed 27 November 2014
Mike Powell	Resigned 29 May 2014

Martin Rolfe was appointed Chief Executive Officer following Richard Deakin's resignation. Martin Rolfe continues to act as Managing Director, Operations.

Governance report

(continued)

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, Martin Rolfe, 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 and Managing Director, Operations;
- > Finance Director;
- > Safety Director;
- > 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.

Governance report

(continued)

Board meetings

The Board routinely meets seven 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 eight times with each member (who served as a director during the year) attending as follows:

Name	Number of meetings attended / Number of eligible meetings
Paul Golby	4/5
John Devaney	3/3
Richard Deakin	8/8
Nigel Fotherby	8/8
Martin Rolfe	8/8
Chris Bennett	3/7
Warwick Brady	3/3
Harry Bush	7/8
Roger Cato	8/8
Baroness Dean of Thornton-le-Fylde	7/8
Will Facey	3/3
Richard Keys	7/8
Andy Lord	8/8
Gavin Merchant	6/8
Iain McNicoll	8/8
Mike Powell	0/0
Peter Read	8/8
Tony Tyler	6/8

The non-executive directors meet with the Chairman, but without the executive directors present, before and after each Board meeting.

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 group'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 have been assessed by the Board at its May 2015 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 Paul Golby, Harry Bush, Will Facey and Chris Bennett. 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
Paul Golby	2/2	1/1			
John Devaney	1/1				
Chris Bennett	0/3				
Warwick Brady				1/2	
Roger Cato		1/1		4/4	2/3
Will Facey				2/2	
Baroness Dean of Thornton-le-Fylde			7/7		
Richard Keys	3/3	1/1			
Andy Lord			7/7		
Iain McNicoll				4/4	3/3
Gavin Merchant			5/7		
Peter Read		1/1			3/3
Tony Tyler					

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 58 to 74. 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 committee:

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 group 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 group 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 31 July 2014 and a further meeting on 29 January 2015. 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.

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The SPA requires the group 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 2015, 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 2015. 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 below. 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.

Governance report

(continued)

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.

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. This aligns with the recommendation in B.7.1 that the maximum period between re-election is 3 years, reducing to 1 year for non-executive directors who have served longer than 9 years. Brenda Dean has a 2 year contract from 2013 which will bring her total tenure to 9 years in 2015 as she has been in post since 2006.

The tenure of non-executive directors is as follows:

Name	Date of appointment	Years of service to 31 March 2015*
Paul Golby	1 September 2014	7 months
John Devaney	1 July 2005	9 years 3 months
Chris Bennett	20 March 2014	12 months
Warwick Brady	23 May 2013	1 year 6 months
Harry Bush	27 May 2014	10 months
Roger Cato	28 April 2003	11 years 9 months
Baroness Dean of Thornton-le-Fylde	24 July 2006	8 years 8 months
Will Facey	27 November 2014	5 months
Richard Keys	1 September 2013	1 year 7 months
Andy Lord	26 February 2009	6 years 1 month
Iain McNicoll	1 September 2013	1 year 7 months
Gavin Merchant	20 March 2014	12 months
Mike Powell	20 March 2014	2 months
Peter Read	23 September 2002	12 years 6 months
Tony Tyler	1 July 2013	1 year 9 months

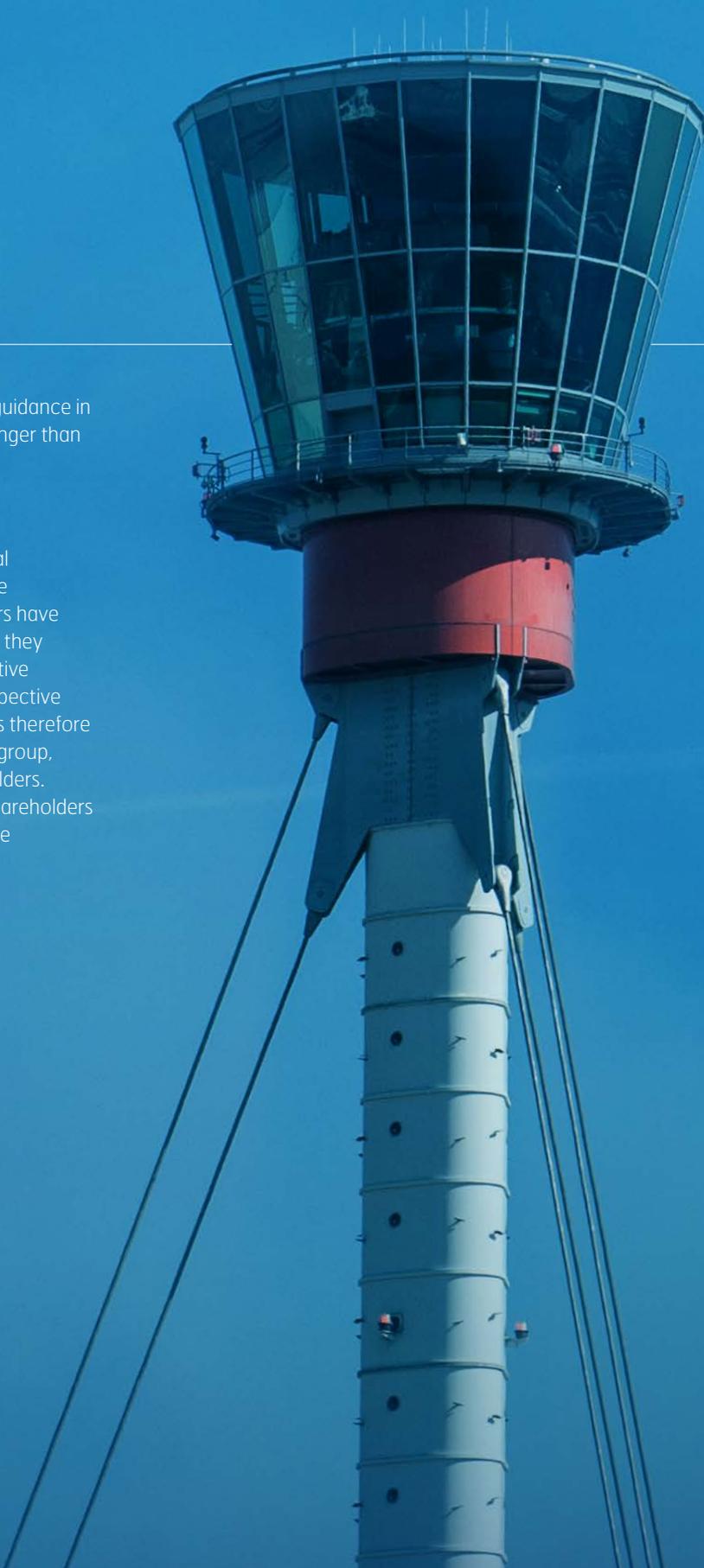
* Years of service to resignation, if earlier.

Governance report (continued)

The group is mindful of the principles behind the guidance in the Code relating to directors who have served longer than nine years.

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 group, 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.



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 Richard Keys. Paul Golby replaced John Devaney in the year and Harry Bush joined in June 2015 to replace Chris Bennett. The Committee members all have wide-ranging commercial and management experience and Richard Keys has 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 separate discussions with the external and internal auditors.

The duties of the Committee include:

- > monitoring the integrity and compliance of the group'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 Companies Act legislation and financial reporting standards, including the requirements of NERL's air traffic services licence; and
- > whether significant estimates and judgements made by management are appropriate.

In addition, the Committee assists the Board in its assessment of 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 position and performance, business model and strategy.

To aid its reviews the Committee considers reports from the Finance Director and from the external auditors on the outcome of the annual audit. 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 £382.8m and tangible assets of £594.5m. 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

Reports from Board Committees

(continued)

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 asset values.

The Committee addressed these matters by considering: NERL's revenue allowances and the cash flows implied by the Reference Period 2 (RP2) settlement, 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 out-performance 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, salary growth 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, independent of the scheme. Note 28 sets out the main actuarial assumptions used, including sensitivity analysis.

Revenue recognition and the 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. NATS' policy is to recognise these revenue adjustments in the year of service, based on traffic, inflation and service performance experienced.

The Committee considered the relevant EC Charging Regulations and the conditions of NERL's air traffic services licence for RP2 in determining whether these revenue adjustments are recoverable. The recoverable revenue allowances are reported in note 16.

b. Internal control

The Board is responsible for the group'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.

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, financing and IT systems.

Reports from Board Committees

(continued)

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 International Organisation for Standardisation (ISO) 31000 risk management standard. Detailed risk identification is carried out at business unit and departmental levels and is recorded and measured in a controlled and managed enterprise-wide database. Regular monthly reports are submitted to the Managing Directors of Operations and Services and the NATS Executive team which address business controls and the progress of mitigating actions associated with NATS' risks.

The Audit Committee reviews the processes in place to identify, assess, mitigate 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 processes and mitigations in place on a rolling basis. The Audit Committee and Board have assessed the group's principal risks and the performance against mitigation plans during the year ended 31 March 2015, and agreed the actions and mitigations in place for the principal risks as at the date of this report.

d. Internal audit

The group'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 work plan.

e. External audit

BDO LLP were appointed as external auditors at the Annual General Meeting on 31 July 2014 after a competitive tender process in 2014. The Committee reviewed the performance of BDO at its June meeting and recommended to the Board that BDO are re-appointed. Accordingly, a resolution recommending their re-appointment will be tabled at the AGM on 30 July 2015.

f. 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.

The principal non-audit services performed by BDO LLP in the year ended 31 March 2015 were expatriate tax services and the provision of a payroll service in Gibraltar. BDO LLP were engaged to provide these services prior to their appointment as external auditor. 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 while they do not impair the independence of the external auditor the Committee has requested that executive management re-tender these services in 2016.

Richard Keys,

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 Paul Golby 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 once in January 2015 to consider succession planning within the NATS group.

The appointments of Harry Bush and Will Facey were made by AG in accordance with the terms of the SPA, following consultation with the other non-executive directors.

I was appointed Chairman following a recruitment process undertaken by AG. The selection of candidates was made on the basis of a role description created with the additional involvement of Richard Keys, as a Partnership Director, and following his feedback on the profiles of potential candidates. This was in order to assure the Secretary of State for Transport on the suitability of the selected candidate, as his written approval was required, as set out in clause 8.5 of the SPA.

Paul Golby,
Chairman of the Nomination Committee

Reports from Board Committees

(continued)

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 Andy Lord with Baroness Dean of Thornton-le-Fylde and Gavin Merchant as members. Paul Golby also attends the meeting (but is absent for discussion about his own remuneration).

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 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.

The company also takes external advice on various aspects of remuneration policy and competitive pay levels from independent consultants. New Bridge Street (NBS) were appointed as independent advisers to the Committee in December 2014, following a tendering process. Prior to this, Kepler Associates advised the Committee. Neither NBS nor Kepler has any other commercial relationship with the company. NBS is a member of the Remuneration Consultants Group and is a signatory to its code of conduct.

Main activities of the Committee during the year

The Committee met seven times in 2014/15 and its main activities during the year were to:

- > review and agree the annual performance related pay targets for the executive team and Personal Contract Group;
- > review and approve achievement of the Long Term Incentive Plan cycle 1 targets and resulting payments;
- > review and agree the Long Term Incentive Plan cycle 4 target proposals 2014-2017 for the executive team; and
- > agree the Personal Contract Group and executive pay review.

Reports from Board Committees

(continued)

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 which 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 company. 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 and other stakeholders and to promote the long term success of the company.

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. In implementing this strategy the Committee adopts the principle that incentive scheme targets must be stretching and in line with the Board's agreed business plans and support the Board's strategic growth plans for NATS.

Executive 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.

Full details of directors' remuneration for 2014/15 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.

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. Martin Rolfe participates in this scheme, as did Richard Deakin until he left NATS.

Reports from Board Committees

(continued)

Annual incentive schemes

An annual performance related pay scheme is in place for executive directors and all staff in the Personal Contract Group.

The annual performance related pay 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 Chief Executive Officer (CEO)). For the group in general, 50% of the performance related pay 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.

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 £1,027 per employee for 105% achievement of EBITDA regardless of seniority, grade or salary level, payable in July 2015 (subject to performance). The first cycle of the scheme paid out £1,000 per employee in July 2014.

