NATS (En Route) plc

Financial statements
for the year ended 31 March 2014

Company Number: 04129273

CONTENTS

	Page
Strategic Report	
Our business	2
Highlights	3
Managing Director's review	4
Financial review	16
Principal risks and uncertainties	22
Governance	
Report of the directors	25
Independent auditor's report	29
Financial statements	
Income statement	31
Statement of comprehensive income	31
Balance sheet	32
Statement of changes in equity	33
Cash flow statement	34
Notes forming part of the accounts	35

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Who we are

NATS (En Route) plc

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

Our services

We offer the following products and services to our customers:

- **Airspace**: UK en route, North Atlantic and terminal air traffic control services (ATC);
- **Defence**: helping military customers to share airspace with civil aviation; and
- **Information**: aeronautical information management, airspace design services and data solutions for future flight efficiency and airport optimisation.

Financial highlights

(£m unless otherwise specified)	2014	Restated[1] 2013	Change	%
Revenue	742.5	713.6	+28.9	+4.0
Operating profit before exceptional items[2]	217.5	183.3	+34.2	+18.7
Operating profit	144.8	183.3	-38.5	-21.0
Profit before tax	133.9	129.3	+4.6	+3.6
Capital expenditure	125.5	126.8	-1.3	-0.1
Net debt[3]	570.5	605.5	-35.0	-5.8
Gearing[4] (%)	54.0%	54.5%	-0.5%	-0.9
Dividends	57.0	28.5	+28.5	+100.0

[1] On adoption of the revised IAS 19: *Employee Benefits*
[2] Operating profit before the cost of the RP2 voluntary redundancy programme and goodwill impairment
[3] Excludes derivative financial instruments
[4] Ratio of net debt to regulatory assets

Operational and strategic highlights

- We handled just under 2.2 million flights (2013: 2.1 million) and maintained our safety record with one risk-bearing airprox attributable to NERL. Average delay per flight for Airspace was 5.4 seconds (2013: 1.3 seconds), reflecting one ground communications failure that resulted in significant delay. We maintained our position in the top quartile of European service delivery performance.

- We continue to enable significant savings in fuel and CO_2 emissions for customers. Against a 2006 baseline we are enabling fuel savings of c.170,000 tonnes per annum, worth c. £105m to airline customers (at £615 per metric tonne, based on average fuel prices and exchange rates for 2014). Cumulatively, since 2006, we have enabled fuel savings of 414,000 tonnes (1.3 million tonnes of CO_2) worth c. £255m to customers. We are also meeting the economic regulator's target for environmental efficiency.

- The Civil Aviation Authority (CAA) published its decision on the economic regulation of UK en route services for the EU's Single European Sky (SES) Reference Period 2015-2019 (RP2). The CAA requires a real reduction in charges of 5.1% per annum for RP2 which exceeds EU targets. This is a challenging price proposal and the company is taking action to reduce its costs to meet this requirement.

- The Trustees of the defined benefit pension scheme completed their triennial valuation and agreed a new schedule of contributions with the company, including a deficit recovery plan. This followed agreement by staff to pension reforms that reduced the size of the deficit and future costs.

Overview

A major focus this year has been on securing a satisfactory outcome to the regulatory settlement for Reference Period 2 (RP2) (2015 -2019) for our economically regulated business.

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

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

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

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

For activities not economically regulated we secured orders worth £25m from contracts with windfarm developers to eliminate the false returns that wind turbines can generate on radars and support for the Galileo Security Monitoring Centre project.

Our revenue improved by £28.9m (4.0%) to £742.5m (2013: £713.6m) mainly reflecting an increase in UK en route revenues, and our results before exceptional items improved by £34.2m to £217.5m (2013: £183.3m). We achieved a profit before tax of £133.9m (2013: £129.3m), an increase of £4.6m from last year. This result was impacted by two exceptional items: the cost of redundancies and a goodwill impairment charge. In addition, and partly offsetting these, there was a credit arising from a fair value movement on a derivative contract. The factors affecting our performance are explained in the Service line performance and Financial review sections of this report.

We provided a high standard of operational safety and an attributable average Air Traffic Flow Management (ATFM) delay[1] of 5.4 seconds per flight (2013: 1.3 seconds). The latter included a ground communications failure on 7 December 2013 that resulted in significant delay that day for customers. This single incident caused us to fall short of some

[1] ATFM or air traffic flow management delay represents the delay between the last take-off time requested by an airline and the take-off slot which is allocated when 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 attributed 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.

of the performance targets set by the CAA as we imposed flow controls to manage traffic safely while we restored the system. 90% of flights were handled although significant delays were incurred. Overall this cost NERL £7.4m in lost incentives and penalties. An independent review of our technical response and our communications with customers during the incident found that the event was managed professionally. Despite this event, our service performance overall continued to be very good and was about 1/5th of the average European delay per flight, in the top quartile of performance.

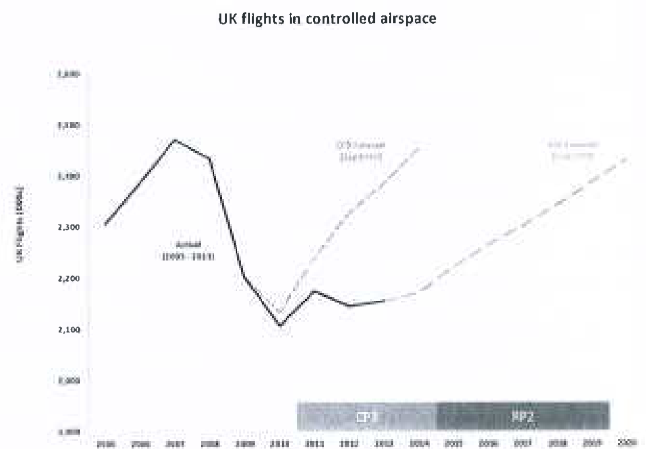
We met the flight efficiency target set by the CAA, which aims to reduce fuel burn and ATM-related CO_2 emissions, and through short term tactical measures we enabled 59,000 tonnes (2013: 6,926 tonnes) of fuel savings worth approximately £36m to customers (at £615 per metric tonne, based on average fuel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

We invested £125.5m (2013: £126.8m) to sustain our operations and to develop systems in line with the Single European Sky ATM Research (SESAR) programme.

Operating environment

Historically, the growth in demand for air travel has been closely linked to the strength of the global economy. Some economies are growing faster than others, with the strongest growth being from the emerging economies of the Middle East and South East Asia. Of the established Western economies, the US has exhibited a particularly robust recovery since the financial crisis. In the meantime recovery in the UK is becoming increasingly solid whilst the Eurozone has recently exited recession and is back on a growth path. This puts all major regions of the world back into positive growth territory for the first time since the financial crisis.

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



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

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

Looking ahead

We will not know the outcome of the RP2 settlement until November 2014, when the European Commission (EC) will confirm whether the UK-Ireland FAB plan makes a

sufficient contribution to EU performance targets. For now we will consider the impact of the CAA's decision on our revised business plan and take the necessary action to deliver the benefits we promised to customers.

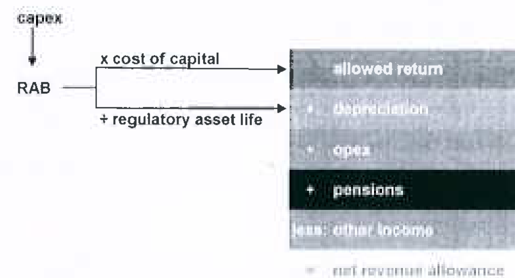
Next month Scotland hosts the Commonwealth Games, the third largest multi-sport event in the world. Glasgow airport and the Prestwick air traffic control centre will be at the heart of managing the relevant airspace during this time, as competitors from 71 countries, along with spectators, officials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

Our business model, vision and strategy

We generate our income from the provision of air traffic control and related services.

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

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



The price control for the 4 years 2011 to 2014 (Control Period 3 or CP3) was based on total revenues of £2.2bn (expressed by the CAA in 2008/09 prices) and provides a cost of capital of 6.8%, allowing for the reinvestment of cash. If the regulatory and other assumptions are borne out in practice, then NERL would earn a return of 6.8% p.a. It can earn additional returns during a control period (or reference period in European terminology) if it outperforms the CAA's assumptions by becoming more cost efficient and by financing its business at lower cost, or

if traffic volumes are higher than forecast with risk-sharing arrangements. The CAA also sets targets for service and environmental performance which provides an incentive for out-performance. NERL would earn lower returns if it provided its service less cost effectively, if finance costs were higher or if traffic volumes were lower than assumed, and if it did not meet service performance targets.

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

As noted above, this year NERL consulted with customers on its business plan for RP2 and, following detailed review, the CAA has now put forward its recommendation to the Department for Transport (DfT) as part of the joint UK-Ireland Functional Airspace Block (FAB) Performance Plan. The structure of the economic regulatory framework for UK en route services for RP2 is largely consistent with CP3.

The NATS group's vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance.

NATS' strategy is based on three fundamental principles:

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

At the very heart of this strategy is our intention to help customers to deliver a better passenger experience. NERL's business is founded on providing a safe, efficient and cost-effective air traffic control service to UK and North Atlantic en route customers.

NERL is uniquely placed to help airline customers to realise value by making airspace more efficient than it is today. We think differently about what constitutes a flight: rather than considering this as a gate-to-gate process we look at it as cruise-to-cruise, whilst aiming to understand the cost and efficiencies of the complex interactions at each stage of flight between airlines, airport operators and NATS. We understand the benefit we can provide to airlines in our airspace through fuel efficient flight profiles and continuous descent approaches (which can also be tailored to aircraft type) and continuous ascent departures, ensuring sufficient network capacity to minimise delay, and through arrival and departure management.

Our en route operation also provides a seamless transition between the North Atlantic and UK en route services, which

helps achieve optimal flight profiles. NERL is an important contributor to airport performance by managing traffic flows efficiently on hand over to NATS Services, NATS' principal provider of airport navigation services.

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

To support our strategy we have also re-affirmed our core values this year:

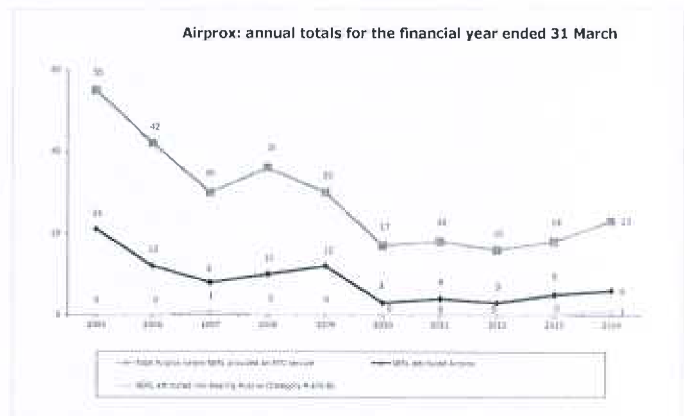
- being safe in everything we do;
- delivering service excellence and environmental performance to customers; and
- valuing the difference we can all make as employees.

