NATS (En Route) plc

Financial statements
for the year ended 31 March 2015

Company Number: 04129273

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Company Secretary

Richard Churchill-Coleman

Registered office

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

Registered in England and Wales

Company Number 04129273

Auditor

BDO LLP

Who we are

NATS (En Route) plc (NERL)

NERL is the sole provider of air traffic control (ATC) 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 framework of the European Commission's (EC) Single European Sky (SES) and operates under licence from the Secretary of State for Transport. It operates from two ATC centres; Swanwick in Hampshire and Prestwick in Ayrshire.

Our services

We offer the following products and services to our customers:

- **Airspace**: UK en route, North Atlantic and terminal ATC services;
- **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.

Our customers

NERL's customers include airlines and the UK military.

Financial

(£m unless otherwise specified)	2015	2014	Change %
Revenue	740.2	742.5	-0.3
Operating profit before exceptional items[1]	218.0	217.5	+0.2
Operating profit	201.0	144.8	+38.8
Profit before tax	172.7	133.9	+29.0
Capital expenditure	152.9	125.5	+21.8
Net debt[2]	561.3	570.5	-1.6
Gearing[3] (%)	53.4%	54.0%	-1.1
Dividends	69.5	57.0	+21.9

[1] Operating profit before goodwill impairment charges and, additionally in the prior year, voluntary redundancy costs
[2] Excludes derivative financial instruments
[3] Ratio of net debt to regulatory assets

Operational

- This year we handled 2.22 million flights (2014: 2.16 million) and maintained our safety record with one risk-bearing Airprox[1] attributable to NERL. The average ATC attributable delay per flight was 2.2 seconds (2014: 5.4 seconds).

- We enabled a 4.3% reduction in CO_2 emissions on average per flight during the 2014 calendar year (against a 2006 baseline), exceeding our target of 4.0%. This represents an annual saving of almost 1 million tonnes of CO_2, which equates to around £117m in enabled fuel savings to our airline customers.

Business developments

- The European Commission confirmed that the joint UK-Ireland Performance Plan for Reference Period 2: 2015-2019 (RP2) is consistent with the European Union-wide performance targets. This Plan, which determines the revenue allowances for Airspace (excluding the North Atlantic), delivers significant operational benefits to customers and real price reductions of about 21%.

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

Overview

I am pleased to report that 2014/15 was a year of good operational and financial performance on which to end the regulatory reference period[2]. I would like to thank staff for their support in achieving this outcome.

We maintained our excellent safety record and our service performance was better than the CAA's targets. We handled 2.22 million flights carrying over 240 million passengers. Overall, Air Traffic Flow Management (ATFM) delay[3] was 2.2 seconds per flight (2014: 5.4 seconds), which was ten times better than the European average.

We also enabled a 4.3% reduction in CO_2 per flight in calendar year 2014, worth around £117m per annum in fuel savings to customers. This exceeded the 4% commitment we made at the start of CP3. It was achieved following initiatives such as changes to UK airspace, the use of more efficient procedures including continuous instead of stepped climbs and descents, and the introduction of new ATC technologies. It equates to CO_2 reductions of 990,000 tonnes and over 300,000 tonnes of enabled fuel savings per annum, compared to our 2006 baseline, and is worth around £117m.

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

Between now and 2020, a major focus for the business will be the deployment of new technology and operational procedures to deliver further safety, capacity, environmental and efficiency benefits to our stakeholders. This programme of work is known as Deploying SESAR[4] and we plan to accelerate the delivery of it ahead of the mandated European requirements.

In parallel, through the Borealis Alliance with eight European Air Navigation Service Providers (ANSP's), we are aiming to extend the airspace for flight plan direct routing from the eastern boundary of the North Atlantic to the western boundary of Russian airspace in the North of Europe. This will provide significant savings in fuel and CO_2 emissions to customers.

We delivered a strong financial performance this year with a profit before tax of £172.7m (2014: £133.9m), an improvement of £38.8m on last year. The principal factors affecting our performance are explained in the Financial review and Service line performance sections of this report.