Annual performance related pay scheme outcome for 2014/15

Targets relating to the company element of the management performance related pay scheme for 2014/15 were almost fully achieved (yielding 73.8% out of an available 75% of the award) and personal performance ratings for the Board ranged between 6.3% and 25% (out of an available 25%). However, the Remuneration Committee considered that the technical failure on 12 December 2014 was sufficiently serious that the overarching event clause should be invoked and therefore annual bonus payments for the entire Executive team were reduced accordingly by 25%.

Long term incentive scheme

A Long Term Incentive Plan (LTIP) is in place for executive directors and members of the NATS executive team. The LTIP is based on the achievement of a set of financial and strategic targets for rolling three year periods. For cycle 4 this period commenced on 1 April 2014. The scheme provides for a deferred performance related payment in the event of achieving profitability, growth and strategic targets, all subject to the overarching event clause and adjusted to take account of traffic levels.

During 2015/16 the Committee has committed to a review of the existing long term incentive practice and amongst other things will consider whether there is sufficient long term focus and that the measures adopted are aligned with the business strategy.

Reports from Board Committees

(continued)

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 held 1,100 shares (prior to him leaving NATS), Martin Rolfe holds 300 shares and Nigel Fotherby holds 2,777 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2015 to 30 June 2015, values the shares at £4.30 each.

Employment contracts

The employment contracts of Martin Rolfe and Nigel Fotherby provide for 12 months' notice in the event of termination by the company.

Leaving arrangements for former Chief Executive

Richard Deakin's employment contract was terminated by mutual agreement with effect from 30 June 2015. No compensation was paid for loss of office. Payments for contractual entitlements for the year 2014/15 are included in the Directors' remuneration table. In addition to his contractual pay from 1 April to 30 June 2015 and six month's pay in lieu of notice, the company agreed to pay costs on Mr Deakin's behalf, which relate mainly to legal fees and outplacement services.

Arrangements for Chief Executive

With effect from 18 May 2015, Martin Rolfe was appointed as Chief Executive Officer. It is intended that Martin will undertake this role until a permanent appointment is made. His salary for the period of this appointment will be increased to £300,000 and he will receive a completion bonus at the end of the period of £50,000.

Non-executive directors' remuneration

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.

Paul Golby has a contract specifying the remuneration he receives from the company, being £160,000 on an annualised basis.

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 three-year fixed-term contracts and have letters of appointment from the Department for Transport.

Reports from Board Committees

(continued)

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(*) £000	Benefits(*) £000	Performance related payments(*) £000	Long term incentive plan(*) £000	Total 2015(*) £000	Total 2014(*) £000
Chairman							
Dr Paul Golby CBE	1,5	93	8	-	-	101	-
Executive directors							
Martin Rolfe	2	217	16	98	85	416	404
Nigel Fotherby	2	277	11	119	105	512	546
Non-executive directors							
Baroness Dean of Thornton-le-Fylde	5	36	2	-	-	38	36
Richard Keys		36	-	-	-	36	21
Iain McNicoll CB CBE	5	36	2	-	-	38	21
Andy Lord	3	-	-	-	-	-	-
Gavin Merchant	3	-	-	-	-	-	-
Peter Read	3	-	-	-	-	-	-
Tony Tyler	3	-	-	-	-	-	-
Dr Harry Bush CB	3	-	-	-	-	-	-
Will Facey	3	-	-	-	-	-	-
Roger Cato	5	36	2	-	-	38	36
Former directors							
John Devaney	4	67	-	-	-	67	160
Richard Deakin	2,6	445	34	207	257	943	1,049
Paul Reid		-	-	-	-	-	180
Sigurd Reinton		-	-	-	-	-	15
Andrew White		-	-	-	-	-	14
Chris Bennett	3	-	-	-	-	-	-
Warwick Brady	3	-	-	-	-	-	-
Mike Powell	3	-	-	-	-	-	-
		1,243	75	424	447	2,189	2,482

* For year, or from date of appointment or up to date of resignation.

Former directors Giovanni Bisignani, Barry Humphreys and Nigel Turner resigned in the 2014 financial year and received no emoluments for their service in that year.

1 Dr Paul Golby CBE was appointed to the Board on 1 September 2014.

2 These directors participated 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.

3 These directors are appointed by The Airline Group (AG) who charged NATS a total of £45,000 per quarter (2014: £45,000 per quarter) for the services of the directors. Dr Harry Bush CB was appointed on 29 May 2014 and Will Facey was appointed on 27 November 2014. Mike Powell resigned on 29 May 2014, Warwick Brady resigned on 10 September 2014 and Chris Bennett resigned on 4 March 2015.

4 John Devaney resigned from the Board on 31 August 2014.

5 Benefits paid to the Chairman and non-executive directors represent the reimbursement of travel costs.

6 As noted in the Remuneration Committee's report, Richard Deakin resigned as a director on 18 May 2015 and leaves the company on 30 June 2015. His emoluments for the year ended 31 March 2015, including performance related payments and entitlements under the Long Term Incentive Plan, (cycle 2) reflect his contractual entitlement to that date. In addition to his contractual pay from 1 April to 30 June 2015 and six month's pay in lieu of notice, the company agreed to pay costs on Mr Deakin's behalf, which relate mainly to legal fees and outplacement services.

Reports from Board Committees

(continued)

Audited information

Directors' remuneration (continued)

Interests of the directors in the Long Term Incentive Plan (LTIP):

From April 2011, the company introduced a rolling three year executive LTIP, entitling the executive directors to performance related pay contingent on achieving financial and strategic targets. Cycle 2 commenced in April 2012 and vested on 31 March 2015.

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

	Cycle 2	Cycles 3 & 4
Richard Deakin	90.0%	n/a
Martin Rolfe	62.5%	75.0%
Nigel Fotherby	62.5%	75.0%

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.

Nigel Fotherby is a member of the CAA Pension Scheme, a defined benefit pension scheme. The value of his accrued pension benefit in the year was as follows:

	2015 £000	2014 £000
Nigel Fotherby	88	88

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 value is inclusive of contributions paid by the employer on behalf of Nigel Fotherby via a salary sacrifice arrangement.

The principal terms of the company's defined contribution scheme are explained in note 28 to the financial statements. Martin Rolfe is a member of the scheme. Richard Deakin was a member during the financial year (and until his departure from NATS on 30 June 2015). The company paid contributions in the year for Martin Rolfe of £41,708 and for Richard Deakin of £87,946. Under the company's pension salary sacrifice arrangement, Martin and Richard sacrificed £20,854 and £43,973 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. There were no shares sold during the year.

Reports from Board Committees

(continued)

Audited information

Directors' remuneration (continued)

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

Name of director	Exercisable (brought forward)	Date from which exercisable:		Exercisable (granted in year)	29/05/2019 (granted in year)	Total holding (number of shares)	Value at	Value at
		29/02/2016 (brought forward)	25/09/2017 (brought forward)				31 March 2015 (at £4.30 each)	31 March 2014 (at £4.50 each)
							£	£
Richard Deakin	400	200	200	150	150	1,100	4,730	3,600
Martin Rolfe	-	-	-	150	150	300	1,290	-
Nigel Fotherby	2,377	200	200	-	-	2,777	11,941	12,497
	<u>2,777</u>	<u>400</u>	<u>400</u>	<u>300</u>	<u>300</u>	<u>4,177</u>	<u>17,961</u>	<u>16,097</u>

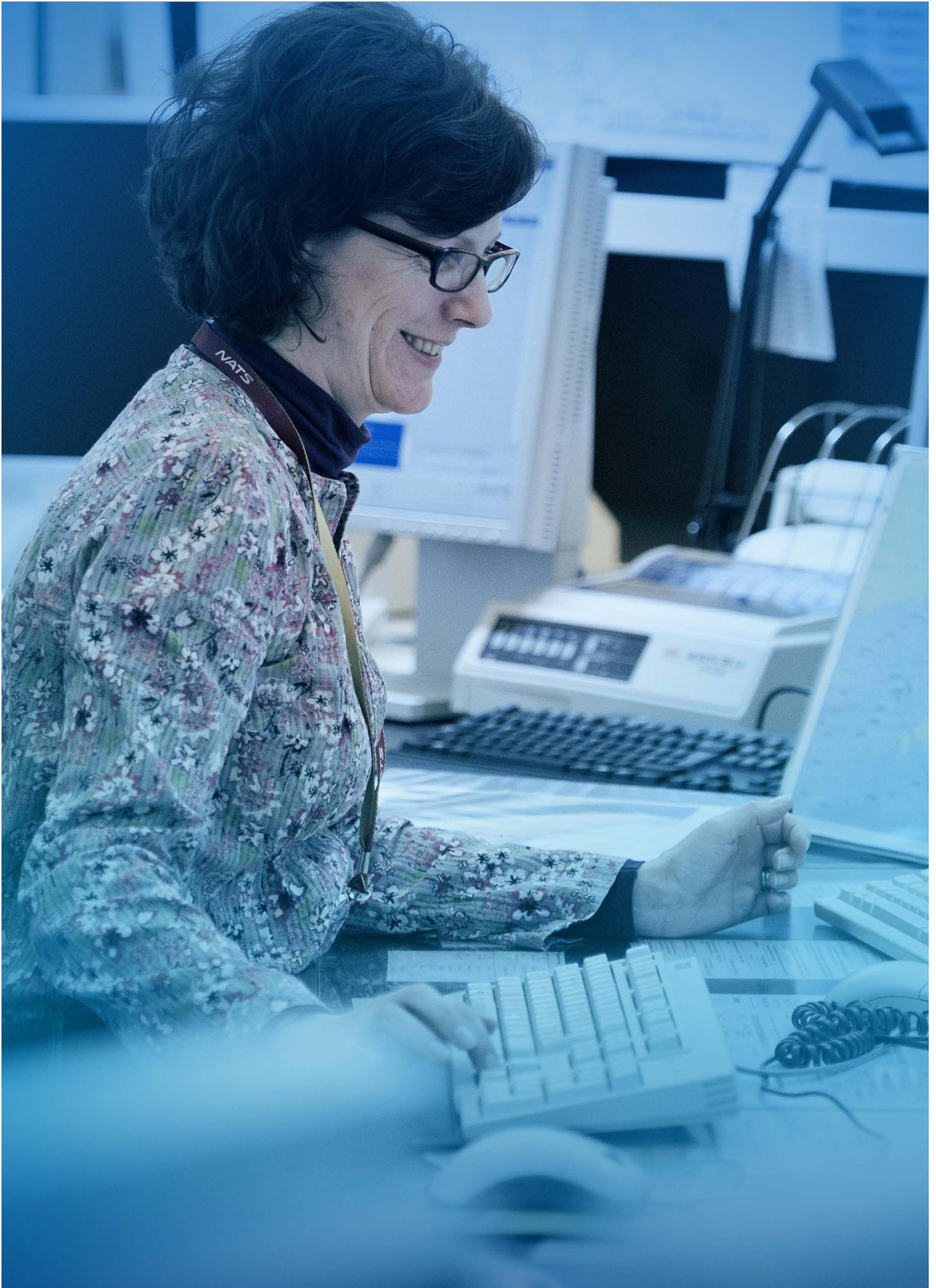
Richard Deakin's shares will be sold on his departure from the company at £4.30 each (being the prevailing valuation for the staff share scheme).

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 2014.

Andy Lord,

Chairman of the
Remuneration Committee



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 has separate in-depth briefings as required. 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 group's safety performance;
- > monitor the implementation of safety enhancement programmes; and
- > make recommendations to the Board for improving the group's safety and security management systems.

The Committee is chaired by Iain McNicoll and there are two other non-executive directors as members, Will Facey and Roger Cato. Will Facey joined the Committee in November 2014 replacing Warwick Brady. The following are invited to attend each meeting by standing invitation:

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

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;
- > Professor Don Harris, Professor of Human Factors, Faculty of Engineering and Computing at Coventry University; and
- > Captain John Monks, Head of Aviation Safety, British Airways (from November 2014).