Safety

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

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

This year there was 1 category B Airprox[3] event attributable to NERL, the first category A or B event since 2007. Our target for 2015 is for no Airprox category A or B events attributable to NATS. Although the overall number of Airprox events increased in the year, the number of losses of separation relating to Airprox where NATS was providing a service reduced from 7 in 2013 to 3 in 2014. This pattern reflects the subjective nature of Airprox reporting and our efforts at reducing the tolerance to risk across the aviation community.



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

We are working towards introducing a new event reporting system to meet the European regulations for event assessment: the Risk Analysis Tool (RAT). This will see a significant change to the assessment of safety events across Europe and enable a greater understanding of the safety risk of

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

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

occurrences with a focus on factors that occur earlier in the event chain. This development has been led by NERL and is very much an evolution of the techniques we currently employ.

The most significant operational risks facing NERL are: infringements of controlled airspace and level busts[4]. We have been continuing to address these. We have also taken a number of actions on Human Performance.

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

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

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

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

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

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

Economic regulation

The framework in which NERL's economically regulated activities operate is now determined by the EC's Single European Sky (SES) legislation. Under this framework, EU-wide performance targets for safety, capacity, environment and cost efficiency are

established and it is the role of member states and national regulators to develop Performance Plans at national and at Functional Airspace Block (FAB) levels consistent with these targets. NERL's plan forms the majority of the UK-Ireland FAB plan for RP2.

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

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

Following consultation, the CAA and the Irish Aviation Authority (IAA), submitted their recommended UK-Ireland RP2 Performance Plan to the UK and Irish Governments. We consider that the targets for safety, capacity and environment are reasonable. The CAA proposes additional real cumulative cost reductions of c. £90m over RP2. The CAA previously proposed c. £120m of cost reductions, but adjusted this following representations from NATS, making additional resources available to maintain the schedule of investment proposed in our revised business plan to enable significant fuel savings for customers.

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

Single European Sky (SES)

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

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

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

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

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

UK aviation strategy

The Airports Commission is making recommendations on how to maintain the UK's position as a hub for international air traffic. Its interim report short-listed three proposals for an additional runway in the southeast by 2030: a second runway at Gatwick airport; a third runway at Heathrow, to the northwest of the existing runways; and extending the existing northern runway at Heathrow to at least 6,000m, enabling it to operate as two independent runways. The Commission is studying a Thames Estuary option and will decide this year on whether it should be short-listed too.

A priority for NATS is to contribute to the early assessment of these options, including airspace considerations for new runways or airports, with a particular emphasis on operational and network feasibility and identifying key constraints, ahead of publication of the final report after the 2015 General Election.

We contributed our expertise and experience to help inform the Commission's thinking and provided a list of short and medium term measures that can be achieved through the Future Airspace Strategy (FAS) developed with the CAA. The report supported FAS and allied ATM concepts: LAMP, Airport Collaborative Decision Making (A-CDM) and Time-Based Separation (TBS) and extended arrival management (XMAN). It also recommended immediate action to improve the use of existing runway capacity, including an 'optimisation strategy' to improve the operational efficiency of UK airports and airspace. NATS is reviewing these

recommendations to ensure that, as far as possible, robust assessments of their airspace implications have been carried out.

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

People

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

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

The Trustees of NATS' defined benefit pension scheme reported the outcome of the 2012 triennial valuation in the period: a deficit of £382.6m, compared with £351.1m in 2009. NERL's share of the group deficit is c. 75% or £287m, as shown in note 26 to the financial statements. This reflected actions taken by the company to manage the cost and risk of the scheme through reforms that the company agreed with its trades unions and staff. Like many other UK defined benefit schemes, the fall in real gilt yields in recent years to record low levels has had the effect of significantly increasing the liabilities of NATS' scheme but without a corresponding increase in scheme assets (a large part of which are equities and similar return-seeking assets). As a result, it was clear that NATS would be facing a material increase in pension contributions after the actuarial valuation at 31 December 2012 unless changes were made. Through Working Together with NATS' trades unions (NTUS) staff agreed to reduce the existing limit on the annual rate of increase in pensionable pay and to recommend to the scheme's Trustees that future service benefits should be indexed at Consumer Prices Index (CPI) (rather than Retail Prices Index (RPI). The result was also a schedule of contributions at a more affordable level than would otherwise have been the case.

Staff also agreed to a 3-year pay award which is linked to CPI, in addition the company introduced a company performance related pay scheme which directly links the

company's profit performance to an employee's total rewards. This is an important step in aligning staff, shareholder and customer interests in the continued delivery of a high quality, safe and affordable service.

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

Service line performance

We organise our activities according to service lines, which represent the products and services that we offer. A brief description of each is provided below together with a summary of financial and operational performance. The principal financial targets are revenue and contribution. The latter takes account of the operating costs which service line managers are able to influence directly. A reconciliation of service line contribution to the company's operating profit is provided in note 5 to the financial statements.

NATS Airspace

	2014	2013
Financial performance:		
Revenue (£m)	739.8	710.8
Service line contribution (£m)	391.3	367.9
Capital expenditure (£m)	125.5	126.8
Operational performance:		
Flights handled ('000s)	2,162	2,126
Risk-bearing airprox (no.)	1	nil
Average delay per flight (seconds)	5.4	1.3
Enabled fuel savings (tonnes)	59,000	6,926

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

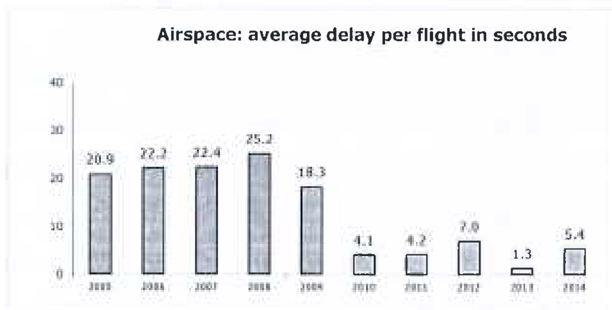
Revenue from NATS Airspace increased to £739.8m (2013: £710.8m), principally due to an increase in UK en route revenues and one-off income for establishing the back-up Galileo Security Monitoring Centre at Swanwick. Offsetting these was the impact of the service performance penalty of £1.0m (last year NATS Airspace earned an incentive of £6.8m) and the decision reported last year to price below the level of permitted revenue allowances for UK en route and London Approach services.

Service line contribution improved to £391.3m (2013: £367.9m). Attributed operating costs were higher mainly reflecting CPI-linked pay rises, a new staff incentive scheme and higher pension charges (at budgeted rates) which offset higher capitalised staff costs, a reduction in staff overtime - required to support the 2012 London Games the previous year - and lower headcount.

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

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

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



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

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

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

In addition to measures of delay, we are incentivised on the environmental performance of our network and we achieved this target. The flight efficiency metric, the three dimensional inefficiency (3Di) score compares the actual trajectory that an aircraft takes with an optimal profile that minimises fuel burn and CO_2 emissions. For calendar year 2013 we achieved a 3Di score of 23.7 compared with the par value of 24.0.

We aim to deliver short term tactical benefits to our customers and this year we enabled 59,000 tonnes (2013: 6,926 tonnes) of fuel savings from changes to procedures, equivalent to 190,000 tonnes (2013: 22,025 tonnes) of ATM-related CO_2 emissions, and worth approximately £36m to our customers (at £615 per tonne, based on average fuel prices and exchange rates for 2014). The improvement reflects the level of changes made this year as well as better analysis of the benefits of previous changes.

A more detailed review of environmental performance and strategy is provided in the Corporate Responsibility section of the Annual Report and Accounts of NATS Holdings.

OPA performance targets for 2013/14

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

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

NATS Airspace invested £125.5m (2013: £126.8m) in support of its air traffic control infrastructure in the year. We continued to develop the next generation flight data processing system which will be compatible with European systems and undertook ongoing modernisation of the voice and data network. Following customer consultation, we also brought forward investments in: Time-Based Separation, to reduce delays at Heathrow caused by headwinds on final approach; LAMP, an airspace efficiency project to be delivered in RP2 that is an important enabler of fuel savings; and the upgrade of North Atlantic flight data and display systems, which will improve fuel efficiency and safety. We also replaced the last of the 27 radars this year following a 10 year programme and implemented Datalink functionality, which enables the exchange of data messages between controllers and pilots, further enhancing the safety and efficiency of their communications.

Other NATS Service lines

	2014	2013
Financial performance:		
Revenue (£m)	2.7	2.8
Service line contribution (£m)	2.0	2.2

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

Revenues at £2.7m (2013: £2.8m) were £0.1m lower than previously. Service line contribution reduced by £0.2m to £2.0m (2013: £2.2m) reflecting the reduction in income recognised and higher costs.

NERL has a well-established relationship with the UK's MoD which we are seeking to extend (our joint and integrated civil and military air traffic control services contract is managed by, and reported in, NATS Airspace).

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

Martin Rolfe

Managing Director Operations

Financial review

	2014 £m	2013 £m
Revenue	**742.5**	713.6
Operating profit before exceptional items	**217.5**	183.3
Operating profit	**144.8**	183.3
Profit before tax	**133.9**	129.3
Profit after tax	**110.9**	101.6
Dividends	**57.0**	28.5

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

There were two exceptional items which impacted these results: the cost of redundancies and a goodwill impairment charge. In addition, partly offsetting these, was a credit arising from the fair value movement on a derivative contract. Operating profit before these factors, improved by £34.2m to £217.5m (2013: £183.3m) reflecting the continuing solid operational performance of the business.

Revenues improved by £28.9m to £742.5m (2013: £713.6m) due largely to an increase in en route revenue allowances, reflecting higher traffic volumes and inflation, this was partly offset by the effect of a ground communications failure on service performance which resulted in a penalty of £1.0m (2013: £6.8m incentive). These and other factors are described in the review of service line performance.

Overall, profit before tax was higher by £4.6m at £133.9m (2013: £129.3m). The following table explains the increase in profit before tax for the year.