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

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

4 Single European Sky ATM Research Programme

Our UK en route service suffered a technical failure in December 2014. This resulted in air traffic delays as we reduced the number of aircraft in UK airspace in order to maintain safety. This delay directly affected around 350 flights with a further 150 flights cancelled. I very much regret the disruption this caused to the public and to our customers. The incident prompted an independent enquiry, whose findings were made public in May 2015. We are pleased that the report acknowledged that safety was not compromised at any time and recognised the quality and timeliness of our response. We accept the majority of the enquiry's recommendations. The event cost NERL £0.5m in service incentives.

Outlook and priorities for 2016

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

We expect more changes in NERL in the next five years than over the previous 10 years, particularly as we integrate new technology into our operation. To meet these and other challenges, our priorities for next year include:

- Safety: continuing to reduce safety risk and providing safety assurance on the deployment of new technology.
- Environment: improving arrival and departures routes and associated procedures which will enable airline fuel savings.
- Airspace: meeting RP2 performance targets, delivering capital investment programmes, and maximising the benefit of TBS at Heathrow.
- Other Services: continuing excellent service delivery to the Ministry of Defence (MOD).

NATS' vision and the company's strategy

NERL is the core of the NATS group's operations and represents more than 75 per cent of its revenue. Its safe and efficient operation is vital to the operation of UK airspace. For these reasons it makes a significant contribution to the execution of NATS' strategy.

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

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

NATS' businesses are founded on three core values:

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

NATS' strategy is based on three fundamental principles:

- to defend its existing market position;

- to grow its business by providing new and innovative products and services; and
- to develop the capabilities needed to delivers its business ambitions.

The RP2 settlement, finalised last year, is even more challenging than the plan we previously recommended to our customers during the consultation process.

NERL must continue to make its customer proposition attractive by focusing on required service levels, its prices and the value it offers. These principles were at the heart of the approach to RP2.

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

Martin Rolfe

Chief Executive Officer and Managing Director Operations

Financial review

	2015 £m	2014 £m
Revenue	**740.2**	742.5
Operating profit before exceptional items	**218.0**	217.5
Operating profit	**201.0**	144.8
Profit before tax	**172.7**	133.9
Profit after tax	**135.1**	110.9
Dividends	**69.5**	57.0

The company reported a profit before tax of £172.7m (2014: 133.9m), an improvement of £38.8m on last year – which included higher charges for redundancy costs (by £40.7m) and goodwill impairment (by £15.0m). Operating profit before exceptional items improved by £0.5m to £218.0m (2014: £217.5m) as the company maintained its strong underlying performance. Modest revenue reductions, higher depreciation charges and lower gains from the disposal of assets were offset by lower staff operating costs. Net finance costs were £17.4m higher at £28.3m (2014: £10.9m) due mainly to the change in the market value of an index-linked swap, explained further below.

	£m	Profit before tax £m
2014 profit before tax		133.9
Revenue changes		
Airspace		
Net increase in revenue (allowing for traffic volumes & inflation)	(13.8)	
Pricing below the revenue cap	3.6	
Service performance incentive	6.7	
Galileo Security Monitoring Centre revenue	(2.6)	
Income from other group companies	1.6	
Other revenue changes	2.4	
		(2.1)
Other service lines		(0.2)
Cost changes		
Staff costs	11.9	
Non-staff costs	(2.8)	
		9.1
Other operating income		0.4
Depreciation & amortisation, net of deferred grants	(3.5)	
Asset impairment charges	1.2	
Disposal of assets	(4.4)	
		(6.7)
Exceptional items:		
Redundancy costs	40.7	
Goodwill impairment	15.0	
		55.7
Fair value movement on derivative contract	(16.2)	
Other finance costs (net)	(1.2)	
		(17.4)
2015 profit before tax		**172.7**

The table above explains the improvement in profit in the year.

Regulatory return

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

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

Comparison between reported profit and regulatory return

The profits reported in these financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and policies described in note 2 to these accounts. As described above, the CAA applies an economic regulatory building block model which is mainly cash-based. It can give rise to some significant differences between reported operating profit and regulatory return, mainly due to:

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

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

Revenue

Revenue decreased by £2.3m to £740.2m (2014: £742.5m). The RP2 settlement, which applied from January 2015, is reducing UK en route revenue allowances. Last year's revenue included a one-off fee for establishing the back-up Galileo satellite monitoring facility at Swanwick and reflected the effect of pricing below the revenue allowance. These factors were partially offset by the combined effects of air traffic volume growth and service quality incentives.