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 CAA (the UK regulator) and, whilst NATS can, and has, taken mitigating actions to protect aircraft operating within controlled airspace from infringing aircraft, solutions to the causes of infringements lie with the CAA. The Committee has therefore encouraged and supported the NATS executives in engaging with the CAA, and met the CAA's Director Safety and Airspace Regulation at its December 2014 meeting. This cooperative activity has resulted in the establishment of five Infringement Hotspot improvement projects. These are joint projects with the Airport Operators Association and the Airspace Infringement Working Group. Over the following year, we will continue to monitor and support these projects to completion, and we will maintain a dialogue with the CAA on this key safety topic.

Reports from Board Committees

(continued)

-
- > **Improvement activities in NATS Airports service line:** The comprehensive programme of performance improvements for the NATS Airports service line, which began during 2013/14, has continued during the year. The Committee has encouraged and monitored this programme and noted with approval that the intended improvements have started to come to fruition; the Committee will continue to monitor this programme next year.
 - > **Safety Strategy and Safety Plan:** The Committee has continued to monitor the delivery of the NATS Safety Strategy and Safety Plan. We have been specifically briefed on activities in the areas of:

 - > *Human Performance* – including the development of the Fatigue Risk Management strategy and awareness programme.
 - > *Level Busts* – activities undertaken with airlines and the CAA to reduce the risk of Level Busts and to mitigate their impact when they occur.
 - > *Safety Intelligence* – the programme of work underway to broaden the scope of measures used to understand our safety performance. The Committee is especially keen to see the development of leading rather than lagging indicators; the work shows promise and we look forward to making further progress next year.
 - > **Safety Governance and Oversight Review:** Jointly with the Audit Committee, a review of Safety Governance and Oversight was commissioned. This was conducted by Atkins Global and the headline summary was:

“The NATS Board, through the Safety Review Committee, provides sound governance and effective direction and challenge to NATS operations. The structures and processes underpinning the governance and oversight are clear, with accountabilities and responsibilities generally well understood.”
- The review made ten recommendations which the NATS Executives accepted. The Committee will monitor the implementation of these recommendations over the coming year.
- > **Safety Culture Survey:** In support of maintaining a robust safety culture, the Committee has supported the Executive in the conducting of the Eurocontrol Safety Culture Survey. We were pleased to note that the response rate was above average in Europe and that the results showed a favourable response in all elements of the assessment.
 - > **Resilience:** Following the equipment failures on 12 December 2014 the Committee has received a briefing on the safety aspects of Operational Fallbacks. This briefing covered both the transitional period and the subsequent operation in reversionary modes.
- 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 and Environmental 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.
 - > **Travel Security:** With NATS increasing presence overseas, a dedicated Travel Security Governance Group, chaired by the Head of Internal Audit, has been established, along with approval and escalation procedures for assessing travel risks. Additionally, the Committee has been briefed on the introduction of Hostile Environment training.
-

Reports from Board Committees

(continued)

> **Business Continuity:** The Committee supports the activities undertaken by the Executives to ensure appropriate Crisis Management arrangements remain in place and effective. Review of procedures and training exercises for the Silver Teams at Prestwick and Swanwick have taken place. Further to this, a comprehensive review of Gold Team arrangements and facilities has been completed. We will monitor the implementation of the identified changes during the following year.

> **Vetting:** NATS has a mature vetting process, with direct access to the Police National Computer and a newly introduced online vetting process via an outsourced service hosted by the Foreign and Commonwealth Office. Key performance indicators are reported which demonstrate the effectiveness and coverage of the process.

c. Cyber security

As the sole provider of UK en route air traffic management, NATS is part of the UK's critical national infrastructure. 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 threats from a multitude of sources.

NATS remains committed to the active management of cyber security risks and has, over the past 12 months, employed a new Chief Information Security Officer (CISO) and significantly increased the resources dedicated to this area through an agreement with PricewaterhouseCoopers (PwC).

Through regular review of the strategy, and of progress against a detailed cyber plan, 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.

A new, mandatory cyber security change programme was launched in early 2015 and work has continued to attain ISO 27001 certification, the international quality standard for information security management. NATS will be undergoing the required ISO 27001 external audits in the middle of 2015.

Iain McNicoll, CB CBE

Chairman of the Safety Review Committee

Reports from Board Committees

(continued)

Technical Review Committee report

The role of the Technical Review Committee

The role of the Technical Review Committee is to support the Board in monitoring the development and introduction of cost effective technical systems and services in support 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 group's technical objectives; and
- > making recommendations to the Board on means for improving the group's technical systems, their implementation and 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;
- > Director, Operations Strategy;
- > Chief Systems 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.

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. The following issues have received focus by the Committee.

SESAR

This is the European wide standard for future systems, designed to produce a step change in safety, performance and efficiency. The main challenge in the years ahead is the introduction of SESAR compliant systems. Each of the main programme components represents a significant change to the operation and to systems. The size and complexity of the composite programme brings an additional scale of risk to the business as a whole, which the Committee is committed to review on a continuing basis, in order to provide the necessary levels of reassurance to the Board. Key elements are:

a. Interoperability Through European Collaboration (iTEC)

This is the new generation of core flight data processing systems. The first deployment in NATS is now in progress in the Scottish Area Control Centre in Prestwick.

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

Reports from Board Committees

(continued)

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 represents a major change in concept for controllers, and hence carries 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 the environment; all such changes require conscientious effort to gain informed support from all parties.

c. New controller workstation and other projects

The new generation of workstations will provide much of the additional functionality in support of the core system.

Transition Altitude

This is the point at which all aircraft change from standard pressure setting (at altitude) to sea level pressure (for local terrain clearance). A proposed alignment from various altitudes to a revised universal Transition Altitude at 18,000ft across Europe is in discussion, and is likely to be implemented in any case in UK airspace. It will necessarily carry risks during transition.

Time Based Separation

This concept changes the method of separation of aircraft on the approach to major airports from a distance base to a time base. It has been successfully implemented at Heathrow to good effect, thereby significantly reducing disruption and delays caused by strong weather conditions.

Transition Operations Room

As part of the fundamental change in operating methodology a transitional operations room has been created. This will be redundant when the full migration to new operating methods under SESAR is complete. It is in build at the year end and the Committee will closely monitor the programme for implementation.

Resilience

Resilience of operational systems results from a combination of reliability and powers of recovery. Over many years NATS has been successful in implementing highly resilient systems, necessary to the fulfilment of its mission. The Committee is considering the subject in more depth as a result of a small number of significant recent events. The objective is to balance the levels of investment against realistic expectations of resilience in a complex systems environment.

Peter Read

Chairman of the Technical Review Committee

Report of the directors

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 2015. The Governance report is set out on pages 51 to 57 and forms part of this report.

Details of significant events since the balance sheet date are contained in note 32 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 £51.0m (35.65 pence per share) and £26.0m (18.18 pence per share) were approved (2014: £62.0m). The Board recommends a final dividend for the year of £nil (2014: £nil).

In May 2015, the Board approved and the company paid an interim dividend of £54.4m (38.03 pence per share) for the year ending 31 March 2016.

Directors and their interests

The directors of the company at the date of this report are set out on pages 45 to 49. 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 51.

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 pages 65 and 68.

None of the directors have, or have had, a material interest in any contract of significance in relation to the group'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; and 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 21. Subsequent events are disclosed in note 32 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 group and of the parent company, and of the profit or loss of the group and the parent 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 group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the directors

(continued)

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 group'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 group'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 group'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 IFRSs as adopted by the European Union (EU), give a true and fair view of the assets, liabilities, financial position and profit or loss of the group;
- > the Strategic report includes a fair review of the development and performance of the business and the position of the group, 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 group's position and performance, business model and strategy.

Auditor

BDO LLP was appointed as auditor at the Annual General Meeting on 31 July 2014. A resolution to re-appoint BDO LLP will be proposed at the Annual General Meeting.

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

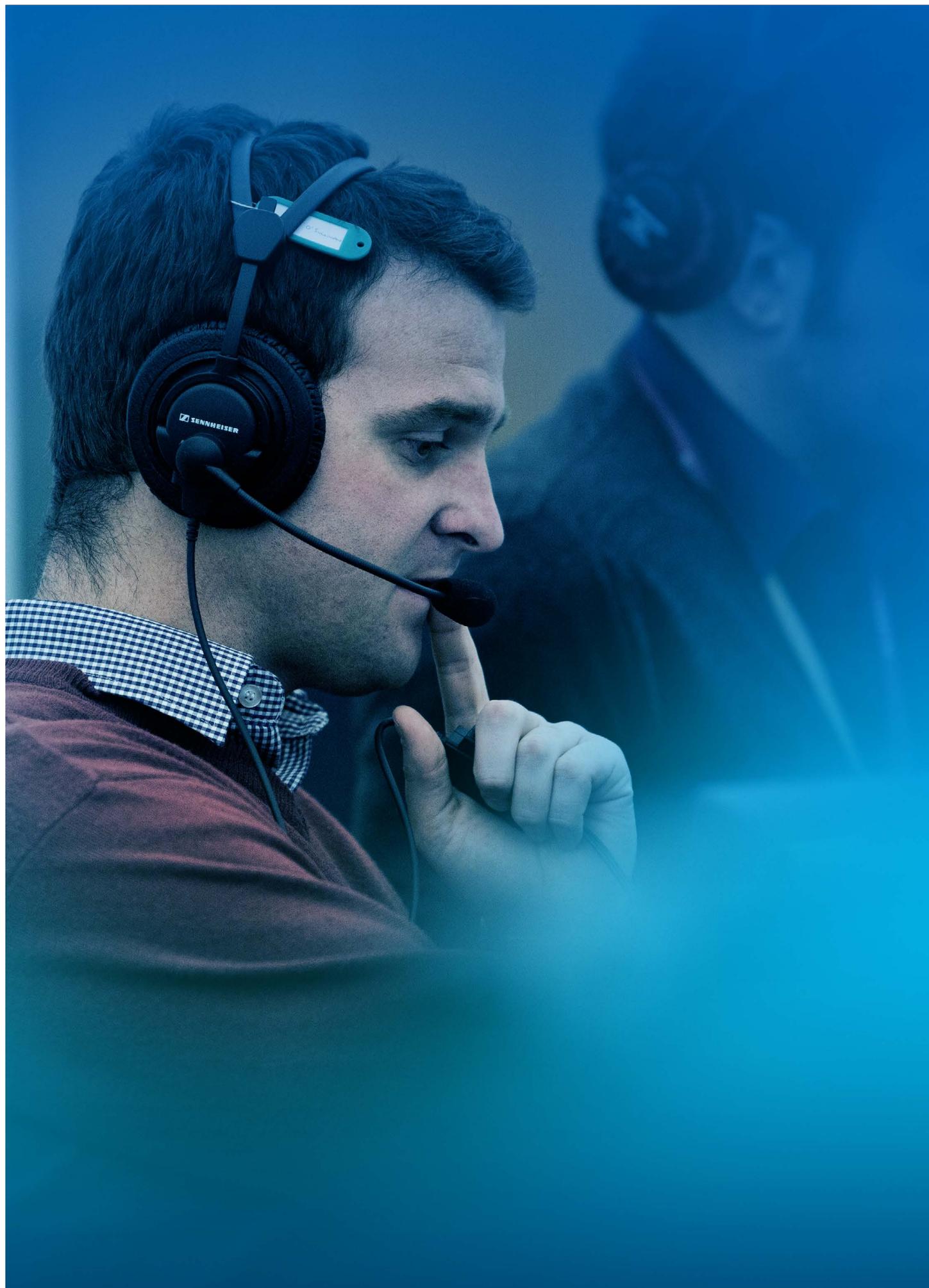


Richard Churchill-Coleman
Secretary

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 the parent company's affairs as at 31 March 2015 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) adopted by the European Union;**
- > **the parent company financial statements have been properly prepared in accordance with IFRSs 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.**

The financial statements of NATS Holdings Limited for the year ended 31 March 2015 comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the parent company balance sheet, the consolidated and company statement of changes in equity, the consolidated cash flow statement and the related notes. 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.