	£m	Profit before tax £m
2013 profit before tax (restated)		129.3
Revenue changes		
NATS Airspace		
Net increase in revenue (allowing for traffic volumes & inflation)	33.3	
Pricing below the revenue cap	(2.7)	
Service performance incentive	(7.8)	
Galileo Security Monitoring Centre revenue	2.6	
Income from other group companies	2.4	
Other revenue changes	1.2	
		29.0
Other NATS Service lines		(0.1)
Cost changes		
Staff costs	3.7	
Non-staff costs	(0.4)	
		3.3
Depreciation & amortisation, net of deferred grants	(1.3)	
Asset impairment charges	(0.9)	
Disposal of assets	4.2	
		2.0
Exceptional items:		
Redundancy costs	(40.7)	
Goodwill impairment	(32.0)	
		(72.7)
Fair value movement on derivative contract	38.2	
Other finance costs (net)	4.9	
		43.1
2014 profit before tax		**133.9**

Redundancy costs

A charge of £40.7m for the year related to redundancies which the company considered necessary to reduce its cost base to meet the challenging cost efficiency targets set for Reference Period 2 (RP2).

Goodwill

A goodwill impairment charge of £32.0m has been recognised (2013: nil). Goodwill of £386m was initially recognised by NERL following the NATS Public Private Partnership (PPP) transaction in 2001. Under UK generally accepted accounting principles (UK GAAP), which the company followed until 2006, this was amortised over NERL's 30 year licence period. Since adoption of international accounting standards, the carrying value of goodwill has been assessed annually by reference to value in use, represented by the present value of future cash flows implied by NERL's regulatory settlements, and net realisable value based on its Regulatory Asset Base (RAB), including a premium to reflect the potential for

outperformance relative to regulatory settlements. This premium of 7-8% (2013: 10%) reflects the company's assessment of reduced opportunities to outperform its regulatory targets as well as by reference to market transactions in UK and European economically regulated sectors, including precedents where there has been a change of control.

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

Fair value movement on derivative contract

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

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

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

Comparison between reported profit and regulatory return

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

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

This difference in basis explains why reported profit is some £80m higher than regulatory return. This regulatory view is set out in

NERL's audited published regulatory accounts.

Review of operating costs

NERL incurred operating costs, before exceptional redundancy costs and goodwill impairment, of £525.0m (2013: £530.3m).

	2014 £m	2013 £m
Staff costs	**(297.9)**	(301.6)
Service and materials	**(48.0)**	(46.8)
Repairs and maintenance	**(29.1)**	(28.7)
External research and development	**(0.1)**	(0.1)
Other operating charges (net)	**(50.4)**	(51.6)
	(425.5)	(428.8)
Depreciation and amortisation	**(102.1)**	(100.8)
Asset impairment charges	**(2.0)**	(1.1)
Deferred grants	**0.4**	0.4
Gain on disposal of non-current assets	**4.2**	-
Operating costs (net)	**(525.0)**	(530.3)

Staff costs overall were broadly in line with the previous year. Pay rises linked to the Consumer Prices Index (CPI), a new incentive scheme and employee share scheme costs were offset by lower overtime, more labour capitalised and lower pension costs. Pension charges (before redundancy-related past service cost), which reflect the revised accounting standard, were £6.7m lower at £83.5m (2013: £90.2m) mainly due to a reduction in the accrual rate to 34.0% (2013: 38.2%), before salary sacrifice, for the defined benefit pension scheme. The average number of staff employed during the year was 3,346 (2013: 3,404) and those in post at 31 March 2014 reduced by 4.1% to 3,264 (2013: 3,405). Non-staff costs at £127.6m (2013: £127.2m) were broadly in line with the previous year.

Depreciation, amortisation and impairment charges increased in aggregate to £104.1m (2013: £101.9m). The profit on disposal of assets included a gain realised on the sale of the company's former training college at Hurn and an insurance claim for storm damage to a radar.

Net finance costs

Excluding the index-linked swap explained above, net finance costs were £4.9m lower at £28.6m (2013: £33.5m) due mainly to lower bond interest payments, following repayments of principal, and the net unwind of discounts on non-current assets and liabilities.

Taxation

The tax charge of £23.0m (2013: £27.7m) was at an effective rate of 17.2% (2013: 21.4%). This is lower than the headline rate of corporation tax of 23%, due largely to the deferred tax impact of a reduction in the corporation tax rate to 20% from April 2015, as enacted by the 2013 Finance Bill, which is partially offset by the impact of goodwill impairment.

The bulk of NERL's taxes arise in the UK, however work is undertaken overseas. For each country in which we operate, we organise our operations to pay the correct and appropriate amount of tax at the right time according to the laws of the relevant country and ensure compliance with the company's tax policies and guidelines. The company's tax strategy is reviewed annually by a Tax Committee and covers the application of all taxes, both direct and indirect, to our business including corporation tax, payroll taxes and value added tax.

The Tax Committee comprises the Finance Director, the Head of Tax and other senior

finance professionals and takes advice from a professional firm.

Dividends

During the year the company paid dividends totalling £57.0m (2013: £28.5m). In May 2014 the company declared an interim dividend for the year ending 31 March 2015 of £46.0m which was paid to shareholders in June.

Balance sheet

NERL's balance sheet is summarised below. Movements in goodwill, pensions, cash and borrowings and derivatives are explained elsewhere in this report.

	2014 £m	2013 £m
Goodwill	**319.0**	351.0
Tangible and intangible fixed assets	**919.3**	899.0
Other non-current assets	**69.8**	58.6
Cash and short term deposits	**101.2**	102.2
Other net current assets	**15.5**	30.1
Derivatives (net)	**(128.8)**	(145.6)
Pension scheme (deficit)/surplus	**(9.5)**	10.8
Borrowings	**(671.7)**	(707.7)
Deferred tax	**(88.9)**	(103.5)
Other non-current liabilities	**(33.8)**	(21.8)
Net assets	**492.1**	473.1

Changes to fixed assets reflect capital investment in the year of £125.5m, net of depreciation and disposals. The change in deferred taxes mainly arises from the movement in the pension funding position and reduction in corporation tax rates.

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2014, measured under international accounting standards and the associated best estimate assumptions, the company's share of the defined benefit scheme was a deficit with liabilities (of £3,191.1m) exceeding assets (of £3,181.6m) by £9.5m (2013: £10.8m surplus). Given the size of the scheme relative to the company, changes in market conditions can have relatively large impacts on the results and financial position.

b. Actuarial – funding basis

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

The Trustees and the company have agreed a schedule of contributions and a deficit recovery plan for the period to 31 December 2023. This required the company to make deficit recovery payments of £19.3m for calendar year 2013 and £19.9m for calendar year 2014, and future service contributions at a rate of 36.7% of pensionable pay (excluding salary sacrifice) for this period. From 1 January 2015 future service contributions will reduce to 29.4%, reflecting the revised cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November

2013. Also, from 1 January 2015, NATS group deficit contributions will be £28.6m, increasing by 2.37% each year. NERL's share of the deficit contributions is c. £21.5m. This means that for RP2 (2015 to 2019), contributions will average c. 41% of pensionable pay, compared with c. 46% currently. The lower cap on pensionable pay and change in future service indexation are estimated to avoid contribution increases amounting to c.£280m in RP2, with c.£200m relating to the en route business.

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

During the year ended 31 March 2014 the company paid deficit recovery payments of £19.4m (2013: £18.8m). Before pension salary sacrifice payments of £11.9m and redundancy-related augmentation payments of £1.9m, NERL's overall contributions to the defined benefit scheme were £95.8m (2013: £93.9m), equivalent to 46.0% of pensionable pay (2013: 45.9%).

Funding and treasury management

At 31 March 2014, borrowings were £671.7m (2013: £707.7m). Cash and investments decreased by £1.0m to £101.2m (2013: £102.2m) and net debt decreased by £35.0m to £570.5m (2013: £605.5m).

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2013	102.2	(707.7)	(605.5)
Cash flow	(0.6)	37.4	36.8
Short-term investments	(0.4)	-	(0.4)
Non-cash movements	-	(1.4)	(1.4)
Balance at 31 March 2014	**101.2**	**(671.7)**	**(570.5)**

Cash flow

Overall, cash and cash equivalents decreased by £0.6m in the year to £71.5m (2013: £72.1m).

	2014 £m	2013 £m
Net cash from operating activities	**243.0**	232.8
Net cash outflow from investing activities	**(117.1)**	(126.5)
Net cash outflow from financing activities	**(126.5)**	(105.9)
Increase in cash and equivalents	**(0.6)**	0.4
Cash and cash equivalents at start of year	**72.1**	71.7
Cash and cash equivalents at end of year	**71.5**	72.1

Net cash from operating activities at £243.0m was £10.2m higher than last year (2013: £232.8m) and reflected higher income receipts for UK en route services, net of higher costs, including RP2 redundancies and taxes. This enabled NERL to finance its capital investment, service its debt obligations and pay a dividend to shareholders.

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

Going concern

NERL'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 NERL'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.

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

The directors have formed a judgement that taking into account the financial resources available to NERL, it has adequate resources to continue to operate for the foreseeable future and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2014.

Nigel Fotherby

Finance Director

Principal risks and uncertainties

The operational complexities inherent in the business leaves NERL 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.

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

The risk of an aircraft accident

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

Loss of service from an air traffic control centre

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

Operational systems resilience

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

Pension scheme funding

Adverse movements in pension asset and liability values arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the pension deficit and result in significant contributions to fund pension benefits. Management regularly reviews the financial position of the defined benefit scheme and is consulted by

Trustees on the design of the risk reduction strategies that are in place. The scheme was closed to new entrants in 2009 and pensionable pay rises were capped. In April 2013 NATS agreed further reforms with staff which reduced the cap on pensionable pay rises and introduced indexation of future service benefits linked to the Consumer Prices Index (CPI) from 1 November 2013. In June 2013 the Trustees agreed a new schedule of contributions with the company. The next formal review of the funding of our defined benefit scheme will take place as part of the triennial valuation as at 31 December 2015.

Industry outlook

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

Electronic and other external threats

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

Employee relations

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

Other matters

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

a. Financial risks

The main financial risks to NERL relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 19. The Treasury function is mandated by the Board to manage the financial risks that arise in relation to underlying business needs. The function has clear policies and operating parameters, and its activities are routinely reviewed and agreed by the Treasury Committee. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

b. Scottish independence

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

c. Key programme and project risks

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

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

Richard Churchill-Coleman

Secretary

Report of the directors

The directors present their report, together with the financial statements and auditor's report, for the year ended 31 March 2014.