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

Operating costs

Operating costs, before exceptional charges, were £522.2m (2014: £525.0m) or 0.5% lower than the prior year.

	2015 £m	2014 £m
Staff costs	(286.0)	(297.9)
Service and materials	(46.1)	(48.0)
Repairs and maintenance	(31.9)	(29.1)
External research and development	(0.1)	(0.1)
Other operating charges (net)	(51.9)	(50.4)
	(416.0)	(425.5)
Depreciation and amortisation	(105.6)	(102.1)
Asset impairment	(0.8)	(2.0)
Deferred grants	0.4	0.4
(Loss)/profit on disposal of assets	(0.2)	4.2
Operating costs	(522.2)	(525.0)

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

The average number of staff employed during the year was 3,183 (2014: 3,346) and those in post at 31 March 2015 reduced by 4.8% to 3,108 (2014: 3,264).

Pension charges (before redundancy-related past service cost), were £4.9m lower at £82.6m (2014: £87.5m) mainly due to a reduction in the actual accrual rate for the defined benefit pension scheme to 32.5% (2014: 34.0%), before salary sacrifice.

Non-staff costs (net) at £130.0m (2014: £127.6m) were 1.9% higher than the previous year with some cost increases from network communications and contract staff. The prior year also included one-off costs to establish the back-up Galileo facility at Swanwick.

Depreciation (net of deferred grants), amortisation and impairment charges increased in aggregate to £106.0m (2014: £103.7m), in part due to the reassessment of the useful lives of assets to reflect the early deployment of SES technology. This year's result also included a loss of £0.2m on asset disposals (2014: £4.2m profit).

Exceptional charges

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

In the previous year NERL incurred redundancy costs of £40.7m, as it reduced its cost base to meet the challenging cost efficiency targets set for RP2.

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

The carrying value of goodwill is intrinsically linked to NERL's regulatory settlements and its Regulatory Asset Base (RAB) in particular. NERL's RAB is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. Regulatory depreciation is a source of revenue allowances (explained in the description of NERL's business model). During RP2, NERL's capital investment is projected to be less than regulatory depreciation and the RAB is expected to contract in real terms. These factors may give rise to goodwill impairment in future years.

Net finance costs

Overall, net finance costs of £28.3m were £17.4m higher than the prior year (2014: £10.9m) which mainly reflected the change in market value of the index-linked swap derivative contract.

The swap was taken out in 2003 as an economic hedge (qualifying for hedge accounting under UK GAAP) of NERL's revenue allowance for financing charges, which is linked to inflation. It does not qualify for hedge accounting under international accounting standards, and changes in its fair value are recognised in the income statement. The fair value varies with changes in the market's expectation of inflation, swap discount rates and the passage of time to expiry of the contract in 2026, and can be volatile. This year, changes in market conditions resulted in a smaller decrease in the swap's market value liability than the prior year, resulting in a credit of £1.5m (2014: £17.7m credit).

Excluding the swap, net finance costs were £1.2m higher at £29.8m (2014: £28.6m). This mainly reflected the cost of unwinding discounts on non-current assets and liabilities which offset the benefit of lower bond interest costs following repayments of bond principal, and interest earned on cash holdings.

Outlook for 2016

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

Taxation

The tax charge of £37.6m (2014: £23.0m) was at an effective rate of 21.8% (2014: 17.2%). This is greater than the headline rate of 21%, mainly reflecting the goodwill impairment charge, which is not tax deductible, partly offset by a patent box claim relating to air traffic control software. The prior year also included the deferred tax impact of the reduction in the corporation tax rate to 20% from April 2015.

Balance sheet

NERL's balance sheet is summarised below.

	2015 £m	2014 £m
Goodwill	**302.0**	319.0
Tangible and intangible fixed assets	**965.8**	919.3
Other non-current assets	**64.1**	69.8
Cash and short term deposits	**106.9**	101.2
Other net current assets	**43.0**	15.5
Derivatives (net)	**(127.5)**	(128.8)
Pension scheme deficit	**(267.3)**	(9.5)
Borrowings	**(668.2)**	(671.7)
Deferred tax	**(38.3)**	(88.9)
Other non-current liabilities	**(52.6)**	(33.8)
Net assets	**327.9**	492.1

The principal changes in financial position since the prior year have been a deterioration in the defined benefit pension scheme funding position (net of related deferred tax), which is explained below, capital investment of £152.9m in the company's air traffic services infrastructure, net of depreciation charges, and retained earnings. Movements in cash and borrowings and derivatives are explained elsewhere in this report.