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 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the group financial statements, in addition to applying IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

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

(continued)

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

As a result of a contractual agreement between the company's shareholders requiring compliance with certain aspects of the UK Corporate Governance Code, the directors have included a corporate governance statement relating to the company's compliance with the UK Corporate Governance Code, a statement in relation to going concern and a directors' remuneration report and have asked us to report on these statements as if the company were listed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the group financial statements as a whole was set at £9m. This has been determined with reference to a benchmark of revenue, of which it represents 1%, which is considered to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £180,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

(continued)

Our assessment of risks of material misstatement and overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the group's activities, assessing each component within the group and considering the overall control environment. We carried out full scope audits on all significant components which covered 100% of the group's revenue. We performed limited procedures on the remaining components. Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response:

Risk	How the scope of our audit responded to the risk
<p>Revenue recognition and the recoverability of the regulatory assets:</p> <p>The group generates revenue in relation to Airspace, Airports, Engineering and Other services.</p> <p>In determining the revenues recognised, management makes key judgements about material revenue adjustments that are recoverable in subsequent accounting periods.</p>	<p>We have reviewed each significant revenue stream to ensure it is appropriately accounted for, and that we concur with the accounting policies applied.</p> <p>We have reviewed and tested each of the revenue streams to ensure that the revenue is being recognised in line with the group policy and in the case of NATS Airspace to ensure that it is in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the RP2 settlement.</p> <p>We have specifically considered and challenged management over the recoverability of the accrued income which at year end is split into four main categories; Eurocontrol accrued income for March 2015; the risk sharing revenue recognised due to low traffic volumes; the allowed inflationary adjustments; and the unrecovered balance remaining from prior periods.</p> <p>We have also reviewed individual judgements including the discount rate applied to revenue adjustments.</p>
<p>Pension scheme valuation:</p> <p>The NATS Holdings Limited group operates a defined benefit pension scheme, which is accounted for in accordance with IAS 19 'Employee Benefits' which require complex calculations and disclosures.</p> <p>Management make a number of judgements and actuarial assumptions which have a significant impact on the valuation of pension scheme assets and liabilities and hence on the amounts shown in the consolidated income statement and the consolidated statement of comprehensive income.</p> <p>This includes assessment in respect of recognition of any retirement benefit asset under IAS 19.</p>	<p>We have reviewed the accounting treatment and disclosures and considered them in light of the assumptions made under the most recent triennial valuation.</p> <p>We have worked with our pension specialists to assess the validity of assumptions applied, and performed a detailed review of the scheme actuary's annual update valuation report in conjunction with additional procedures.</p> <p>In addition, we have performed audit procedures in order to substantiate the value of the scheme assets. This included selecting a sample of investments held at the balance sheet date and comparing their value to available market data.</p>

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

(continued)

Risk	How the scope of our audit responded to the risk
<p>Carrying value of goodwill:</p> <p>In accordance with the group's accounting policies, management have undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount.</p> <p>In calculating an appropriate valuation for the recoverable amount of the regulatory business, the premium applied to the Regulatory Asset Base (RAB) continues to be a key judgement, alongside the estimate of future cash flows.</p>	<p>We have reviewed and understood the terms and conditions of the current contract for the regulatory Reference Period (RP2) and assessed the impact this has on management's assessment of the carrying amount of goodwill.</p> <p>We have reviewed and challenged management's current assessment of the carrying amount of goodwill. We have reviewed the overall methodology, cash flow forecasts, discount rate assumptions and benchmarking available to support the RAB premium.</p> <p>We have also reviewed and tested the sensitivity calculations applied by management and the validity of the applied impairment charge.</p>
<p>Capital investment programme:</p> <p>The group invests significant sums in the sustainment and development of air traffic control infrastructure.</p> <p>A substantial proportion of the costs incurred are the amounts charged by staff employed by the group which are capitalised to specific projects.</p> <p>There is a risk that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated.</p>	<p>We have worked closely with the project managers outside of the group finance team in order to gain an understanding of the most significant capital projects and assess them for impairment factors.</p> <p>We have carried out audit procedures on capitalised projects focusing on the appropriateness of the labour rates being used and the level of labour costs capitalised.</p> <p>We have also assessed managements' judgement around the useful economic lives of currently deployed systems to ensure that the position taken is reasonable. We have also considered management's assessment of any indicators of impairment against the carrying value of property, plant and equipment, including the feasibility of assets under the course of construction.</p>

The Audit Committee's consideration of these judgements is set out on pages 58 to 60.

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

(continued)

Opinion on other matters prescribed by the Companies Act

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

Opinion on other matters

In our opinion, the part of the directors' remuneration report that is described as having being audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would apply if the company was a listed company.

Matters on which we are required to report by exception

Our duty to read other information in the Annual Report and Accounts

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report 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 company acquired in the course of performing our audit; or
- > is 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 is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Adequacy of explanations received and accounting records

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

- > adequate accounting records have not been kept by the 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; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

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

(continued)

Other matters

We have also reviewed:

- the directors' statement, set out on page 21, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.



Malcolm Thixton

(senior statutory auditor)
for and on behalf of BDO LLP, statutory auditor
Southampton, UK

25 June 2015

BDO LLP is a limited liability partnership registered in England and Wales
(with registered number OC305127).

Financial Statements

Consolidated income statement

for the year ended 31 March

	Notes	2015			2014		
		Before exceptional items £m	Exceptional items £m	Result for the year £m	Before exceptional items £m	Exceptional items £m	Result for the year £m
Revenue	4	922.4	-	922.4	917.6	-	917.6
Staff costs	7	(403.8)	(9.2)	(413.0)	(419.1)	(40.8)	(459.9)
Services and materials		(74.7)	-	(74.7)	(79.3)	-	(79.3)
Repairs and maintenance		(40.6)	-	(40.6)	(36.4)	-	(36.4)
External research and development		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Depreciation, amortisation and impairment	6	(110.3)	(17.0)	(127.3)	(107.7)	(32.0)	(139.7)
(Loss)/profit on disposal of non-current assets		(0.2)	-	(0.2)	4.2	-	4.2
Other operating charges		(44.8)	-	(44.8)	(40.3)	-	(40.3)
Other operating income		4.1	-	4.1	0.7	-	0.7
Deferred grants released	6	0.8	-	0.8	0.7	-	0.7
Net operating costs		(669.6)	(26.2)	(695.8)	(677.3)	(72.8)	(750.1)
Operating profit	6	252.8	(26.2)	226.6	240.3	(72.8)	167.5
Share of results of associates and joint ventures	30	1.0	-	1.0	0.2	-	0.2
Investment revenue	8	4.8	-	4.8	6.0	-	6.0
Fair value movement on derivative contract	9	1.5	-	1.5	17.7	-	17.7
Finance costs	10	(33.6)	-	(33.6)	(33.9)	-	(33.9)
Profit before tax		226.5	(26.2)	200.3	230.3	(72.8)	157.5
Tax	11	(45.3)	1.9	(43.4)	(37.6)	9.4	(28.2)
Profit for the year attributable to equity shareholders		181.2	(24.3)	156.9	192.7	(63.4)	129.3

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2015 £m	2014 £m
Profit for the year after tax		156.9	129.3
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on defined benefit pension scheme	28	(374.4)	(58.4)
Deferred tax relating to items that will not be reclassified subsequently	22	75.2	13.0
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(1.3)	(0.7)
Transfer to income statement on cash flow hedges		(4.2)	0.4
Currency translation differences arising on consolidation of equity accounted foreign operations	30	(0.3)	–
Deferred tax relating to items that may be reclassified subsequently	22	1.2	0.1
Other comprehensive loss for the year, net of tax		<u>(303.8)</u>	<u>(45.6)</u>
Total comprehensive (loss)/income for the year attributable to equity shareholders		<u><u>(146.9)</u></u>	<u><u>83.7</u></u>

Consolidated balance sheet

at 31 March

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill	13	302.0	319.0
Other intangible assets	14	382.8	330.0
Property, plant and equipment	15	594.5	604.1
Interest in associates and joint ventures	30	2.1	1.6
Loan to joint ventures	30	0.4	0.6
Trade and other receivables	16	64.9	70.2
		<u>1,346.7</u>	<u>1,325.5</u>
Current assets			
Loan to joint ventures	30	0.1	0.1
Trade and other receivables	16	207.7	184.0
Short term investments	19	29.7	29.7
Cash and cash equivalents	19	237.3	211.6
Derivative financial instruments	18	4.0	0.4
		<u>478.8</u>	<u>425.8</u>
Total assets		<u>1,825.5</u>	<u>1,751.3</u>
Current liabilities			
Trade and other payables	20	(147.7)	(125.1)
Current tax liabilities		(16.0)	(17.4)
Borrowings	17	(29.7)	(28.6)
Provisions	21	(10.7)	(28.1)
Derivative financial instruments	18	(3.6)	(0.3)
		<u>(207.7)</u>	<u>(199.5)</u>
Net current assets		<u>271.1</u>	<u>226.3</u>
Non-current liabilities			
Trade and other payables	20	(56.3)	(36.2)
Borrowings	17	(616.0)	(620.6)
Retirement benefit obligations	28	(353.0)	(12.3)
Deferred tax liability	22	(19.2)	(87.8)
Provisions	21	(10.6)	(8.4)
Derivative financial instruments	18	(129.0)	(128.9)
		<u>(1,184.1)</u>	<u>(894.2)</u>
Total liabilities		<u>(1,391.8)</u>	<u>(1,093.7)</u>
Net assets		<u>433.7</u>	<u>657.6</u>
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		(4.0)	0.3
Translation reserve		(0.3)	–
Other reserves		(34.7)	(34.7)
Retained earnings		332.0	551.3
Total equity		<u>433.7</u>	<u>657.6</u>

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 25 June 2015 and signed on its behalf by:

Paul Golby
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	Translation reserve £m	Other reserves ¹ £m	Retained earnings £m	Total £m
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 loss for the year	-	-	-	(0.2)	-	-	(45.4)	(45.6)
Total comprehensive (loss)/ income for the year	-	-	-	(0.2)	-	-	83.9	83.7
Dividends paid	-	-	-	-	-	-	(62.0)	(62.0)
At 31 March 2014	<u>140.6</u>	<u>0.4</u>	<u>(0.3)</u>	<u>0.3</u>	<u>-</u>	<u>(34.7)</u>	<u>551.3</u>	<u>657.6</u>
At 1 April 2014	140.6	0.4	(0.3)	0.3	-	(34.7)	551.3	657.6
Profit for the year	-	-	-	-	-	-	156.9	156.9
Other comprehensive loss for the year	-	-	-	(4.3)	(0.3)	-	(299.2)	(303.8)
Total comprehensive loss for the year	-	-	-	(4.3)	(0.3)	-	(142.3)	(146.9)
Dividends paid	-	-	-	-	-	-	(77.0)	(77.0)
At 31 March 2015	<u>140.6</u>	<u>0.4</u>	<u>(0.3)</u>	<u>(4.0)</u>	<u>(0.3)</u>	<u>(34.7)</u>	<u>332.0</u>	<u>433.7</u>

¹ Other reserves arose on the completion of the PPP transaction in July 2001.

Consolidated cash flow statement

for the year ended 31 March

	Note	2015 £m	2014 £m
Net cash from operating activities	25	<u>283.8</u>	<u>263.3</u>
Cash flows from investing activities			
Interest received on short term investments		1.3	1.2
Purchase of property, plant and equipment and other intangible assets		(148.7)	(122.1)
Proceeds of disposal of property, plant and equipment		1.2	2.9
Investment in joint ventures		(0.1)	(0.4)
Changes in short term investments		-	0.4
Dividend received from associate		0.2	0.2
Net cash outflow from investing activities		<u>(146.1)</u>	<u>(117.8)</u>
Cash flows from financing activities			
Interest paid		(31.1)	(32.7)
Interest received on derivative financial instruments		0.7	0.9
Repayment of bond principal		(29.8)	(28.4)
Bank and other loans		25.0	(9.0)
Dividends paid		(77.0)	(62.0)
Repayment from/(loan to) joint ventures		0.2	(0.7)
Net cash outflow from financing activities		<u>(112.0)</u>	<u>(131.9)</u>
Increase in cash and cash equivalents during the year		25.7	13.6
Cash and cash equivalents at 1 April		<u>211.6</u>	<u>198.0</u>
Cash and cash equivalents at 31 March		<u><u>237.3</u></u>	<u><u>211.6</u></u>
Net debt (representing borrowings net of cash and short term investments)		<u><u>(378.7)</u></u>	<u><u>(407.9)</u></u>

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 77. 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 21. 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.