Details of significant events since the balance sheet date are contained in note 29 to the financial statements. An indication of likely future developments in the business of the company is contained in the Strategic report.

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

Dividends

During the year interim dividends of £42.8m (£4.28 per share) and £14.2m (£1.42 per share) were approved (2013: £28.5m). The Board recommends a final dividend for the year of £nil (2013: £nil).

In May 2014 the Board declared an interim dividend for the year ending 31 March 2015 of £4.60 per share (totalling £46.0m) which was paid to its parent company in June 2014.

Directors and their interests

The directors of the company who served during the year and to the date of this report are set out below:

John Devaney
Richard Deakin
Nigel Fotherby
Martin Rolfe

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

Directors' indemnities

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

Employees

Contracts of employment with staff are held by the company's parent company, NATS Limited. The company continues its commitment to the involvement of employees in the decision making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company work groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS group CEO and the company's Managing Director maintain visibility with staff through visits to NATS sites where they talk to them about current business issues and take 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 NATS' policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

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

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

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

Directors' responsibilities

The directors are responsible for preparing these financial statements in accordance with applicable law and regulations.

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

- properly select and apply accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Each person who is a director at the date of approval of these financial statements confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and

- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Auditors

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

By order of the Board

Richard Churchill-Coleman
Secretary
26 June 2014
Registered office

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

Registered in England and Wales

Company Number: 04129273

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

We have audited the financial statements of NATS (En Route) plc for the year ended 31 March 2014 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

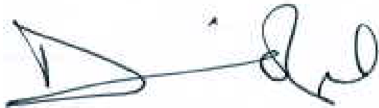
Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the 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.



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

Chartered Accountants and Statutory Auditor
London, United Kingdom
26 June 2014

Income statement
for the year ended 31 March

	Notes	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Result for the year £m	Restated[1] 2013 Result for the year £m
Revenue	4	742.5	-	742.5	713.6
Staff costs	7	(297.9)	(40.7)	(338.6)	(301.6)
Services and materials		(48.0)	-	(48.0)	(46.8)
Repairs and maintenance		(29.1)	-	(29.1)	(28.7)
External research and development		(0.1)	-	(0.1)	(0.1)
Depreciation, amortisation and impairment	6b	(104.1)	-	(104.1)	(101.9)
Goodwill impairment	6b	-	(32.0)	(32.0)	-
Gain on disposal of non-current assets		4.2	-	4.2	-
Other operating charges		(51.0)	-	(51.0)	(51.6)
Other operating income		0.6	-	0.6	-
Deferred grants released	6b	0.4	-	0.4	0.4
Net operating costs		(525.0)	(72.7)	(597.7)	(530.3)
Operating profit	6	217.5	(72.7)	144.8	183.3
Investment revenue	8	5.5	-	5.5	4.2
Fair value movement on derivative contract	9	17.7	-	17.7	(20.5)
Finance costs	10	(34.1)	-	(34.1)	(37.7)
Profit before tax		206.6	(72.7)	133.9	129.3
Tax	11	(32.4)	9.4	(23.0)	(27.7)
Profit for the year attributable to equity shareholders		174.2	(63.3)	110.9	101.6

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

Statement of comprehensive income
for the year ended 31 March

	Notes	2014 £m	Restated[1] 2013 £m
Profit for the year after tax		110.9	101.6
Other comprehensive income/(expense) for the year			
Items that will not be reclassified subsequently to profit and loss			
Actuarial (loss)/gain on defined benefit pension scheme	26	(44.5)	24.2
Deferred tax relating to items that will not be reclassified	22	9.9	(5.7)
Items that may be reclassified subsequently to profit and loss			
Change in fair value of hedging derivatives		(0.9)	1.2
Transfer to income statement on cash flow hedges		0.5	(0.2)
Deferred tax relating to items that may be reclassified	22	0.1	(0.2)
		(34.9)	19.3
Total comprehensive income for the period net of tax attributable to equity holders of the company		76.0	120.9

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

Balance sheet
at 31 March

	Notes	2014 £m	2013 £m
Non-current assets			
Goodwill	13	319.0	351.0
Other intangible assets	14	326.9	283.4
Property, plant and equipment	15	592.4	615.6
Retirement benefit asset	26	-	10.8
Trade and other receivables	16	69.8	58.6
		1,308.1	1,319.4
Current assets			
Trade and other receivables	16	153.5	142.3
Short term investments	19	29.7	30.1
Cash and cash equivalents	19	71.5	72.1
Derivative financial instruments	18	0.4	1.6
		255.1	246.1
Total assets		1,563.2	1,565.5
Current liabilities			
Trade and other payables	20	(122.6)	(96.5)
Current tax liabilities		(14.7)	(14.9)
Borrowings	17	(28.6)	(27.2)
Provisions	21	(0.7)	(0.8)
Derivative financial instruments	18	(0.3)	(0.6)
		(166.9)	(140.0)
Net current assets		88.2	106.1
Non-current liabilities			
Trade and other payables	20	(27.1)	(15.9)
Borrowings	17	(643.1)	(680.5)
Retirement benefit obligations	26	(9.5)	-
Deferred tax liability	22	(88.9)	(103.5)
Provisions	21	(6.7)	(5.9)
Derivative financial instruments	18	(128.9)	(146.6)
		(904.2)	(952.4)
Total liabilities		(1,071.1)	(1,092.4)
Net assets		492.1	473.1
Equity			
Called up share capital	23	10.0	10.0
Hedge reserve		0.3	0.6
Special reserves		34.9	33.7
Other reserves		15.5	17.1
Retained earnings		431.4	411.7
Total equity		492.1	473.1

The financial statements (Company Number 04129273) were approved by the Board of directors and authorised for issue on 26 June 2014 and signed on its behalf by:

Chairman John Devaney

Finance Director Nigel Fotherby

Statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the Company					
	Share capital £m	Special reserve £m	Hedge reserve £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2012	10.0	33.7	(0.2)	18.2	319.0	380.7
Profit for the year[2]	-	-	-	-	101.6	101.6
Other comprehensive income/(expense) for the year[2]	-	-	0.8	(1.1)	19.6	19.3
Total comprehensive income/(expense)for the year	-	-	0.8	(1.1)	121.2	120.9
Dividends paid	-	-	-	-	(28.5)	(28.5)
At 31 March 2013	10.0	33.7	0.6	17.1	411.7	473.1
At 1 April 2013	10.0	33.7	0.6	17.1	411.7	473.1
Profit for the year	-	-	-	-	110.9	110.9
Other comprehensive income/(expense) for the year	-	1.2	(0.3)	(1.6)	(34.2)	(34.9)
Total comprehensive income/(expense) for the year	-	1.2	(0.3)	(1.6)	76.7	76.0
Dividends paid	-	-	-	-	(57.0)	(57.0)
At 31 March 2014	10.0	34.9	0.3	15.5	431.4	492.1

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

[2] Restated on adoption of International Accounting Standard 19: *Employee Benefits*.

Cash flow statement
for the year ended 31 March

	Notes	2014 £m	2013 £m
Net cash inflow from operating activities	24	243.0	232.8
Cash flows from investing activities			
Interest received		0.6	0.7
Purchase of property, plant and equipment and other intangible assets		(121.0)	(127.6)
Proceeds from disposing of property, plant and equipment		2.9	-
Changes in short term investments		0.4	0.4
Net cash outflow from investing activities		(117.1)	(126.5)
Cash flows from financing activities			
Interest paid		(33.0)	(35.1)
Interest received on derivative financial instruments		0.9	1.3
Bank facility arrangement fees		-	(2.9)
Bank and other loans		(9.0)	(12.3)
Repayment of bond principal		(28.4)	(28.4)
Dividends paid		(57.0)	(28.5)
Net cash outflow from financing activities		(126.5)	(105.9)
Increase in cash and cash equivalents during the year		(0.6)	0.4
Cash and cash equivalents at 1 April		72.1	71.7
Cash and cash equivalents at 31 March		71.5	72.1
Net debt (representing borrowings net of cash and short term investments)		(570.5)	(605.5)

1. General information

NATS (En Route) plc (NERL) is a 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 28. The nature of the company'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 company operates.

2. Accounting policies

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

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 20. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union and therefore the company financial statements comply with Article 4 of the EU IAS Regulation.

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

With effect from 1 April 2013, NERL has adopted the new standard IAS 19 (revised 2011): *Employee Benefits*. IAS 19 has been adopted retrospectively in accordance with IAS 8 and is reflected in the disclosures in note 26. The principal impacts on the reporting from adopting the new standard are as follows:

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

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

	Year ended 31 March 2013 £m
Operating costs	(22.1)
Profit before tax	(22.1)
Tax	5.3
Net decrease in profit for the period	(16.8)
Actuarial gains on the defined benefit scheme	22.1
Tax on items that will not be reclassified to the income statement	(5.3)
Total comprehensive income for the period	-

NERL has also adopted the amendments to IFRS 13: *Fair Value Measurement*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other standards within IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes additional disclosure requirements. The impact of applying the amendments to this standard is that there are additional disclosure requirements and the recognition of a credit value adjustment of £2.3m to reflect the company's assessment of its own credit risk when calculating the fair value of its financial instruments. See note 19.

IFRS 13 requires prospective application from 1 January 2013 and, under transitional provisions

the disclosure requirements set out in the standard have not been applied to comparative information.

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

In the current year, NERL has applied for the first time a package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements*, IFRS 12: *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011): *Separate Financial Statements* and IAS 28 (as revised in 2011): *Investments in Associates and Joint Ventures*. These standards have not impacted the financial statements as NERL does not hold any investments.

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

IFRS 9: *Financial Instruments*

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

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

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

IFRIC 21: *Levies*

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

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

At completion of the Public Private Partnership (PPP) transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Limited (now NATS Limited) to this company.

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

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

- training services
- radar data services at NATS Services airports
- engineering and software support services
- research and development for NATS Services airports division and business development division; and
- other services to NATS Services business development division (for example - consultancy and engineering services).

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

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

The company commenced trading from 26 July 2001.

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

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 income statement to assist in understanding the financial performance of the company.

Operating profit

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

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 NERL's air traffic services licence (including volume risk sharing, service performance incentives and inflation adjustments) 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.
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the company's Executive team, who 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), goodwill impairment, pensions accrual rate variances to budget, employee share scheme costs, goodwill impairment, redundancy and relocation costs and any profit/(loss) on disposal of non-current assets.