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2015, measured under international accounting standards and the associated best estimate assumptions, the company's share of the NATS group's defined benefit scheme was in deficit with liabilities (of £3,824.2m) exceeding assets (of £3,556.9m) by £267.3m (2014: £9.5m). A reconciliation of the movement since the prior year is shown below.

Defined benefit scheme liability	£m
At 1 April 2014	(9.5)
Charge to income statement	(79.9)
Actuarial gains/(losses):	
- on scheme assets	208.9
- on scheme liabilities	(492.1)
Employer contributions*	105.3
At 31 March 2015	(267.3)
Represented by:	
Scheme assets	3,556.9
Scheme liabilities	(3,824.2)
Deficit	(267.3)

* including salary sacrifice

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. Although the value of scheme assets increased by 11.8% in the year this was more than offset by the growth in liabilities mainly due to a reduction in real discount rates.

b. Actuarial – funding basis

The scheme actuary's last triennial valuation of the NATS group's scheme was prepared as at 31 December 2012 and reported a scheme deficit of £382.6m. 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 pension scheme. Following that triennial valuation, the Trustees and the company agreed a schedule of contributions and a deficit recovery plan for the period to 31 December 2023. The company's share of these deficit repair payments was £20.0m for calendar year 2014 and £21.5m for calendar year 2015. Future service contributions were paid at a rate of 36.7% of pensionable pay (excluding salary sacrifice) until 1 January 2015 when these reduced to 29.4%, reflecting the cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Overall, excluding salary sacrifice contributions of £11.7m (2014: £11.9m) and redundancy related past service costs of £2.2m (2014: £1.9m), the company's contributions in the year of £91.4m (2014: £95.8m) represented 45.0% of pensionable pay (2014: 46.0%).

The next triennial valuation will be performed as at 31 December 2015 and, depending on the funding position at that date, may result in a change to the contributions required by the company.

The scheme's Trustees are undertaking a liability driven investment programme to hedge the impacts of inflation and interest rates on liabilities. The NATS group also continues to work with Trustees to ensure an appropriate investment strategy is in place, including de-risking the scheme as funding levels improve to mitigate future volatility in the funding position.

Net debt

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2014	101.2	(671.7)	(570.5)
Cash flow	5.7	4.8	10.5
Non-cash movements	-	(1.3)	(1.3)
Balance at 31 March 2015	**106.9**	**(668.2)**	**(561.3)**

At 31 March 2015, borrowings were £668.2m (2014: £671.7m). Cash and investments increased by £5.7m to £106.9m (2014: £101.2m) and net debt decreased by £9.2m to £561.3m (2014: £570.5m).

Cash flow

Overall, cash and cash equivalents increased by £5.7m in the year to £77.2m (2014: £71.5m).

	2015 £m	2014 £m
Net cash from operating activities	**256.7**	243.0
Net cash outflow from investing activities	**(146.0)**	(117.1)
Net cash outflow from financing activities	**(105.0)**	(126.5)
Increase/ (decrease) in cash and equivalents	**5.7**	(0.6)
Cash and cash equivalents at end of year	**77.2**	71.5

Net cash from operating activities at £256.7m was £13.7m higher than last year (2014: £243.0m). The company spent less in the year on operating costs and contributed less (in absolute terms) to pensions due to staff reductions. In part this was offset by higher taxes and redundancy payments.

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

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 2015 had access to £123.0m of undrawn committed bank facilities that are available until December 2016. NERL's forecasts and projections, which reflect its expectations for RP2 and taking account of reasonably possible changes in trading performance, show that the company 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 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, NERL has adequate resources to continue to operate for the foreseeable future and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2015.

Nigel Fotherby, Finance Director

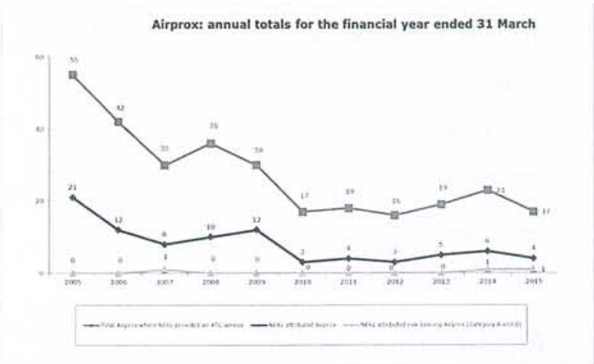
Safety

Safety performance

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

In 2011 we targeted a 10% reduction in the Weighted Safety Significant Event (SSE)[5] Index by December 2014. We exceeded this target, with a 49% reduction over the four year period.