During the year, the group has adopted the amendments to IAS 32, on offsetting financial assets and liabilities, IAS 36 on recoverable amount disclosures for non-financial assets and IAS 39, on novation of derivatives and continuation of hedge accounting. The group has also adopted IFRIC Interpretation 21 'Levies'. The adoption of these amendments and the Interpretation has not had a significant impact on the group's profit for the period, net assets or cash flows.

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 15: *Revenue from Contracts with Customers*

IFRS 10 and IAS 28 (amendments): *Sale or Contributions of Assets Between an Investor and its Associate or Joint Venture*

IAS 1 (amendments): *Disclosure Initiative*

IAS 16 and IAS 38 (amendments): *Clarification of Acceptable Methods of Depreciation and Amortisation*

IAS 19 (amendments): *Defined Benefit Plans: Employee Contributions*

IFRS 9 *Financial Instruments* deals with classification of financial assets and liabilities, hedge accounting and introduces a new expected credit losses model. The standard is expected to have two main impacts on the group: the adoption of the expected credit losses model in assessing the fair value of trade and contract receivables; and the option to recognise the impact of changes in own credit risk in other comprehensive income rather than the income statement. The standard is effective for reporting periods beginning on or after 1 January 2018 subject to EU endorsement. The group will assess the impact of IFRS 9 closer to the implementation date.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service. The standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 but the IASB is currently consulting on whether to defer this date until 1 January 2018. The group will assess the impact of IFRS 15 closer to the implementation date.

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.

Notes forming part of the consolidated accounts

(continued)

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; and
- 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 group'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.

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 and goodwill impairment costs but before the group's share of results of joint ventures and associates, investment income, finance costs and taxation.

Notes forming part of the consolidated accounts

(continued)

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.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the group's policy on borrowing costs (see below).

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.

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

Notes forming part of the consolidated accounts

(continued)

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 joint ventures and associates

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.

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.

Notes forming part of the consolidated accounts

(continued)

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

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

Share-based payments

The group has applied the requirements of IFRS 2: *Share-Based Payments*.

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

Notes forming part of the consolidated accounts

(continued)

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 remeasured 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 is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to taxes levied by the same taxation authority and the 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 group's financial statements as outlined above, subject to the impact of other developments in the group's tax position which may reduce the beneficial effect of this in the group's tax rate.

Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional

Notes forming part of the consolidated accounts

(continued)

currency of the group, and the presentation currency for the consolidated financial statements. For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

In preparing the financial statements of the individual companies, 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 cost 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 into 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, 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.

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.

Notes forming part of the consolidated accounts

(continued)

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.

Other than loans and receivables the group does not have financial assets in other categories.

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.

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.

Notes forming part of the consolidated accounts

(continued)

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 group 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 5-6% (2014: 7-8%). 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 position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income.

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 position.

Recoverability of revenue allowances

The economic regulatory price controls for UK en route services for Control Period 3 (2011 to 2014) and Reference Period 2 (2015 to 2019) 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 two 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 £121.7m at 31 March 2015 (2014: £108.8m). 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 group expects to recover these amounts through adjustments to prices in RP2.

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:

	2015 £m	2014 £m
NATS Airspace	716.1	719.9
NATS Airports	176.5	170.2
NATS Engineering	16.7	13.4
Other NATS Service lines	13.1	14.1
	<u>922.4</u>	<u>917.6</u>
Other operating income	4.1	0.7
Investment revenue (see note 8)	4.8	6.0
	<u>931.3</u>	<u>924.3</u>

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 £4.2m gain (2014: £0.4m loss).

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 services to military customers 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.

Segment information about these activities is presented below.

Notes forming part of the consolidated accounts

(continued)

5. Business and geographical segments (continued)

Revenue

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

	2015			2014		
	Revenue £m	Intra-group revenue £m	External revenue £m	Revenue £m	Intra-group revenue £m	External revenue £m
NATS Airspace	738.5	(22.4)	716.1	740.7	(20.8)	719.9
NATS Airports	190.2	(13.7)	176.5	183.6	(13.4)	170.2
NATS Engineering	18.6	(1.9)	16.7	15.6	(2.2)	13.4
Other NATS Service lines	18.5	(5.4)	13.1	18.8	(4.7)	14.1
	<u>965.8</u>	<u>(43.4)</u>	<u>922.4</u>	<u>958.7</u>	<u>(41.1)</u>	<u>917.6</u>

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:

	2015 £m	2014 £m
NATS Airspace	380.2	391.6
NATS Airports	62.1	57.3
NATS Engineering	4.8	2.2
Other NATS Service lines	4.3	4.8
Service line contribution	<u>451.4</u>	<u>455.9</u>
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(109.5)	(107.0)
Impairment of goodwill	(17.0)	(32.0)
(Loss)/profit on disposal of non-current assets	(0.2)	4.2
Pension accrual rate variances to budget	-	(20.7)
Employee share scheme costs	-	(4.4)
Redundancy and relocation costs	(10.8)	(41.3)
Cost of investment in business growth	(6.2)	(6.2)
Professional fees and costs	(0.1)	-
Consolidation adjustments	(0.6)	(0.9)
Other costs not directly attributed to service lines	(80.2)	(80.4)
Above the line tax credits	0.8	0.5
Less: share of results of associates and joint ventures	<u>(1.0)</u>	<u>(0.2)</u>
Operating profit	<u><u>226.6</u></u>	<u><u>167.5</u></u>

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

Non-current assets additions

The group reports additions to non-current assets by legal entity rather than by operating segment. Additions in NERL were £152.3m (2014: £125.6m) and in NATS Services £1.2m (2014: £4.1m).

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 and financial assets) by geographical location:

	Revenue from external customers		Non-current assets	
	2015 £m	2014 £m	2015 £m	2014 £m
UK	492.6	486.1	979.3	934.2
Rest of Europe	261.2	260.7	1.7	2.2
North America	112.6	115.8	0.9	0.9
Other	56.0	55.0	-	-
	<u>922.4</u>	<u>917.6</u>	<u>981.9</u>	<u>937.3</u>

Information about major customers

Included in revenues arising from NATS Airspace are revenues of £81.2m (2014: £83.0m – NATS Airspace) 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 (Services) Limited is undertaking a reorganisation, which included voluntary redundancies in the year. Last year, NATS (En Route) plc undertook 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 are incurred as a result of the redeployment of staff following site closures or following contract termination. Credits are reported where costs incurred were lower than originally estimated. To the extent that staff cannot be redeployed, termination terms are agreed. In response to the economic downturn and changes in technology, voluntary redundancy may also be offered to staff in some areas of the business.

	2015 £m	2014 £m
Exceptional redundancy costs	9.2	40.8
Other redundancy costs	1.2	0.6
Relocation of staff to the Prestwick centre	-	(0.1)
Relocation relating to the Birmingham Airport contract	0.4	-
	<u>10.8</u>	<u>41.3</u>

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	2015	2014
	£m	£m
CAA regulatory charges in respect of NERL's air traffic services licence	5.6	5.5
CAA regulatory charges for safety regulation at airports	3.2	3.0
Impairment of goodwill	17.0	32.0
Depreciation of property, plant and equipment	79.3	78.0
Impairment of property, plant and equipment	0.4	2.0
Amortisation of intangible assets	30.2	27.7
Impairment of intangible assets	0.4	-
Deferred grants released	(0.8)	(0.7)
Research and development costs	7.9	7.4
Above the line tax credits relating to research and development costs	(0.8)	(0.5)
Auditor's remuneration for audit services (see below)	<u>0.1</u>	<u>0.2</u>

The analysis of auditor's remuneration is as follows:

	2015	2014
	£m	£m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.1	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	<u>0.1</u>	<u>0.2</u>

Total non-audit fees of £75,740 (2014: £84,529) include tax services of £63,740 (2014: £nil) and other services of £12,000 (2014: £84,529). Total fees payable to the company's auditor for the audit of the subsidiary accounts was £23,800 (2014: £40,800).

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 installments 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

	2015 £m	2014 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	315.1	352.0
Social security costs	33.6	33.1
Pension costs (note 7b)	112.4	119.2
	<u>461.1</u>	<u>504.3</u>
Less: amounts capitalised	(48.1)	(44.4)
	<u>413.0</u>	<u>459.9</u>

Wages and salaries include redundancy costs of £8.1m (2014: £39.5m), share-based payment charges, other allowances and holiday pay. Pension costs include £2.3m (2014: £1.9m) for redundancy related augmentation payments which staff elected to receive in lieu of severance payments.

b. Pension costs

	2015 £m	2014 £m
Defined benefit pension scheme costs (note 28)	105.0	113.3
Defined contribution pension scheme costs	7.4	5.9
	<u>112.4</u>	<u>119.2</u>

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

c. Staff numbers

	2015 No.	2014 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,748	1,843
Air traffic service assistants	701	723
Engineers	965	996
Others	928	957
	<u>4,342</u>	<u>4,519</u>

Notes forming part of the consolidated accounts

(continued)

8. Investment revenue

	2015 £m	2014 £m
Interest on bank deposits	1.1	0.9
Other loans and receivables	3.7	5.1
	<u>4.8</u>	<u>6.0</u>

Interest on bank deposits has been earned on financial assets, including cash and cash equivalents and short term investments. 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

	2015 £m	2014 £m
Credit arising from change in the fair value of derivatives not qualifying for hedge accounting (before credit value adjustment)	1.8	15.4
Credit value adjustment on derivatives not qualifying for hedge accounting	(0.3)	2.3
	<u>1.5</u>	<u>17.7</u>

10. Finance costs

	2015 £m	2014 £m
Interest on bank overdrafts, loans and hedging instruments	1.4	1.4
Bond and related costs including financing expenses	29.1	30.5
Other finance costs	3.1	2.0
	<u>33.6</u>	<u>33.9</u>

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

	2015 £m	2014 £m
Corporation tax		
Current tax	36.1	32.5
Adjustments in respect of prior year	(0.5)	(0.6)
	<u>35.6</u>	<u>31.9</u>
Deferred tax (see note 22)		
Origination and reversal of temporary timing differences	7.6	9.9
Effects of tax rate change on opening balance	0.2	(13.6)
	<u>7.8</u>	<u>(3.7)</u>
	<u>43.4</u>	<u>28.2</u>

Corporation tax is calculated at 21% (2014: 23%) 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:

	2015 £m	%	2014 £m	%
Profit on ordinary activities before tax	<u>200.3</u>		<u>157.5</u>	
Tax on profit on ordinary activities at standard rate in the UK of 21% (2014: 23%)	42.1	21.0	36.2	23.0
Tax effect of change in corporation tax from 21% to 20% (2014: 23% to 20%)	-	-	(13.7)	(8.7)
Patent box	(1.1)	(0.5)	(0.9)	(0.6)
Loss/(profit) on disposal	-	-	(0.6)	(0.4)
Goodwill impairment	3.6	1.8	7.4	4.7
Tax effect of prior year adjustments	(0.5)	(0.2)	(1.0)	(0.6)
R&D expenditure increased deductions	(0.1)	(0.1)	-	-
Other permanent differences	(0.6)	(0.3)	0.8	0.5
	<u>43.4</u>	<u>21.7</u>	<u>28.2</u>	<u>17.9</u>
Tax charge for year at an effective tax rate of 21.7% (2014: 17.9%)	<u>43.4</u>	<u>21.7</u>	<u>28.2</u>	<u>17.9</u>
Deferred tax credit taken directly to equity (see note 22)	<u>(76.4)</u>		<u>(13.1)</u>	

Notes forming part of the consolidated accounts

(continued)

12. Dividends

	2015 £m	2014 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of 35.65 pence per share (2014: 32.51 pence per share) paid in May 2014	51.0	46.5
Second interim dividend of 18.18 pence per share (2014: 10.84 pence per share) paid in November 2014	26.0	15.5
	<u>77.0</u>	<u>62.0</u>

In May 2015, the Board declared an interim dividend for the year ending 31 March 2016 of 38.03 pence per share, totalling £54.4m which was paid in June 2015.