Goodwill

Goodwill arising in relation to NERL, being the excess of consideration over the values of the net assets acquired at the date of the Public Private Partnership (PPP), is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing the company assesses the carrying value of goodwill against the recoverable amount of the cash generating unit to which goodwill has been allocated. Where the recoverable amount is less than the carrying value, the impairment loss is allocated to goodwill.

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

Leases

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

The company does not have any finance leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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

Property, plant and equipment

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

- Leasehold land: over the term of the lease
- Freehold buildings: 10-40 years
- Leasehold buildings: over the remaining life of the lease to a maximum of 20 years
- Air traffic control systems: 8-15 years
- Plant and other equipment: 3-15 years
- Furniture, fixtures and fittings: 10 years
- Vehicles: 5 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 NERL this assumes qualifying assets relate to any additions to new projects that began from 1 April 2009, included in assets under construction, and excludes acquisitions that are acquired in a state ready for use.

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

For NERL, 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.

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

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

Emissions allowances

Consistent with the withdrawal of IFRIC 3, emissions allowances previously recognised at valuation are now recognised at cost. 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.

Share-based payment

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

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

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

In respect of the award schemes, the company provides finance to NESL (NATS Employee Sharetrust Limited) to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.
The company's share of the costs of running the employee share trust is charged to the income statement.

Taxation

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

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

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

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax in the income statement is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Foreign currency translation

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

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

Retirement benefit costs

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

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

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

Since 2009, the NATS group and Trustees have introduced a number of pension reforms, as explained in note 26. These include: closing the defined benefit scheme to new entrants and establishing a defined contribution scheme for new employees 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 company has a present obligation as a result of a past event, and it is probable that the company will be required to settle that obligation. Provisions are measured at the directors' best estimate of expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Financial instruments

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

Financial Assets

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

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

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

either fair value or at amortised cost according to the category in which they are classified.

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit and loss

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

Other financial liabilities: including bank, other borrowings, loan notes and debt securities

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

Effective interest method

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

Equity

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

Derivative financial instruments and hedging activities

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

company uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in note 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 company's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The company documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an on going 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.

3. Critical judgements and key sources of estimation uncertainty

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets, (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset base, market premiums for regulated businesses and the outcome of the regulatory price control determinations. The market premium was assessed at the balance sheet date to be 7-8% (2013: 10%). If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. Refer to notes 13, 14 and 15.

Retirement benefits

The company accounts for its defined benefit pension scheme such that the net pension scheme asset or liability is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. To the extent that there is

a net pension scheme asset, this assumes that economic benefit will arise, at least to the extent shown, from contributions to the pension scheme at a rate below the future cost of pension benefits.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affects the balance sheet position and the company's reserves and income statement. Refer to note 26 of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Recoverability of revenue allowances

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

Capital investment programme

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

4. Revenue

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

	2014 £m	2013 £m
NATS Airspace	739.8	710.8
Other NATS Service lines	2.7	2.8
	742.5	713.6
Other operating income	0.6	-
Investment revenue (see note 8)	5.5	4.2
	748.6	717.8

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

A portion of the company's revenue from the 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 a £0.5m loss (2013: £0.2m gain).

5. Business and geographical segments

Operating segments

The NATS 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. Each service line is considered to be an operating segment as defined by IFRS 8. 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 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 company is organised into service lines: NATS Airspace and Other NATS Service lines. Other NATS Service lines include NATS Defence and NATS Information which are aggregated and reported to the chief operating decision maker as a single service line as they 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.

Principal activities

The following table describes the activities of each reporting segment:

NATS Airspace	This includes all of the company's economically regulated activities and encompasses en route, oceanic and terminal services provided from our Prestwick and Swanwick centres, together with all the supporting communications, navigation and surveillance infrastructure and facilities. This includes air traffic services for helicopters operating in the North Sea, approach services for London airports and the services to the Ministry of Defence.
Other NATS Service lines	Includes NATS Defence, providing a range of other defence services in the UK and internationally and NATS Information, providing data to enable future efficiency and flight optimisation.

Segment information about these activities is presented below.

Revenue

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

	2014			2013		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
NATS Airspace	719.0	20.8	739.8	692.4	18.4	710.8
Other NATS Service lines	2.7	-	2.7	2.8	-	2.8
	721.7	20.8	742.5	695.2	18.4	713.6

Intercompany revenue includes revenue for services to NATS (Services) Limited of £19.9m (2013: £17.5m) and to NATSNav Limited of £0.9m (2013: £0.9m).

5. Business and geographical segments (continued)

Operating profit

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

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

	2014 £m	Restated 2013 £m
NATS Airspace	391.3	367.9
Other NATS Service lines	2.0	2.2
Service line contribution	393.3	370.1
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(103.7)	(101.5)
Impairment of goodwill	(32.0)	-
Profit on disposal of non-current assets	4.2	-
Pension accrual rate variance to budget	(15.0)	(34.2)
Employee share scheme costs	(3.4)	(0.9)
Redundancy and relocation costs	(40.8)	(1.2)
Other costs not directly attributed to service lines	(57.8)	(49.0)
	144.8	183.3

Other costs not directly attributed to service lines include corporate costs providing central support functions.

Supplementary information

EC Regulations require air navigation service providers to present income and costs, prepared under international accounting standards, for each of their air navigation services. The following disclosure is provided in this respect:

	2014 UK air traffic services £m	2014 North Atlantic air traffic £m	2014 Total £m	Restated 2013 UK air traffic services £m	Restated 2013 North Atlantic air traffic £m	Restated 2013 Total £m
Revenue	715.7	26.8	742.5	687.2	26.4	713.6
Operating costs	(574.5)	(23.2)	(597.7)	(508.4)	(21.9)	(530.3)
Operating profit	141.2	3.6	144.8	178.8	4.5	183.3

UK air traffic services provide en route air traffic services within UK air space, air traffic services for helicopters operating in the North Sea, approach services for London airports, services to the Ministry of Defence and miscellaneous activity connected to the en route business.

North Atlantic air traffic services provide en route air traffic services for the North Atlantic, including an altitude calibration service.

Geographical segments

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

	Revenue 2014 £m	Revenue 2013 £m	Non-current assets 2014 £m	Non-current assets 2013 £m
UK	320.3	310.8	987.5	956.0
Rest of Europe	257.4	241.5	0.6	0.6
North America	115.8	115.6	1.0	1.0
Other	49.0	45.7	-	-
Total	742.5	713.6	989.1	957.6

Information about major customers

Included in revenues arising from NATS Airspace are revenues of £83.0m (2013: £76.2m) which arose from the company's largest customer.

6. Operating profit for the year

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

a) Restructuring costs

Redundancy and relocation costs

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

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

	2014 £m	2013 £m
Exceptional voluntary redundancy costs (including pension augmentation costs, see note 7a)	40.7	-
Other redundancy costs	0.2	1.3
Relocation of staff to the Prestwick area	(0.1)	-
Relocation of staff from Hurn to the Corporate & Technical Centre	-	(0.1)
	40.8	1.2

b) Other items

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

	2014 £m	2013 £m
CAA regulatory charges	5.5	5.3
Depreciation of property, plant and equipment	75.0	76.2
Impairment of goodwill	32.0	-
Impairment of property, plant and equipment	2.0	0.4
Amortisation of intangible assets	27.1	24.6
Impairment of intangible assets	-	0.7
Deferred grants released	(0.4)	(0.4)
Above the line tax credits relating to research and development costs	(0.5)	-
Research and development costs	7.4	9.2
Auditors remuneration for audit services (see below)	-	-

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

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

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

Transactions with group companies

	2014 £m	2013 £m
Net charges for services provided by parent undertaking	11.7	12.1
Charges for services provided by other group companies	18.4	17.9

In addition to the staff costs referred to in note 7a below, NERL is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NERL. Under the Inter Company Services Agreement (ICSA) NATS Services provides certain services to NERL. The MSA and ICSA are explained in more detail in note 2.

7. Staff costs

a) Staff costs

	2014 £m	Restated 2013 £m
Salaries and staff costs were as follows:		
Wages and salaries	268.5	221.0
Social security costs	24.2	23.6
Pension costs (note 7b)	89.4	94.5
	382.1	339.1
Less: amounts capitalised	(43.5)	(37.5)
	338.6	301.6

Wages and salaries includes redundancy costs of £39.0m (2013: £nil), share-based payment charges, other allowances and holiday pay. Pension costs include £1.9m (2013: £1.3m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

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

b) Pension costs

	2014 £m	Restated 2013 £m
Defined benefit pension scheme costs (note 26)	85.4	91.5
Defined contribution pension scheme costs	4.0	3.0
	89.4	94.5

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

c) Staff numbers

	2014 No.	2013 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,266	1,309
Air traffic service assistants	566	574
Engineers	840	835
Others	674	686
	3,346	3,404

8. Investment revenue

	2014 £m	2013 £m
Interest on bank deposits	0.4	0.5
Other loans and receivables	5.1	3.7
	5.5	4.2

Investment revenue from Other loans and receivables mainly includes the effect of unwinding the discount on amounts receivable after more than 1 year.

9. Fair value movement on derivative contract

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

10. Finance costs

	2014 £m	2013 £m
Interest on bank overdrafts, loans and hedging instruments	1.4	1.8
Bond and related costs including financing expenses	30.5	31.6
Other finance costs	1.9	3.9
Interest payable on intercompany loans	0.3	0.4
	34.1	37.7

Other finance costs mainly includes the effect of unwinding the discount on provisions falling due after more than 1 year.

11. Tax

	2014 £m	Restated 2013 £m
Current tax	28.3	27.5
Prior year adjustment	(0.7)	(1.9)
	27.6	25.6
Origination and reversal of temporary timing differences	9.0	6.6
Effects of tax rate change on opening balance	(13.6)	(4.5)
Deferred tax (see note 22)	(4.6)	2.1
	23.0	27.7

Corporation tax is calculated at 23% (2013: 24%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:	2014 £m	%	2013 £m	%
Profit on ordinary activities before tax	133.9		129.3	
Tax on profit on ordinary activities at standard rate in the UK of 23% (2013: 24%)	30.8	23.0%	31.0	24.0%
Tax effect of change in corporation tax rate from 23% to 20% (2013: 24% to 23%)	(13.6)	(10.2%)	(4.5)	(3.5%)
Tax effect of research and development expenditure increased deductions	(0.1)	-	(1.3)	(1.0%)
Profit on disposal	(0.7)	(0.5%)	-	-
Patent box	(1.0)	(0.7%)	-	-
Tax effect of prior year adjustments	(0.7)	(0.6%)	1.9	1.4%
Goodwill impairment	7.4	5.5%	-	-
Tax effect of other permanent differences	0.9	0.7%	0.6	0.5%
Tax charge for year at an effective tax rate of 17.2% (2013: 21.4%)	23.0	17.2%	27.7	21.4%
Deferred tax (credit)/charge taken directly to equity (see note 22)	(10.0)		5.9	

12. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend of £4.28 per share (2013: £2.85 per share)	42.8	28.5
Second interim dividend of £1.42 per share (2013: £nil per share)	14.2	-
	57.0	28.5

In May 2014, the Board declared an interim dividend for 2015 of £4.60 per share (totalling £46.0m), which was paid to the company's parent in June 2014.