This year there was one category B Airprox[6] event attributable to NERL (2014: one).



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

[5] The Weighted SSE Index is a single figure calculated by giving a weighted value to our 4 event scores (SSE 1-4). These values are combined in the index to provide the measure of safety performance used within the 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.

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

The overall number of Airprox events was 17 in 2015 (2014: 23), with four attributable to NERL.

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

Managing Safety

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

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

Safety and Strategic Change

Over the next 5 years we expect significant change to our operational environment from our Deploying SESAR programme. During 2015 we assessed the safety improvements that this programme will deliver, and identified the safety case activities required.

Safety Improvements

The most significant operational risks we deal with are infringements of controlled airspace and level busts[7]. We have continued address these during the year.

The weighted SSE index of level bust events reduced by almost 40% during the year. However, over the same period there has been a small increase in the number of events. Level busts can arise from changes in atmospheric pressure, which affect cockpit altimeter settings. To mitigate this we developed guidance for air traffic controllers on defensive controlling techniques during periods of low pressure and briefed airlines. The CAA has also provided some mitigation strategies to airlines.

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

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

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

We have also enhanced our training for those returning to frontline operations following an incident or absence from work.

Single European Sky (SES)

SES is a European Commission (EC) initiative to reform air traffic services to provide a safer, more environmentally sound and cost effective service. Performance schemes have been established under the SES legislative framework which regulates air traffic service provision. This also requires airspace management within functional airspace blocks[8] (FABs) to improve operational efficiencies and for technology to be modernised and interoperable

Economic regulation

The economic regulatory framework for NERL's UK en route services is governed by the SES performance scheme. Under this framework, European-wide performance targets are set for safety, capacity, environment and cost efficiency and Member States are required to develop Performance Plans for FABs consistent with those targets.

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

The UK and Ireland form a FAB and NERL's en route service forms a major part.

After consulting with customers in 2014, NERL submitted to CAA a plan for RP2 which met each of the performance targets, including real price reductions of 18%. After review, the CAA set even more challenging cost efficiency targets, requiring real price reductions of 21%. The revised plan, submitted as part of the joint UK/Ireland FAB plan, was assessed in March 2015 by the EC as consistent with European targets.

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

- maintaining safety and service quality while handling a projected 13% increase in traffic volumes;
- reducing prices in real terms by about 21%; and
- enabling reductions in fuel and CO_2 emissions, delivering savings of up to £180m p.a. to airlines by 2019.

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

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

Single European Sky ATM Research (SESAR)

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

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

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

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

ensure that appropriate funding is provided for investments made by NATS.

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

UK aviation strategy

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

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

The London Airspace Management Programme (LAMP) will deliver high level network changes in phases. It will revise airspace and the route network around London and is an important enabler of improved flight efficiency and the fuel savings customers want for RP2. Public consultation on the first phase of LAMP was completed in the last financial year and included changes to some of the airspace serving Gatwick, London City, Stansted, and to a lesser extent Biggin Hill and Southend airports.

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

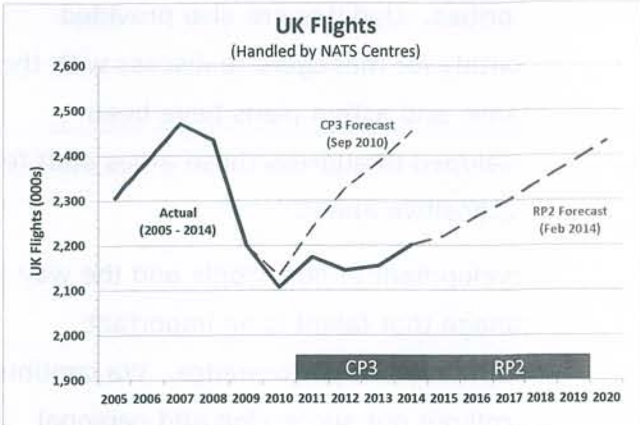
The issues being addressed by FAS are necessary to accommodate the growth in demand for aviation and are independent of any decision which may be made to build new runway capacity in the southeast, which is being considered by the Airports Commission. NATS contributed to the assessment of the safety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