13. Goodwill

	£m
Cost	
At 31 March 2014 and 31 March 2015	351.0
Accumulated impairment losses	
At 1 April 2013	-
Impairment provision recognised in income statement	<u>32.0</u>
At 1 April 2014	32.0
Impairment provision recognised in income statement	<u>17.0</u>
At 31 March 2015	<u>49.0</u>
Carrying amount	
At 31 March 2015	<u>302.0</u>
At 31 March 2014	<u>319.0</u>

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 out-performance of regulatory settlements and market premia for economically regulated businesses (assumed at 5-6 %, 2014: 7-8 %). 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 £1,175.4m (2014: £1,174.8m) and a market premium which is assessed annually. The group'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 9.42% (2014: 10.28%) 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 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 1 April 2014	180.4	58.5	22.7	206.8	468.4
Additions internally generated	0.8	-	-	28.6	29.4
Additions externally acquired	9.6	4.6	1.4	34.2	49.8
Other transfers during the year	8.5	10.1	2.1	(16.5)	4.2
At 31 March 2015	199.3	73.2	26.2	253.1	551.8
Accumulated amortisation					
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 1 April 2014	73.9	34.1	13.9	16.5	138.4
Charge for the year	19.4	9.0	1.8	-	30.2
Provisions for impairment	-	-	-	0.4	0.4
At 31 March 2015	93.3	43.1	15.7	16.9	169.0
Carrying amount					
At 31 March 2015	106.0	30.1	10.5	236.2	382.8
At 31 March 2014	106.5	24.4	8.8	190.3	330.0

An annual review is performed to assess the carrying value of other intangible assets, including assets in the course of construction. 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 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 1 April 2014	240.0	52.8	1,244.9	19.7	47.1	1,604.5
Additions during the year	1.5	-	18.7	0.1	54.0	74.3
Disposals during the year	-	-	(1.5)	(0.1)	-	(1.6)
Other transfers during the year	0.2	-	16.9	0.2	(21.5)	(4.2)
At 31 March 2015	241.7	52.8	1,279.0	19.9	79.6	1,673.0
Accumulated depreciation and impairment						
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
Disposals during the year	(4.4)	(0.9)	(47.2)	(0.2)	-	(52.7)
At 1 April 2014	106.1	37.9	843.4	12.6	0.4	1,000.4
Provided during the year	7.7	1.9	67.9	1.8	-	79.3
Provisions for impairment	-	-	-	-	0.4	0.4
Disposals during the year	-	-	(1.5)	(0.1)	-	(1.6)
At 31 March 2015	113.8	39.8	909.8	14.3	0.8	1,078.5
Carrying amount						
At 31 March 2015	127.9	13.0	369.2	5.6	78.8	594.5
At 31 March 2014	133.9	14.9	401.5	7.1	46.7	604.1

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £0.8m (2014: £2.0m) 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 (2014: £1.2m) of general borrowing costs at a capitalisation rate of 1.9% (2014: 1.9%), 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

	2015	2014
	£m	£m
Non-current		
Other debtors	0.3	0.5
Prepayments	2.5	1.6
Accrued income	62.1	68.1
	<u>64.9</u>	<u>70.2</u>
Current		
Receivable from customers gross	78.4	74.3
Allowance for doubtful debts	(4.4)	(4.8)
	<u>74.0</u>	<u>69.5</u>
Amounts recoverable under contracts	0.7	0.9
Other debtors	5.2	7.2
Prepayments	15.2	12.6
Accrued income	112.6	93.8
	<u>207.7</u>	<u>184.0</u>

The average credit period taken on sales of services is 30 days (2014: 32 days). Interest is charged by Eurocontrol to UK en route customers at 10.24% (2014: 10.89%) 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 £4.4m (2014: £4.8m). 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 regulatory adjustments for calendar year 2014 and the period January to March 2015 and revenues earned in the previous regulatory control periods, which will be recovered through 2016 charges. Accrued income which is current includes unbilled revenues for services provided in March 2015 and regulatory adjustments for calendar years 2013 and 2014 which will be recovered through 2015 and 2016 charges.

Notes forming part of the consolidated accounts

(continued)

16. Financial and other assets (continued)

Ageing of past due but not impaired trade receivables

	2015 £m	2014 £m
31-90 days	0.7	0.2
91-365 days	0.9	0.9
> 365 days	0.1	0.3
	<u>1.7</u>	<u>1.4</u>

Movement in the allowance for doubtful debts

	2015 £m	2014 £m
Balance at the beginning of the year	4.8	5.1
Increase in allowance recognised in the income statement	0.4	0.3
Foreign exchange movement in the year	(0.4)	(0.1)
Amounts written off as irrecoverable	(0.4)	(0.5)
Balance at end of year	<u>4.4</u>	<u>4.8</u>

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. 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 (2014: £3.2m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables

	2015 £m	2014 £m
31-90 days	0.3	0.2
91-365 days	0.6	0.6
> 365 days	3.5	4.0
	<u>4.4</u>	<u>4.8</u>

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 £522.4m (2014: £482.0m).

Notes forming part of the consolidated accounts

(continued)

17. Borrowings

Secured loans at amortised cost	2015	2014
	£m	£m
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	498.0	527.5
Bank loans (variable rate revolving term loan and revolving credit facility expiring 2016)	152.0	127.0
Gross borrowings	<u>650.0</u>	<u>654.5</u>
Unamortised bond issue costs	(3.2)	(3.6)
Unamortised bank facility arrangement fees	(1.1)	(1.7)
	<u>645.7</u>	<u>649.2</u>
Amounts due for settlement within 12 months	<u>29.7</u>	<u>28.6</u>
Amounts due for settlement after 12 months	<u>616.0</u>	<u>620.6</u>

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 £152.0m 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. £1,429m (2014: £1,391m), including the carrying amount of balance sheet goodwill of £302.0m (2014: £319.0m).

The average effective interest rate on the bank loans in the year was 1.6% (2014: 1.5%) 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	2015	2014
	£m	£m
Undrawn committed facilities expire as follows:		
Between one and two years	123.0	-
Expiring in more than two years	<u>-</u>	<u>148.0</u>

At 31 March 2015, NERL had outstanding drawings of £152.0m 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 2015 and 31 March 2014 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

	2015 £m	2014 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	4.0	0.4
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(3.6)	(0.3)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(1.6)	-
Derivative financial instruments classified as held for trading		
Index-linked swaps	(127.4)	(128.9)
	(129.0)	(128.9)
	(132.6)	(129.2)

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 2015, NERL had a corporate rating of AA- from Standard & Poor's (2014: AA-) and A2 from Moody's (2014: A2).

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). In addition, 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. NERL's gearing ratio at 31 March 2015 was 53.4% (2014: 54.0%). 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:

	2015 £m	2014 £m
Financial assets		
Loans and receivables, excluding prepayments	255.4	240.7
Cash and cash equivalents and short term investments	267.0	241.3
Derivative financial instruments in designated hedge accounting relationships	4.0	0.4
	<u>526.4</u>	<u>482.4</u>
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(5.2)	(0.3)
Derivative financial instruments classified as held for trading	(127.4)	(128.9)
Other financial liabilities at amortised cost	(812.3)	(792.8)
	<u>(944.9)</u>	<u>(922.0)</u>

Other financial liabilities at amortised cost includes balances for trade and other payables (excluding deferred income and including tax and social security), the bond and bank borrowings (excluding unamortised 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 £1.5m has been recorded in the income statement in the year (2014: £17.7m gain).

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 66% of the group's turnover (2014: 67%). 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 trades with and provides finance to its overseas joint ventures and subsidiaries. Where appropriate the transactions are conducted in sterling.

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	
	2015 £m	2014 £m	2015 £m	2014 £m
Euro	90.0	86.8	(23.8)	(12.4)
Canadian dollar	0.9	0.1	(0.7)	(0.2)
US dollar	0.6	0.2	(0.1)	(0.1)
UAE dirham	0.6	-	(0.1)	-
Omani rials	0.4	-	-	-
Qatari riyal	0.3	2.4	-	-
Kuwaiti dinar	0.3	0.2	-	-
Singapore dollar	0.1	0.1	-	-
Norwegian krone	0.1	-	-	(0.1)
Danish krone	-	0.1	(0.1)	-
	<u>93.3</u>	<u>89.9</u>	<u>(24.8)</u>	<u>(12.8)</u>

Notes forming part of the consolidated accounts

(continued)

19. Financial instruments (continued)

Foreign currency sensitivity analysis

The group holds foreign currency cash balances of £4.8m at 31 March 2015 (2014: £5.3m) in euro, US dollars, Canadian dollars, Kuwaiti dinar, Norwegian krone and UAE dirham.

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	2015 Impact £m	2014 Impact £m
Euro	4.3	6.3
Canadian dollar	-	(0.3)
US dollar	(0.1)	-
UAE dirham	(0.1)	-
Qatari riyal	-	(0.2)
	<u>4.1</u>	<u>5.8</u>

The group's sensitivity to the euro decreased during the year reflecting a net increase 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

(continued)

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:

	2015				2014		
	£m	£m	Average exchange rate		£m	£m	Average exchange rate
Euro sold				Euro sold			
0-3 months	160.2	215.6	0.7429	0-3 months	144.4	174.3	0.8285
Euro bought				Euro bought			
0-3 months	15.9	12.4	0.7801	0-3 months	6.3	5.3	0.8361
Over 3 months	47.5	38.9	0.8197	Over 3 months	1.6	1.3	0.8268
	63.4	51.3	0.8093		7.9	6.6	0.8352
US dollar bought	US\$m	£m		US dollar bought	US\$m	£m	
0-3 months	0.1	0.1	1.5320	0-3 months	0.1	0.1	1.6592
Canadian dollar bought	C\$m	£m		Canadian dollar bought	C\$m	£m	
0-3 months	-	-	n/a	0-3 months	1.5	0.8	1.8244
Over 3 months	-	-	n/a	Over 3 months	3.3	1.8	1.8503
	-	-	n/a		4.8	2.6	1.8422
Qatari riyal sold	£m	QARm		Qatari riyal sold	£m	QARm	
0-3 months	-	-	n/a	0-3 months	0.2	1.1	6.0519
Kuwaiti dinar sold	£m	KWDm		Kuwaiti dinar sold	£m	KWDm	
0-3 months	0.3	0.1	0.4858	0-3 months	-	-	n/a
Norwegian krone bought	NOKm	£m		Norwegian krone bought	NOKm	£m	
0-3 months	-	-	n/a	0-3 months	0.9	0.1	9.0079

Notes forming part of the consolidated accounts

(continued)

19. Financial instruments (continued)

At 31 March 2015, the aggregate amount of the unrealised loss under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £5.1m (2014: £0.3m 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 2015 to sell euro anticipated to be received in July 2015 in respect of UK en route revenues. The value of these cash flows is £62.2m. 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 2015 (2014: £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 2015 (2014: none).

Notes forming part of the consolidated accounts

(continued)

19. Financial instruments (continued)

Economic interest rate exposure

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

Currency	2015						
	Cash			Short term deposits			Total £m
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	
Sterling	232.5	0.5	10	29.7	0.6	183	262.2
Euro	3.2	-	1	-	-	-	3.2
US dollar	0.4	-	1	-	-	-	0.4
Canadian dollar	0.7	-	1	-	-	-	0.7
Kuwaiti dinar	0.1	-	1	-	-	-	0.1
Norwegian krone	0.1	-	1	-	-	-	0.1
UAE dirham	0.3	-	1	-	-	-	0.3
	<u>237.3</u>			<u>29.7</u>			<u>267.0</u>

Currency	2014						
	Cash			Short term deposits			Total £m
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	
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
	<u>211.6</u>			<u>29.7</u>			<u>241.3</u>

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 2015						
Sterling:						
5.25% guaranteed secured bonds	498.0	-	-	498.0	5.26%	6.3
Bank loans	152.0	152.0	-	-	1.55%	0.4
Total	650.0	152.0	-	498.0		
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	527.5	-	-	527.5	5.26%	6.9
Bank loans	127.0	127.0	-	-	1.50%	0.4
Total	654.5	127.0	-	527.5		

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 2015						
Sterling:						
5.25% guaranteed secured bonds	298.0	-	-	298.0	5.27%	6.3
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.91%	0.5
Bank loans	152.0	152.0	-	-	1.55%	0.4
Total	650.0	152.0	200.0	298.0		
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	327.5	-	-	327.5	5.27%	6.9
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		

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.