13. Goodwill

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

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

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

14. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2012	138.5	40.8	21.0	142.8	343.1
Additions internally generated	3.4	-	0.3	11.5	15.2
Additions externally acquired	2.0	1.9	0.1	29.1	33.1
Disposals during the year	-	(0.3)	(0.9)	(0.1)	(1.3)
Transfers during the year	21.4	3.2	0.7	(23.2)	2.1
At 1 April 2013	165.3	45.6	21.2	160.1	392.2
Additions internally generated	2.5	0.6	0.1	19.8	23.0
Additions externally acquired	1.9	3.2	0.1	40.5	45.7
Transfers during the year	6.3	8.3	1.2	(14.0)	1.8
At 31 March 2014	176.0	57.7	22.6	206.4	462.7
Accumulated amortisation					
At 1 April 2012	36.9	20.4	11.3	16.2	84.8
Charge for the year	17.5	5.4	1.7	-	24.6
Impairment provision recognised in income statement	-	0.3	-	0.4	0.7
Utilisation of impairment provision	-	(0.3)	-	(0.1)	(0.4)
Disposals during the year	-	-	(0.9)	-	(0.9)
At 1 April 2013	54.4	25.8	12.1	16.5	108.8
Charge for the year	17.4	7.9	1.8	-	27.1
Utilisation of impairment provision	-	-	-	(0.1)	(0.1)
At 31 March 2014	71.8	33.7	13.9	16.4	135.8
Carrying amount					
At 31 March 2014	104.2	24.0	8.7	190.0	326.9
At 31 March 2013	110.9	19.8	9.1	143.6	283.4

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

15. Property, plant and equipment

	Freehold land & buildings £m	Improvements to leasehold land & buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture & fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2012	230.4	39.5	1,123.6	16.7	78.9	1,489.1
Additions during the year	3.6	2.7	25.4	0.4	46.4	78.5
Disposals during the year	(2.6)	-	(10.7)	(1.5)	-	(14.8)
Other transfers during the year	7.1	0.6	43.1	0.1	(53.0)	(2.1)
At 1 April 2013	238.5	42.8	1,181.4	15.7	72.3	1,550.7
Additions during the year	2.6	0.5	29.8	0.1	23.8	56.8
Disposals during the year	(3.8)	(1.0)	(47.3)	(0.1)	-	(52.2)
Other transfers during the year	3.0	0.5	43.0	1.0	(49.3)	(1.8)
At 31 March 2014	240.3	42.8	1,206.9	16.7	46.8	1,553.5
Accumulated depreciation and impairment						
At 1 April 2012	97.5	26.0	740.4	9.4	-	873.3
Provided during the year	7.3	1.5	65.9	1.5	-	76.2
Provisions for impairment	-	-	0.1	-	0.3	0.4
Utilisation of impairment provision	-	-	(0.1)	-	-	(0.1)
Disposals during the year	(2.6)	-	(10.6)	(1.5)	-	(14.7)
At 1 April 2013	102.2	27.5	795.7	9.4	0.3	935.1
Provided during the year	7.6	1.8	64.2	1.4	-	75.0
Provisions for impairment	-	-	2.0	-	-	2.0
Disposals during the year	(3.8)	(0.9)	(46.2)	(0.1)	-	(51.0)
At 31 March 2014	106.0	28.4	815.7	10.7	0.3	961.1
Carrying amount						
At 31 March 2014	134.3	14.4	391.2	6.0	46.5	592.4
At 31 March 2013	136.3	15.3	385.7	6.3	72.0	615.6

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, net impairment charges of £2.0m (2013: £1.1m) 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 company capitalised £1.2m (2013: £1.5m) of general borrowing costs at a capitalisation rate of 1.9% (2013: 2.1%), in accordance with IAS 23: *Borrowing costs.*

16. Financial and other assets

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

Trade and other receivables

	2014 £m	2013 £m
Non-current		
Prepayments	1.7	0.1
Accrued income	68.1	58.5
	69.8	58.6
Current		
Receivable from customers (gross)	54.2	51.7
Allowance for doubtful debts	(4.2)	(4.8)
	50.0	46.9
Other debtors	5.2	2.3
Prepayments	6.5	4.9
Amounts due from other group undertakings	2.3	0.5
Accrued income	89.5	87.7
	153.5	142.3

The average credit period taken on sales of services is 32 days (2013: 33 days). Interest is charged by Eurocontrol to UK en route customers at 10.89% (2013: 11.57%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £4.2m (2013: £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 which is evidence of a reduction in the recoverability of the cash flows.

16. Financial and other assets (continued)

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

Ageing of past due but not impaired trade receivables

	2014 £m	2013 £m
30-90 days	0.1	0.1
91 -365 days	0.2	-
More than 365 days overdue	0.1	0.1
	0.4	0.2

Movement in the allowance for doubtful debts

	2014 £m	2013 £m
Balance at the beginning of the year	4.8	4.3
Increase in allowance recognised in the income statement	-	1.0
Exchange movement in the year	(0.1)	-
Amounts written off as irrecoverable	(0.5)	(0.5)
Balance at end of year	4.2	4.8

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Credit risk is mitigated in part by regulatory price control conditions that include within UK en route annual revenue allowances of £1m to cover bad debts. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £3.0m (2013: £3.4m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The company does not hold any collateral over these balances.

Ageing of impaired receivables

	2014 £m	2013 £m
30-90 days	0.2	0.5
90-365 days	0.6	0.9
More than 365 days overdue	3.4	3.4
	4.2	4.8

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

Cash and cash equivalents

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

Overall, the maximum credit risk for the items discussed above would be £316.3m (2013: £298.1m).

17. Borrowings

	2014 £m	2013 £m
Unsecured loans		
Intercompany loan	22.5	22.5
Secured loans		
£600m 5.25% Guaranteed Secured Amortising Bonds due 2026	527.5	555.7
Bank loans (revolving term loan and revolving credit facility expiring 2016)	127.0	136.0
Gross borrowings	677.0	714.2
Unamortised bond issue costs	(3.6)	(4.2)
Unamortised bank loan issue costs	(1.7)	(2.3)
	671.7	707.7
Amounts due for settlement within 12 months	28.6	27.2
Amounts due for settlement after 12 months	643.1	680.5

The £600m 5.25% Guaranteed Secured Amortising Bond is secured by way of a debenture by which NERL grants its lenders a first legal mortgage over certain properties in England and Wales, a first fixed charge over all other real estate, plant and equipment and a floating charge over all other assets. Drawings of £127.0m made by NERL under its £275.0m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is circa £1,391m (2013: £1,419m), including the carrying amount of balance sheet goodwill of £319.0m.

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

Costs associated with the issue of the £600m bond are being amortised over the life of the bond. Costs associated with the issue of the £275.0m bank facilities are also being amortised over the term of the facility.

Undrawn committed facilities	2014 £m	2013 £m
Expiring in more than two years	148.0	139.0

NERL has, as at 31 March 2014, outstanding drawings of £127.0m (2013: £136.0m) on its committed bank facilities. These facilities expire on 21 December 2016.

18. Derivative financial instruments

Fair value of derivative financial instruments

	2014 £m	2013 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.4	1.6
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.3)	(0.6)
Non-current liabilities		
Derivative financial instruments classified as held for trading		
Index-linked swaps	(128.9)	(146.6)

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.

19. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern, to meet its obligations under its air traffic services licence and to provide returns to stakeholders. The capital structure of the company consists of debt, as disclosed in note 17, cash and cash equivalents and short term investments, as explained in this note and equity attributable to shareholders as disclosed in the statement of changes in equity.

External capital requirements

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

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

Gearing ratio

Consistent with seeking to maintain an investment grade credit rating, the company sets a gearing target measured as the ratio of net debt to the regulatory asset base (RAB). Following the price control review for the four calendar years 2011 to 2014, the economic regulator (the CAA) has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement if this cap is exceeded for NERL to halt distributions and to remedy the position.

Significant accounting policies

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

Categories of financial instrument

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

	2014 £m	2013 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	57.5	49.7
Cash and cash equivalents and short term investments	101.2	102.2
Derivative financial instruments in designated hedge accounting relationships	0.4	1.6
	159.1	153.5
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.3)	(0.6)
Derivative financial instruments classified as held for trading	(128.9)	(146.6)
Other financial liabilities at amortised cost	(755.0)	(759.4)
	(884.2)	(906.6)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding accruals and deferred income), the bond and bank borrowings (excluding unamortised bond issue costs and bank loan issue costs).

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

19. Financial instruments (continued)

Financial risk management objectives

The treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the company. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk, cash flow interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk

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

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

Foreign currency risk management

The company's principal exposure to foreign currency transaction risk is in relation to UK en route services revenues, accounting for 83% of turnover (2013: 83%). Charges for this service are set in sterling, but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to the company, forward foreign currency contracts are entered into. The company seeks to hedge 95% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a monthly or quarterly basis.

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

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

	Assets		Liabilities	
	2014	2013	2014	2013
	£m	£m	£m	£m
Euro	84.8	90.9	(12.3)	(11.3)
Canadian Dollars	0.1	-	(0.1)	-
Danish Krone	0.1	0.1	-	-
	85.0	91.0	(12.4)	(11.3)

Foreign currency sensitivity analysis

The company holds foreign currency cash balances of £3.9m (2013: £10.2m), which at 31 March 2014 were in Euro, Canadian Dollar and Danish Krone.

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

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

Currency	2014 Impact £m	2013 Impact £m
Euro	6.5	4.2
Canadian Dollars	(0.3)	(0.1)
	6.2	4.1

The company's sensitivity to the Euro increased during the year reflecting a net reduction in Euro denominated monetary assets and a net increase in forward contracts taken out to hedge future receipts and purchase commitments. NERL believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk as the exposure to foreign exchange risk was broadly constant throughout the reporting period.