Outlook for air traffic

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

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

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



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

People

We recognise that employee engagement has a real impact on the company's performance. This is particularly relevant as the company faces some significant challenges in delivering the plan for RP2. Given this context it was important to understand how staff felt about the company. Earlier in the year 67% of employees responded to Viewpoint, the NATS group's staff opinion survey. In addition, staff participated in focus groups to consider the key themes emerging from the survey. Since the results were published the NATS executive team has spent time with all areas of the business to update staff on strategic developments, performance and priorities. Updates are also provided monthly for managers to discuss with their teams, and action plans have been developed to address those areas staff felt less positive about.

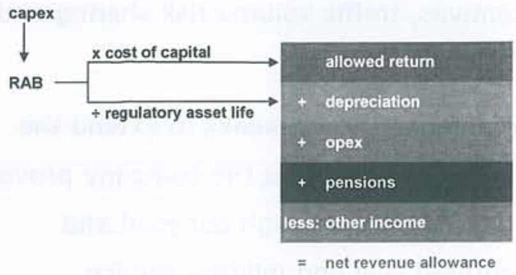
Development of our people and the way we manage that talent is an important determinant of performance. We continued to roll out our succession and personal development programme called PATH. This provides staff with access to the latest thinking and developments in business practice and enhances the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

Developing leadership skills is an important factor in managing the changes that we will ask our staff to support over the RP2 period. Within NERL deploying new SESAR technologies will shape the way we organise our workforce and deliver our service.

NERL's business model

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

The CAA establishes revenue allowances for NERL's economically regulated services under SES legislation. These remunerate NERL's efficient investment (capex), operating costs (opex), pensions and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The RAB, which represents the value ascribed to the capital employed in the regulated businesses, is adjusted to reflect asset additions, disposal proceeds, regulatory depreciation and the rate of inflation. 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 Reference Period 2 (2015 to 2019) was based on total revenues of £2.7bn (expressed by the CAA in 2012 prices) and provides a cost of capital of 5.9%. The CAA also sets targets, and provides incentives, for service and environmental performance. If regulatory and other assumptions are borne out in practice, then NERL would earn a return of 5.9% p.a. It can earn additional returns during RP2 if it outperforms the CAA's assumptions by being more cost efficient, by financing its business at lower cost, if traffic volumes are higher than forecast or if it outperforms service targets. NERL would earn lower returns if the opposite applied.

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

Our defence service seeks to extend the range of services that the company provides to the UK MOD through our joint and integrated civil and military service.

We provide information services through our expertise in capturing aeronautical data and other data associated with air navigation services and managing that data into databases for charting and the provision of other services.

NERL is uniquely placed to help airline customers to realise value by making airspace more efficient than it is today. We understand the complex interactions at each stage of flight between airlines, airport operators and the company. We understand the benefit we can provide to airlines in our airspace through fuel efficient flight profiles and continuous descent approaches and continuous ascent departures, ensuring sufficient network capacity to minimise delay, and through arrival and departure management. Our en route operation provides a seamless transition between the North Atlantic and UK en route service, which helps achieve optimal flight profiles. NERL is also an important contributor to airport performance by managing traffic flows efficiently on hand over to NATS Services, NATS' provider of airport air navigation services, and other airport ATC providers.

Principal risks and uncertainties

The operational complexities inherent in the business leave 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 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.

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

Loss of service from an ATC centre

A loss of service from an ATC centre would result in a loss of revenues as flow management procedures would be introduced to maintain safe separation. The extent of loss would depend on the time necessary to resume a safe service and the resultant level of air traffic delay. To this end NERL has contingency arrangements which enable the recovery of its service capacity. A review of these arrangements will consider the recommendations of the independent enquiry into the December 2014 technical failure.

Operational systems resilience

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

Further mitigations will be considered following the recommendations of the independent enquiry into December's technical failure.