	2015		2014	
	£m		£m	
Net debt	<u>378.7</u>		<u>407.9</u>	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	294.8	77.8	323.9	79.4
Index-linked	200.0	52.8	200.0	49.0
Floating (net of cash, short term investments and facility costs)	(116.1)	(30.6)	(116.0)	(28.4)
	<u>378.7</u>	<u>100.0</u>	<u>407.9</u>	<u>100.0</u>

At 31 March 2015, NERL had net debt, including an intercompany loan of £22.5m, of £561.3m (2014: net debt £570.5m), NATS Limited held cash balances of £6.2m (2014: cash £5.6m), NATS Services had cash of £152.8m (2014: cash £134.0m), NATSNav had cash of £0.6m (2014: cash £0.4m), NATS (USA) Inc had cash of £0.2m (2014: cash £0.1m) and NATS Services DMCC had cash of £0.3m (2014: £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.

	2015		2014	
	£m		£m	
Net debt	<u>561.3</u>		<u>570.5</u>	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	294.8	52.5	323.9	56.8
Index-linked	200.0	35.6	200.0	35.1
Floating (net of cash, short term investments and facility costs)	66.5	11.9	46.6	8.1
	<u>561.3</u>	<u>100.0</u>	<u>570.5</u>	<u>100.0</u>

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.

	2015	2014
	Impact	Impact
	£m	£m
Cash at bank and short term deposits (2015: £267.0m, 2014: £241.3m)	2.7	2.4
Borrowings (2015: £152.0m, 2014: £127.0m)	(1.5)	(1.3)
	<u>1.2</u>	<u>1.1</u>

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 (now CPI but previously RPI). 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%.

	2015 Impact £m	2014 Impact £m
Change in swap interest and mark to market value	<u>(21.4)</u>	<u>(23.2)</u>

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 £9.5m (2014: £10.9m). 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 rating 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 three months and between three and six 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 Ratings and A3 and A1 respectively from Moody's. However, dependent on market conditions, tighter restrictions on rating requirements and lower limits may be 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):

Rating (Standard & Poor's)	Number of institutions	2015		2014		
		£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	5	107.5	40.3	4	55.3	22.9
AA-	3	46.8	17.5	4	80.0	33.2
A+	5	60.9	22.8	3	42.4	17.6
A	6	47.5	17.8	7	54.2	22.4
A-	1	4.3	1.6	2	9.4	3.9
		<u>267.0</u>	<u>100.0</u>		<u>241.3</u>	<u>100.0</u>

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:

- maintain free cash equal to between one and two 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 six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;
- 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 2015 NERL had access to bank facilities totalling £275m available until 21 December 2016. The facilities comprise a £245m revolving term loan facility and a £30m revolving credit facility;
- 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;
- ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and
- 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:

	2015 £m	2014 £m
Average monthly UK en route services income	51.0	51.2
Free cash at 31 March	55.9	50.2
Ratio of free cash to UK en route services income	<u>1.1</u>	<u>1.0</u>

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

	2015 £m	2014 £m
Bank borrowings	152.0	127.0
Gross borrowings	650.0	654.5
Bank borrowings as a percentage of gross borrowings	<u>23.4%</u>	<u>19.4%</u>

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.

	Secured loans £m	2015 Other liabilities £m	Total £m	Secured loans £m	2014 Other liabilities £m	Total £m
Due within one year or less	59.9	132.3	192.2	60.1	116.9	177.0
Between one and two years	219.0	25.5	244.5	60.1	16.5	76.6
Due between two and five years	195.9	2.3	198.2	329.9	2.1	332.0
Due in more than five years	351.8	2.2	354.0	412.7	2.8	415.5
	<u>826.6</u>	<u>162.3</u>	<u>988.9</u>	<u>862.8</u>	<u>138.3</u>	<u>1,001.1</u>
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(180.9)	-	(180.9)	(213.6)	-	(213.6)
	<u>645.7</u>	<u>162.3</u>	<u>808.0</u>	<u>649.2</u>	<u>138.3</u>	<u>787.5</u>

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.

Notes forming part of the consolidated accounts

(continued)

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
2015					
Net settled:					
Index-linked swap receivable/(payable)	1.8	(2.4)	(30.5)	(125.6)	(156.7)
Gross settled:					
Foreign exchange forward contract receivables	191.6	12.3	2.5	-	206.4
Foreign exchange forward contract payables	(190.8)	(13.9)	(2.9)	-	(207.6)
	<u>2.6</u>	<u>(4.0)</u>	<u>(30.9)</u>	<u>(125.6)</u>	<u>(157.9)</u>
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)
	<u>2.2</u>	<u>1.7</u>	<u>(22.7)</u>	<u>(142.6)</u>	<u>(161.4)</u>

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).
- 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).

Notes forming part of the consolidated accounts

(continued)

19. Financial instruments (continued)

Fair value measurements recognised on the balance sheet

	2015				2014			
	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	-	4.0	-	4.0	-	0.4	-	0.4
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(5.2)	-	(5.2)	-	(0.3)	-	(0.3)
Derivative financial instruments classified as held for trading	-	(127.4)	-	(127.4)	-	(128.9)	-	(128.9)
	-	(132.6)	-	(132.6)	-	(129.2)	-	(129.2)

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 to their fair values:

	Carrying amount		Fair value	
	2015 £m	2014 £m	2015 £m	2014 £m
Financial liabilities				
£600m 5.25% Guaranteed Secured Amortising Bond	(498.0)	(527.5)	(587.0)	(593.4)

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:

	2015 £m	2014 £m
Current		
Trade payables	18.9	11.9
Other payables	3.2	2.0
Tax and social security	10.2	10.5
Accruals and deferred income		
- Deferred grants	0.7	0.8
- Other	114.7	99.9
	<u>147.7</u>	<u>125.1</u>
Non-current		
Accruals and deferred income		
- Deferred grants	5.3	6.0
- Other	51.0	30.2
	<u>56.3</u>	<u>36.2</u>
	<u>204.0</u>	<u>161.3</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2014: 33 days). The directors consider that the carrying amount of the trade payables approximate 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 2014	26.9	0.2	9.4	36.5
Additional provision in the year	10.9	0.4	1.6	12.9
Release of provision in the year	(0.6)	-	-	(0.6)
Utilisation of provision	(26.1)	(0.2)	(1.2)	(27.5)
At 31 March 2015	<u>11.1</u>	<u>0.4</u>	<u>9.8</u>	<u>21.3</u>
				Total £m
Amounts due for settlement within 12 months				10.7
Amounts due for settlement after 12 months				<u>10.6</u>
				<u>21.3</u>

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 2015. 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, including property-related costs. 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 £m	Financial instruments £m	Other £m	Total £m
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	<u>102.1</u>	<u>(2.5)</u>	<u>(9.8)</u>	<u>(2.0)</u>	<u>87.8</u>
At 1 April 2014	102.1	(2.5)	(9.8)	(2.0)	87.8
Charge/(credit) to income	1.1	7.1	1.8	(2.2)	7.8
Credit to equity	-	(75.2)	(1.2)	-	(76.4)
At 31 March 2015	<u>103.2</u>	<u>(70.6)</u>	<u>(9.2)</u>	<u>(4.2)</u>	<u>19.2</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2015 £m	2014 £m
Deferred tax liabilities	(103.2)	(102.1)
Deferred tax assets	84.0	14.3
	<u>(19.2)</u>	<u>(87.8)</u>

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 2015 and 31 March 2014	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2015 and 31 March 2014	54,272,594	43.4	12,048,193	9.6
		<u>187.5</u>		<u>140.6</u>

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 2015 and 31 March 2014	<u>0.4</u>

Notes forming part of the consolidated accounts

(continued)

25. Notes to the cash flow statement

	2015 £m	2014 £m
Operating profit from continuing operations	226.6	167.5
Adjustments for:		
Impairment of goodwill	17.0	32.0
Depreciation of property, plant and equipment	79.3	78.0
Amortisation of intangible assets	30.2	27.7
Impairment losses	0.8	2.0
Deferred grants released	(0.8)	(0.7)
Loss/(profit) on disposal of property, plant and equipment	0.2	(4.2)
R&D above the line revenue adjustment	(0.8)	(0.5)
Adjustment for pension funding	(33.7)	(32.1)
Operating cash flows before movements in working capital	318.8	269.7
Increase in trade and other receivables	(17.2)	(3.2)
Increase in trade, other payables and provisions	16.9	28.8
Cash generated from operations	318.5	295.3
Tax paid	(34.7)	(32.0)
Net cash from operating activities	<u>283.8</u>	<u>263.3</u>

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

Notes forming part of the consolidated accounts

(continued)

26. Financial commitments

	2015 £m	2014 £m
Amounts contracted but not provided for in the accounts	<u>69.4</u>	<u>44.8</u>
Minimum lease payments under operating leases recognised in the income statement	<u>23.3</u>	<u>23.5</u>

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

	2015 £m	2014 £m
Within one year	23.4	23.6
In the second to fifth years inclusive	49.7	61.5
After five years	<u>25.7</u>	<u>31.6</u>
	<u>98.8</u>	<u>116.7</u>

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.

NERL entered into a finance lease agreement in March 2015. The leased asset and lease obligations will be recognised during the financial year ending 31 March 2016 on transfer of the asset to NERL. The fair value of the asset at transfer is expected to be £2.0m and future minimum lease payments are expected to fall due as follows:

	2015 £m	2014 £m
Within one year	0.2	-
In the second to fifth years inclusive	0.7	-
After five years	<u>1.1</u>	<u>-</u>
	<u>2.0</u>	<u>-</u>

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 2015 was £4.9m (2014: £4.6m).

Notes forming part of the consolidated accounts

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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 three years from date of award and may be cash-settled from this date. The shares may be forfeited if the employee leaves within three 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 2015	No. employee shares outstanding at 31 March 2014
Free share awards			
21 September 2001	3,353,742	376,757	443,320
20 October 2003	2,459,000	353,218	414,934
10 September 2004	1,966,000	546,818	661,039
11 January 2008	1,071,840	444,100	550,080
18 September 2009	963,200	527,371	738,820
Partnership shares			
1 March 2011	694,783	568,408	611,041
1 September 2012	714,959	628,257	672,112
30 May 2014	496,738	466,750	-
Matching shares			
1 March 2011	694,783	572,260	611,041
1 September 2012	714,959	628,257	672,112
30 May 2014	496,738	466,750	-
		5,578,946	5,374,499
Dividend shares issued on 28 June 2005	247,017	45,306	52,978
Total employee shares in issue at 31 March		5,624,252	5,427,477

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

	Movement in the no. of shares during the year ended 31 March 2015	Movement in the no. of shares during the year ended 31 March 2014
Balance at 1 April	5,427,477	5,851,028
Granted during the year	993,476	-
Forfeited during the year	(11,943)	(9,443)
Exercised during the year	(784,758)	(414,108)
Balance at 31 March	5,624,252	5,427,477

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2015 the price of an employee share was valued at £4.30 (2014: £4.50). A valuation at 30 June 2014 valued the shares at £4.35. The liability on the balance sheet for the employee shares at 31 March 2015 was £21.8m (2014: £21.7m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £3.4m (2014: £1.7m).

Notes forming part of the consolidated accounts

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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 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 operates a number of contribution structures. In general, 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 2015 employer contributions of £5.0m (2014: £3.9m), excluding employee salary sacrifice contributions of £2.4m (2014: £2.0m), represented 14.1% of pensionable pay (2014: 13.6%).

The defined contribution scheme had 737 members at 31 March 2015 (2014: 672).

Defined benefit scheme

NATS Limited (formerly National Air Traffic Services 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. CAAPS is a fully funded defined benefit scheme providing benefits based on final pensionable salaries. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. 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. The assets of the scheme are held in a separate trustee administered fund. 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.

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:

	2015	2014
	No.	No.
Active members	3,477	3,711
Deferred members	1,157	1,089
Pensioners	2,308	2,154
	<u>6,942</u>	<u>6,954</u>

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 three years by the pension scheme actuary at the request of the Trustees in order to establish the financial position of the NATS section and to determine the level of contributions to be paid by NATS in 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 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 at £2.2m per month for calendar year 2014. These are being 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 £138.7m (2014: £145.4m). This amount included £15.2m (2014: £15.6m) 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 45.0% (2014: 46.0%) of pensionable pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2016 is £123.3m, including salary sacrifice contributions estimated at £15.4m.