19. Financial instruments (continued)

Forward foreign exchange contracts

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

	2014				2013		
Euro sold	€m	£m	Average exchange rate	Euro sold	€m	£m	Average exchange rate
0-3 months	144.4	174.3	0.8285	0-3 months	125.8	147.5	0.8528
Euro bought	€m	£m		Euro bought	€m	£m	
0-3 months	6.3	5.3	0.8361	0-3 months	3.4	2.9	0.8500
Over 3 months	1.6	1.3	0.8268	Over 3 months	1.2	1.0	0.8293
	7.9	6.6	0.8352		4.6	3.9	0.8447
Canadian Dollar bought	C$m	£m		Canadian Dollar bought	C$m	£m	
0-3 months	1.5	0.8	1.8244	0-3 months	0.4	0.2	1.5985
Over 3 months	3.3	1.8	1.8503	Over 3 months	1.7	1.1	1.6057
	4.8	2.6	1.8422		2.1	1.3	1.5967
Danish Krone bought	DKK m	£m		Danish Krone bought	DKK m	£m	
0-3 months	-	-	-	0-3 months	1.3	0.1	9.2176
Over 3 months	-	-	-	Over 3 months	0.7	0.1	9.2112
	-	-	-		2.0	0.2	9.2154

At 31 March 2014, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.3m (2013: £0.6m unrealised gains). 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 contract date after 31 March 2014 to sell Euro anticipated to be received in July 2014 totalling £57.8m in respect of UK en route revenues. These contracts are also designated as cash flow hedges. They are not included in the table above.

Interest rate risk management

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

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

Exposure to interest rates on financial assets and financial liabilities are detailed below. The company held no interest rate swaps at 31 March 2014 (2013: none).

19. Financial instruments (continued)

Economic interest rate exposure

The company held cash and short term deposits as follows:

2014							
	Cash			Short term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	67.6	0.4	2	29.7	0.5	183.0	97.3
Euro	3.7	-	1	-	-	-	3.7
Candian Dollar	0.1	-	1	-	-	-	0.1
Danish Krone	0.1	-	1	-	-	-	0.1
	71.5			29.7			101.2

2013							
	Cash			Short term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	61.9	0.4	5	30.1	0.4	186.0	92.0
Euro	10.1	-	5	-	-	-	10.1
Danish Krone	0.1	-	5	-	-	-	0.1
	72.1			30.1			102.2

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

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

Excluding derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	527.5	-	-	527.5	5.26%	6.1
Bank loans	127.0	127.0	-	-	1.50%	0.4
Intercompany loans	22.5	22.5	-	-	1.52%	0.5
Total	677.0	149.5	-	527.5		
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	555.7	-	-	555.7	5.27%	7.0
Bank loans	136.0	136.0	-	-	1.49%	0.5
Intercompany loans	22.5	22.5	-	-	1.50%	0.5
Total	714.2	158.5	-	555.7		

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2014						
Sterling:						
5.25% guaranteed secured bonds	327.5	-	-	327.5	5.27%	6.1
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.86%	0.5
Bank loans	127.0	127.0	-	-	1.50%	0.4
Intercompany loans	22.5	22.5	-	-	1.52%	0.5
Total	677.0	149.5	200.0	327.5		
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	355.7	-	-	355.7	5.28%	7.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.72%	0.5
Bank loans	136.0	136.0	-	-	1.49%	0.4
Intercompany loans	22.5	22.5	-	-	1.50%	0.5
Total	714.2	158.5	200.0	355.7		

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

19. Financial instruments (continued)

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

	2014 £m		2013 £m	
Net Debt	570.5		605.5	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	323.9	56.8	351.5	58.1
Index-linked	200.0	35.0	200.0	33.0
Floating (net of cash and short term investments and facility fees)	46.6	8.2	54.0	8.9
	570.5	100.0	605.5	100.0

In order to reduce its exposure to interest rate risk on its cash balances, the company 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 management's assessment of the reasonably possible change in interest rates.

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

	2014 Impact £m	2013 Impact £m
Cash on deposit (2014: £101.2m, 2013: £102.2m)	1.0	1.0
Borrowings (2014: £149.5m, 2013: £158.5m)	(1.5)	(1.6)
	(0.5)	(0.6)

Overall the company's sensitivity to interest rates has decreased marginally in the year, reflecting reduced borrowing levels.

Inflation rate risk

The regulatory charge control conditions that apply to the company's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation. To achieve an economic hedge of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, the company entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. Under the terms of this swap, NERL receives fixed interest at 5.25% and from December 2010 paid interest at a rate of 3.43% adjusted for the movement in RPI (prior to this date it paid interest at a rate of 2.98%). 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. From 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 management's assessment of the reasonably possible change in inflation. An increase in the rate of RPI will increase the future index-linked payments that the company is required to make under the swap contract and so impacts its mark to market value.

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

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

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

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. The exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 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 Investors Service (Moody's) and Fitch Ratings.

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

Currently, the company'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 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 tables below set out the group's investment limits that are applied to each institution based on its credit rating:

Rating (Standard and 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 company's deposits at 31 March by credit rating (Standard & Poor's):

		2014			2013	
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	2	7.1	7.1	2	17.4	17.0
AA-	1	20.0	19.7	1	20.0	19.6
A+	3	35.3	34.9	5	41.6	40.7
A	5	38.8	38.3	3	23.2	22.7
		101.2	100.0		102.2	100.0

Liquidity risk management

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

The policy is to:

a. maintain free cash equal to between 1 and 2 months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short term investments, excluding a debt service reserve account of £29.7m used to fund interest and fees scheduled for payment in the next six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;

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

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

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

e. maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of a £600m sterling bond that started to amortise in 2012 and has a final maturity date of 2026 and by having available shorter dated committed bank facilities (as referred to above).

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

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

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

	2014 £m	2013 £m
Bank borrowings	127.0	136.0
Gross borrowings	677.0	714.2
Bank borrowings as a percentage of gross borrowings	18.8%	19.0%

19. Financial instruments (continued)

Maturity of borrowings

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

	2014				2013			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	0.3	60.1	78.0	138.4	0.3	60.2	45.2	105.7
Between one and two years	0.4	60.1	-	60.5	0.4	60.4	-	60.8
Due between two and five years	2.2	329.9	-	332.1	1.6	333.6	-	335.2
Due in more than five years	29.9	412.7	-	442.6	29.5	478.0	-	507.5
	32.8	862.8	78.0	973.6	31.8	932.2	45.2	1,009.2
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(10.3)	(213.6)	-	(223.9)	(9.3)	(247.0)	-	(256.3)
	22.5	649.2	78.0	749.7	22.5	685.2	45.2	752.9

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

The following table sets out the maturity profile of the derivative financial liabilities. Cash flows under the 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 company's long term forecasts of inflation as used for business planning purposes. The table shows undiscounted net cash inflows/(outflows) on these derivatives.

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
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	153.5	-	-	-	153.5
Foreign exchange forward contract payables	(153.3)	-	-	-	(153.3)
	2.2	1.7	(22.7)	(142.6)	(161.4)
2013					
Net settled:					
Index-linked swap receivable/(payable)	2.3	2.1	(8.4)	(144.1)	(148.1)
Gross settled:					
Foreign exchange forward contract receivables	131.4	-	-	-	131.4
Foreign exchange forward contract payables	(130.2)	-	-	-	(130.2)
	3.5	2.1	(8.4)	(144.1)	(146.9)

Fair value measurements recognised in the balance sheet

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).

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.4	-	0.4	-	1.6	-	1.6
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.3)	-	(0.3)	-	(0.6)	-	(0.6)
Derivative financial instruments classified as held for trading	-	(128.9)	-	(128.9)	-	(146.6)	-	(146.6)
	-	(129.2)	-	(129.2)	-	(147.2)	-	(147.2)

19. Financial instruments (continued)

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;

- the fair value of the £600m bond has been derived from its externally quoted price.

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

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

20. Financial and other liabilities

Trade and other payables

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

	2014	2013
	£m	£m
Current		
Trade payables	9.5	9.2
Amounts due to other group undertakings	68.5	36.0
Accruals and deferred income		
- deferred grants	0.4	0.4
- other	44.2	50.9
	122.6	96.5
Non-current		
Accruals and deferred income		
- deferred grants	3.3	3.5
- other	23.8	12.4
	27.1	15.9
	149.7	112.4

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2013: 33 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

21. Provisions

	Relocation £m	Other £m	Total £m
At 1 April 2013	0.5	6.2	6.7
Additional provision in the year	-	1.1	1.1
Release of provision in the year	(0.1)	-	(0.1)
Utilisation of provision	(0.3)	-	(0.3)
At 31 March 2014	0.1	7.3	7.4

	Total £m
Amounts due for settlement within 12 months	0.7
Amounts due for settlement after 12 months	6.7
	7.4

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 employees' relocation date.

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

Redundancy costs are recharged by the company's parent through intercompany recharges and are included within amounts due to other group companies and are not reflected in the table above.

22. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit scheme[1] £m	Financial instruments £m	Other £m	Total £m
At 1 April 2012	119.0	(7.0)	(15.2)	(1.3)	95.5
Charge/(credit) to income	0.3	3.8	(2.2)	0.2	2.1
Charge to equity	-	5.7	0.2	-	5.9
At 31 March 2013	119.3	2.5	(17.2)	(1.1)	103.5
At 1 April 2013	119.3	2.5	(17.2)	(1.1)	103.5
(Credit)/charge to income	(17.2)	5.5	7.5	(0.4)	(4.6)
Credit to equity	-	(9.9)	(0.1)	-	(10.0)
At 31 March 2014	102.1	(1.9)	(9.8)	(1.5)	88.9

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

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

	2014 £m	2013 £m
Deferred tax liabilities	(102.1)	(121.8)
Deferred tax assets	13.2	18.3
	(88.9)	(103.5)

23. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2013 and 31 March 2014	10,000,000	10.0	10,000,000	10.0

24. Notes to the cash flow statement

	2014 £m	Restated 2013 £m
Operating profit from continuing operations	144.8	183.3
Adjustments for:		
Depreciation of property, plant and equipment	75.0	76.2
Impairment of goodwill	32.0	-
Amortisation of intangible assets	27.1	24.6
Impairment loss	2.0	1.1
Deferred grants released	(0.4)	(0.4)
Gain on disposal of property, plant and equipment	(4.2)	-
R&D above the line revenue adjustment	(0.5)	-
Adjustment for pension funding	(24.2)	(15.4)
Operating cash flows before movements in working capital	251.6	269.4
Increase in trade and other receivables	(12.2)	(23.1)
Increase in trade and other payables and provisions	30.1	7.6
Cash generated from operations	269.5	253.9
Tax paid	(26.5)	(21.1)
Net cash inflow from operating activities	243.0	232.8

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

25. Financial commitments

	2014 £m	2013 £m
Capital commitments contracted but not provided for in the accounts.	44.7	52.4
Minimum lease payments under operating leases recognised in the income statement for the year.	6.4	5.5

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

	2014 £m	2013 £m
Within one year	6.4	6.4
In the second to fifth years inclusive	20.8	21.1
After five years	24.9	29.2
	52.1	56.7

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

Guarantees

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

26. Retirement benefit scheme

Defined contribution scheme

NATS Limited, the company's immediate parent undertaking, provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The scheme was established on 1 April 2009 for staff who joined from that date. The assets of the scheme are held separately from those of the company in funds under the control of a board of Trustees.

NATS Limited operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2014 employer contributions of £2.7m (2013: £2.0m), excluding salary sacrifice contributions of £1.3m (2013: £1.0m), represented 13.8% of pensionable salaries (2013: 13.7%).

The defined contribution scheme had 459 company members at 31 March 2014 (2013: 442).

Defined benefit scheme

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

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

During 2009 the parent company 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 price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners. Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

During 2013 the company 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 price 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 to by staff.

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 the future benefit accrual for RPI-linked benefits was 39.0% of pensionable salaries (33.3% employers and 5.7% employees) and for CPI-linked benefits which accrue from 1 November 2013 was 34.4% of pensionable salaries (28.7% employers and 5.7% employees). In addition, NATS makes payments to the scheme to cover administration costs, including the Pension Protection Fund (PPF) levy, of 0.7% of pensionable salaries.

Contributions to the pension scheme

Following the 2012 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2023. Under the schedule of contributions, normal contributions are paid at 36.7% of pensionable pay until 31 December 2014 and at 29.4% from 1 January 2015 to 31 December 2023. Deficit recovery contributions for the period 1 April 2013 until 31 December 2013 were made at £2.1m per month and are being made at £2.2m per month for calendar year 2014. These will then be made at £2.4m per month for calendar year 2015 and increase by 2.37% annually thereafter. NERL's share of deficit recovery contributions is c. 75%.
NATS Limited, the immediate parent of the company, is the employer of, and seconds to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in CAAPS and bears the employment (including pension) costs of those personnel.

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

During the year the company paid cash contributions to the scheme of £109.6m (2013: £106.9m). This amount included £11.9m (2013: £11.7m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 46.0% (2013: 45.9%) of pensionable salaries.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2015 is £102m, including salary sacrifice contributions estimated at £11m.

26. Retirement benefit scheme (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 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, the company elected to adopt a 'clean start' approach which recognised all actuarial gains and losses at 1 April 2004, and it 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 carried out as at 31 December 2012 and updated to 31 March 2014 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2014	2013	2012
RPI Inflation	3.35%	3.35%	3.25%
CPI Inflation	2.35%	2.45%	n/a
Increase in:			
- salaries	2.60%	2.70%	3.25%
- deferred pensions	3.35%	3.35%	3.25%
- pensions in payment	3.35%	3.35%	3.25%
Expected return on:			
- equities	n/a	n/a	7.10%
- property and other assets	n/a	n/a	6.60%
- bonds	n/a	n/a	3.45%
Discount rate for net interest expense (for 2012, for scheme liabilities)	4.50%	4.45%	5.05%

The mortality assumptions have been drawn from actuarial tables 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5% p.a. (2013: 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5%p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 30.9 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.2 years and for females to 32.7 years.

An adjustment is applied to past and future service liabilities as an allowance for members electing to take some of their benefits as cash at retirement.

The principal risks to the financial performance of the company arising from the scheme are in respect of:

a) asset volatility: for accounting purposes, scheme liabilities are determined using a discount rate set by reference to high quality corporate bond yields. If scheme assets under-perform relative to this yield, this will create a deficit. As explained below, NATS and Trustees are reviewing measures to de-risk the scheme by investing more in assets which better match the liabilities.

b) changes in bond yields: a decrease in the yield on high quality corporate bonds will increase scheme obligations, although this is partly mitigated by an increase in the value of the scheme's holdings of bonds.

c) inflation risk: the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the scheme's assets (such as equities) are real in nature and so provide some inflation protection, but overall, an increase in inflation will adversely impact on the funding position.

d) life expectancy (mortality): the majority of the scheme's obligations are to provide benefits for the life of a member, so an increase in life expectancy will result in an increase in the scheme's obligations.

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 11.0%/increase by 12.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.6%/decrease by 11.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.8%/decrease by 3.5%
Rate of mortality	1 year increase in life expectancy	Increase by 2.3%

Each sensitivity above is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognised on the balance sheet.

26. Retirement benefit scheme (continued)

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

	2014 £m	Restated 2013 £m
Current service cost	(85.0)	(91.4)
Past service cost	(1.9)	(1.3)
Net interest expense	2.9	1.2
Administrative expenses	(1.4)	-
Components of defined benefit costs recognised within operating profit	(85.4)	(91.5)

Administrative expenses for 2013 were included in the current service cost above, and within benefits paid in the movement in fair value of scheme assets below.

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

	2014 £m	Restated 2013 £m
Return on plan assets (excluding amounts included in net interest expense)	72.7	200.6
Actuarial gains and losses arising from changes in financial assumptions	34.3	(296.9)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(151.5)	120.5
	(44.5)	24.2

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

	2014 £m	Restated 2013 £m
Present value of defined benefit obligations	(3,191.1)	(2,932.9)
Fair value of scheme assets	3,181.6	2,943.7
(Deficit)/Surplus in scheme	(9.5)	10.8

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

	2014 £m	Restated 2013 £m
At 1 April	(2,932.9)	(2,601.9)
Current service cost	(85.0)	(91.4)
Past service cost	(1.9)	(1.3)
Interest expense on defined benefit scheme obligations	(128.9)	(129.8)
Actuarial gains and losses arising from changes in financial assumptions	34.3	(176.4)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(151.5)	-
Benefits paid	74.8	67.9
At 31 March	(3,191.1)	(2,932.9)

The average duration of the scheme's liabilities at the end of the year is 24.3 years (2013: 25.7 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2014 £m	Restated 2013 £m
Active members	(1,755.6)	(1,611.3)
Deferred members	(198.7)	(184.5)
Pensioners	(1,236.8)	(1,137.1)
	(3,191.1)	(2,932.9)

26. Retirement benefit scheme (continued)

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

	2014 £m	Restated 2013 £m
At 1 April	2,943.7	2,573.1
Interest income on scheme assets	131.8	131.0
Return on plan assets (excluding amounts included in net interest expense)	72.7	200.6
Contributions from company	109.6	106.9
Benefits paid	(74.8)	(67.9)
Administrative expenses	(1.4)	-
At 31 March	3,181.6	2,943.7

The company's share of the major categories of scheme assets is as follows:

	2014 £m	Restated 2013 £m
Cash and cash equivalents	93.7	98.8
Equity instruments		
- UK	230.8	755.9
- Europe	67.0	210.7
- North America	196.3	234.0
- Japan	27.8	111.9
- Pacific (excluding Japan)	78.8	53.6
- Emerging markets	245.5	53.7
- Global	454.9	146.9
	1,301.1	1,566.7
Bonds		
- Corporate bonds	653.1	429.6
- Index-linked gilts over 5 years	528.9	515.6
	1,182.0	945.2
Other investments		
- Property	197.4	150.0
- Hedge funds	138.7	127.2
- Global tactical asset allocation	79.5	72.1
- Private equity funds	90.1	86.3
	505.7	435.6
Derivatives		
- Futures contracts	99.1	(102.6)
	3,181.6	2,943.7

The scheme assets do not include any investments in the equity or debt instruments of the NATS 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 assets consist of equities and bonds, although the scheme also invests in property, cash and investment (private equity and hedge) funds.

NATS Limited and Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

At NATS' request, Trustees have also considered further de-risking over time to protect the scheme from the impact of volatility in the value of return-seeking assets. This would involve progressively converting from return-seeking assets into hedging assets to increase the level of matching of the scheme's liabilities. As changing the mix of assets changes the returns achieved, this would impact on contributions payable. Before implementing this strategy, NATS and Trustees will consult with CAA and NERL's customers. The strategy will aim to maintain an appropriate balance between the potential impact on contributions and the reduction in volatility of return-seeking assets, and therefore reduced investment risk.

Derivative instruments are used by investment managers to reduce risk or gain exposure to investment classes without the requirement to hold the underlying investment. Trustees monitor derivative positions to ensure that, when combined with the underlying physical position, the aggregate falls within specified investment guidelines.

The actual return on scheme assets for the year ended 31 March 2014 was £204.5m (2013: £331.6m).

27. Related party transactions

The NATS group has four shareholders - the Crown, The Airline Group Limited (AG), LHR Airport Holdings 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).

AG is a consortium of eight members: British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, Monarch Airlines Retirement Benefit Plan Limited, Thomas Cook Airlines Limited, Thomson Airways Limited and Virgin Atlantic Airways Limited and (as from March 2014) USS Sherwood Limited. AG has a 42% stake in NATS Holdings Limited which it purchased through the PPP transaction in July 2001. The directors of NATS Holdings Limited are satisfied that the seven members of the AG have not exercised undue influence on the group or the company either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

Trading transactions

	Sales		Purchases	
	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2014	Year ended 31 March 2013
	£m	£m	£m	£m
Ministry of Defence (MoD)	47.2	48.0	3.2	5.0
Department for Transport (DfT)	0.5	1.8	-	-
Meteorological Office	0.7	-	0.5	0.5

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2014	Year ended 31 March 2013
	£m	£m	£m	£m
Ministry of Defence (MoD)	5.3	5.2	19.5	13.2
Department for Transport (DfT)	-	-	-	-
Meteorological Office	-	-	-	0.1

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions (2013: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

Remuneration payable to the highest paid director of the company in the year was £1,049,000 (2013: £720,000). The director participates in a pension salary sacrifice arrangement. Contributions paid to a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure. Contributions to the defined contribution pension scheme, including salary sacrificed by the director of £43,000 and contributions from the company of £85,000 totalled £128,000.

28. Parent undertaking

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

The company's ultimate controlling party is The Airline Group Limited a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that of which NATS Holdings Limited is the parent company. The consolidated accounts of NATS Holdings Limited can be obtained from the company's secretary, at its registered office, 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL.

29. Events after the reporting period

In May 2014, the Board declared an interim dividend for 2014 of £4.60 per share (totalling £46.0m), which was paid to the company's parent in June 2014.