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 2015 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:

	2015	2014	2013
RPI Inflation	2.95%	3.35%	3.35%
CPI Inflation	1.85%	2.35%	2.45%
Increase in:			
- salaries	2.10%	2.60%	2.70%
- deferred pensions	2.95%	3.35%	3.35%
- pensions in payment	2.95%	3.35%	3.35%
Discount rate for net interest expense	3.35%	4.50%	4.45%

The mortality assumptions have been drawn from actuarial tables 101% SIPMA light and 99% SIPFA 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.. This is unchanged from 2014. These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 31.0 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 31.1 years and for females to 32.8 years.

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:

- 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.
- 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.
- 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.
- 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 11.1%/increase by 13.0%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.9%/decrease by 11.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.2%/decrease by 3.0%
Rate of mortality	1 year increase in life expectancy	Increase by 2.6%

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:

	2015 £m	2014 £m
Current service cost	(103.5)	(113.5)
Past service cost	(2.2)	(1.9)
Net interest expense	2.6	3.9
Administrative expenses	(1.9)	(1.8)
Components of defined benefit costs recognised within operating profit	<u>(105.0)</u>	<u>(113.3)</u>

Notes forming part of the consolidated accounts

(continued)

28. Retirement benefit schemes (continued)

Remeasurements recorded in the statement of comprehensive income are as follows:

	2015 £m	2014 £m
Return on plan assets (excluding amounts included in net interest expense)	308.3	71.0
Actuarial gains and losses arising from changes in financial assumptions	(751.5)	45.2
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	68.8	(174.6)
	<u>(374.4)</u>	<u>(58.4)</u>

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

	2015 £m	2014 £m
Present value of defined benefit obligations	(5,050.2)	(4,178.7)
Fair value of scheme assets	4,697.2	4,166.4
Deficit in scheme	<u>(353.0)</u>	<u>(12.3)</u>

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

	2015 £m	2014 £m
At 1 April	(4,178.7)	(3,859.1)
Current service cost	(103.5)	(113.5)
Past service cost	(2.2)	(1.9)
Interest expense on defined benefit scheme obligations	(185.7)	(169.6)
Actuarial gains and losses arising from changes in financial assumptions	(751.5)	45.2
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	68.8	(174.6)
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	102.7	94.9
At 31 March	<u>(5,050.2)</u>	<u>(4,178.7)</u>

The average duration of the scheme's liabilities at the end of the year is 24.0 years (2014: 24.3 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2015 £m	2014 £m
Active members	2,794.2	2,317.8
Deferred members	442.9	291.7
Pensioners	1,813.1	1,569.2
	<u>5,050.2</u>	<u>4,178.7</u>

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:

	2015 £m	2014 £m
At 1 April	4,166.4	3,873.1
Interest income on scheme assets	188.3	173.5
Return on plan assets (excluding amounts included in net interest expense)	308.3	71.0
Contributions from scheme members	0.1	0.1
Contributions from sponsoring company	138.7	145.4
Benefits paid	(102.7)	(94.9)
Administrative expenses	(1.9)	(1.8)
At 31 March	<u>4,697.2</u>	<u>4,166.4</u>

The major categories of scheme assets were as follows:

	2015 £m	2014 £m
Cash and cash equivalents	95.4	122.7
Equity instruments		
– UK	334.8	302.2
– Europe	97.0	87.8
– North America	285.5	257.0
– Japan	41.6	36.4
– Pacific (excluding Japan)	111.7	103.1
– Emerging markets	332.1	321.5
– Global	683.8	595.8
	<u>1,886.5</u>	<u>1,703.8</u>
Bonds		
– Corporate bonds	913.3	855.2
– Index-linked gilts over 5 years	1,154.7	692.6
	<u>2,068.0</u>	<u>1,547.8</u>
Other investments		
– Property	258.8	258.5
– Hedge funds	207.8	181.8
– Global tactical asset allocation	118.5	104.1
– Private equity funds	142.9	118.0
	<u>728.0</u>	<u>662.4</u>
Derivatives		
– Futures contracts	(80.7)	129.7
	<u>4,697.2</u>	<u>4,166.4</u>

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 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. In addition, and as an acceleration of the existing strategy, NATS and Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. 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 changing this strategy, NATS and Trustees are likely to consult with CAA on the implications for 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 2015 was £496.6m (2014: £244.5m).

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 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 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. Aberdeen, Glasgow and Southampton airports were sold by LHR Airports Limited to AGS Airports Limited in December 2014.

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 2015	Year ended 31 March 2014	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2015	Year ended 31 March 2014
	£m	£m	£m	£m	£m	£m	£m	£m
LHR Airports Limited	80.2	89.3	8.1	9.9	6.0	7.6	-	-
Ministry of Defence (MOD)	51.0	50.1	4.1	3.2	5.9	5.5	28.4	19.5
The Airline Group	-	-	0.2	0.2	-	-	-	-
Department for Transport (DfT)	0.6	0.5	-	-	-	-	-	-
Meteorological Office	0.3	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 (2014: £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.

	2015 £m	2014 £m
Short term employee benefits	6.6	6.4
Post-employment benefits	1.5	1.2
Other long term benefits	0.7	0.6
Termination benefits	-	0.1
	<u>8.8</u>	<u>8.3</u>

Notes forming part of the consolidated accounts

(continued)

30. Subsidiaries, joint ventures and associates

The group's principal subsidiaries at 31 March 2015, 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
NATS Solutions Limited	Airport air traffic services	100%	100%	England and Wales	United Kingdom
NATNav 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 Services DMCC	ATM consultancy	100%	100%	UAE	UAE
NATS Services (Asia Pac) Pte. Limited	Airport air traffic services	100%	100%	Singapore	Singapore
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 two joint ventures as at 31 March 2015, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
European Satellite Services Provider 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
Aquila Air Traffic Management Services Limited	Air traffic management services	9 October 2014	50.0%	United Kingdom

Notes forming part of the consolidated accounts

(continued)

30. Subsidiaries, joint ventures and associates (continued)

Summarised financial information relating to the associate and joint ventures

European Satellite Services Provider SAS (ESSP)

On 1 September 2008, the group acquired 16.67% of the issued share capital of ESSP 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 2014. For the purposes of applying the equity method of accounting, the financial statements of ESSP for the year ended 31 December 2014 have been used (no adjustments are required to be made for the effects of significant transactions between that date and 31 March 2015).

Although the group holds less than 20% of the equity shares of ESSP, the group exercises significant influence by virtue of representation on the Board of directors, participation in policy making decisions of ESSP and the provision of essential technical information to ESSP.

Summarised financial information in respect of ESSP is set out below. These amounts have been prepared in accordance with French Generally Accepted Accounting Principles (GAAP) and converted from euro, ESSP's 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 is a joint venture with Ferrovial Servicios SA.

FerroNATS draws up its accounts as at 31 December. FerroNATS prepares its accounts in accordance with Spanish GAAP and its functional currency is the euro. For the purpose of these financial statements management accounts have been used to derive its performance as at 31 March 2015.

During the year FerroNATS repaid loan finance of €0.2m (£0.1m) to the group. In 2014, the group provided loan finance of €1.3m (£1.1m) to FerroNATS. Of these loans €0.5m (£0.4m) was converted to equity.

Aquila Air Traffic Management Services Limited

In October 2014, the group acquired 50% of the issued share capital of Aquila Air Traffic Management Services Limited (Aquila) for a cash consideration of £0.1m. Aquila provides air traffic management services at military airfields in the delivery of Project Marshall for the Ministry of Defence. Aquila draws up its accounts to 31 March and therefore these accounts have been used to determine its performance for the financial year. It prepares its accounts under IFRS and its functional currency is pound sterling.

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:

	2015			2014	
	Associate ESSP £m	Joint venture FerroNATS £m	Joint venture Aquila £m	Associate ESSP £m	Joint venture FerroNATS £m
Current assets	27.1	4.1	-	19.0	4.0
Non-current assets	0.4	0.8	19.3	0.4	1.5
Current liabilities	(21.3)	(2.2)	(18.8)	(14.3)	(3.1)
Non-current liabilities	(1.0)	(0.7)	-	-	(1.1)
Net assets of associate/joint venture	5.2	2.0	0.5	5.1	1.3
Group share	0.9	1.0	0.2	1.0	0.6
Revenue	49.7	10.4	28.0	38.9	7.8
Profit/(loss) after tax for the year	2.1	0.9	0.3	1.6	(0.1)
Group share	0.4	0.5	0.1	0.3	(0.1)
Dividends received	(0.2)	-	-	(0.2)	-
Other comprehensive income	(0.2)	(0.1)	-	-	-

31. 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.

32. Events after the reporting period

In May 2015, the Board declared an interim dividend for the year ending 31 March 2016 of 38.03 pence per share, totalling £54.4m which was paid in June 2015.

Company balance sheet

Balance sheet at 31 March

	Notes	2015 £m	2014 £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 25 June 2015 and signed on its behalf by:

Paul Golby
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 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	<u>140.6</u>	<u>0.4</u>	<u>-</u>	<u>141.0</u>
At 1 April 2014	140.6	0.4	-	141.0
Profit for the year	-	-	77.0	77.0
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	77.0	77.0
Dividends paid	-	-	(77.0)	(77.0)
At 31 March 2015	<u>140.6</u>	<u>0.4</u>	<u>-</u>	<u>141.0</u>

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 as adopted by the EU.

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:

	2015 £m	2014 £m
Staff costs	-	-
Auditor's remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2014: £nil).

Dividends:

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the period:		
First interim dividend of 35.65 pence per share (2014: 32.51 pence per share) paid in May 2014	51.0	46.5
Second interim dividend of 18.18 pence per share (2014: 10.84 pence per share) paid in November 2014	26.0	15.5
	<u>77.0</u>	<u>62.0</u>

Notes forming part of the company accounts

(continued)

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2014 and 31 March 2015	<u>141.0</u>

The company's investments in subsidiary undertakings are 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 2015 (2014: none).

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 2015, the Board declared an interim dividend for the year ending 31 March 2016 of 38.03 pence per share, totalling £54.4m which was paid in June 2015. The company recognised a dividend in June 2015 of £54.4m from its subsidiary NATS Limited.

Abbreviations and definitions

2014	Financial year ended 31 March 2014	IFRS	International Financial Reporting Standard
2015	Financial year ended 31 March 2015	ISO	International Organisation for Standardisation
3Di	3 Dimensional Flight Efficiency Metric	KPI	Key Performance Indicator
AESOP	All-Employee Share Ownership Plan	LAMP	London Airspace Management Programme
AG	The Airline Group Limited	LHRA	LHR Airports Limited
ANSP	Air Navigation Service Provider	LIBOR	London Interbank Offered Rate
AQUILA	Aquila Air Traffic Management Services Limited	LTIP	Long Term Incentive Plan
ATC	Air Traffic Control	MOD	Ministry of Defence
ATFM	Air Traffic Flow Management	NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
ATM	Air Traffic Management	NERL	NATS (En Route) plc
CAA	Civil Aviation Authority	NESL	NATS Employee Sharetrust Limited
CAAPS	Civil Aviation Authority Pension Scheme	NHL	NATS Holdings Limited
CDO	Continuous Descent Operations	OPA	Operational Partnership Agreement
CEO	Chief Executive Officer	PPP	Public Private Partnership
CP3	Control Period 3 (2011-2014)	RAB	Regulatory Asset Base
CPI	Consumer Prices Index	RP1	Reference Period 1 (2012-2014)
DRA	Direct Route Airspace	RP2	Reference Period 2 (2015-2019)
EC	European Commission	RP3	Reference Period 3 (2020-2024)
ESSP	European Satellite Services Provider SAS	RPI	Retail Prices Index
EU	European Union	SDM	SESAR Deployment Manager
FAB	Functional Airspace Block	SES	Single European Sky
FAS	Future Airspace Strategy	SESAR	SES ATM Research
FerroNATS	FerroNATS Air Traffic Services SA	SPA	Strategic Partnership Agreement
FRC	Financial Reporting Council	SSE	Safety Significant Event
GAAP	Generally Accepted Accounting Principles	TANS	Terminal Air Navigation Services
IAS	International Accounting Standard	TBS	Time-Based Separation
IASB	International Accounting Standards Board	USS	USS Sherwood Limited
IATA	International Air Transport Association		
IFRIC	International Financial Reporting Interpretations Committee		