Political environment and economic regulation

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

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

Defined benefit pension scheme

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

Industry outlook

Poor market and economic conditions can reduce NERL's revenues to levels below those assumed by the economic regulator in making the Reference Period 2 (RP2) price determinations. This in turn could impair shareholder returns. NERL monitors the key industry indicators on a monthly basis against RP2 forecasts and has taken action in the past to realign its cost base with lower revenues. As explained above, NERL has traffic volume risk sharing arrangements that mitigate revenue reductions to a large extent.

Electronic and other external and internal threats

Malicious attack, sabotage or other intentional acts, including breaches of cyber security, could damage assets or otherwise significantly impact on service performance. NERL seeks to mitigate these risks through its business continuity controls, staff awareness training and security processes and procedures, including monitoring political stability and security risks in countries where it conducts its business.

Employee relations

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

Technology

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

Other matters: financial risks

In addition to the top risks set out above, the main financial risks 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.

Service line performance

We organise our activities according to service lines, which represent the products and services that we offer. An explanation of these is provided in the description of NERL's business model. This section explains the financial and operational performance of each service. The principal financial measures are revenue and contribution. The latter reflects the operating costs which 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

	2015	2014
Financial performance:		
Revenue (£m)	737.7	739.8
Service line contribution (£m)	379.9	391.3
Capital expenditure (£m)	152.9	125.5
Operational performance:		
Flights handled ('000s)	2,216	2,162
Risk-bearing airprox (no.)	1	1
Average delay per flight (seconds)	2.2	5.4
Enabled fuel savings (tonnes)	189,000	21,000*

* restated

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 the company 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.

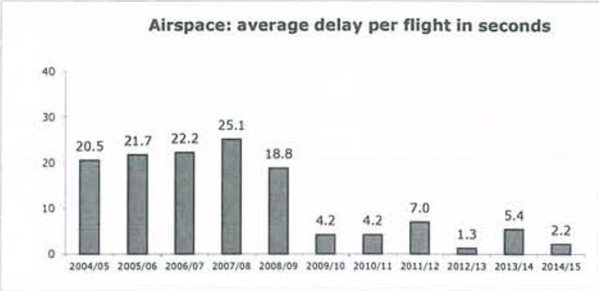
Airspace generated revenue of £737.7m, a 0.3% reduction on the previous year. This included the impact of RP2 price reductions from January 2015 which offset an improved service incentive and the impact on last year's results of pricing below the level of permitted revenue allowances for UK en route and London Approach services. Last year's income also included a one-off benefit for establishing the back-up Galileo satellite monitoring facility at Swanwick.

Service line contribution of £379.9m was 2.9% lower and reflected higher budgeted pension costs (used in assessing service line performance only and reflecting market conditions when the budget was set), pay awards and non-staff cost increases which offset the benefit of headcount reductions from voluntary redundancies and higher capitalised internal labour in support of the capital programme.

The volume of UK flights increased by 2.5% in the year reflecting the improved economic outlook though the volume of domestic flights reduced as Flybe reduced its schedules, particularly at Gatwick. Some of these slots are now operated by other carriers for international flights.

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

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



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

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

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

In addition to measures of delay, we are targeted on flight efficiency (the environmental performance of our network) and we achieved this. 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 2014 we achieved a 3Di score of 23.2 compared with the par value of 23.0.

We aim to deliver short term tactical benefits to our customers from changes to procedures. This year we enabled 189,000 tonnes (2014: 21,000 tonnes) of fuel savings, equivalent to 602,000 tonnes (2014: 66,000 tonnes) of ATM-related CO_2 emissions, and worth approximately £94.5m to our customers (based on average fuel prices of £500 per tonne for the 2015 financial year).

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

OPA performance targets for 2014/15	Target	Stretch	Actual
Hotspot projects	4.0	n/a	7.0
Short term flow measures (% <= 45 minutes duration)	95%	96%	98%
Enabled fuel savings (tonnes)			
Flight efficiency (small scale procedural changes)	10,000	15,000	46,000

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

Airspace invested £152.9m (2014: £125.5m) in support of its air traffic control infrastructure in the year. Of most significance was progress with SESAR projects, including the next generation of flight data processing systems for deployment into the Prestwick Centre in 2016 and projects accelerated at customer request such as TBS. We also invested in our communications network and in the operational systems required for North Atlantic en route service. The latter was a joint project with the Canadian air traffic provider, NAV CANADA. The new systems will improve safety, flight efficiency and provide environmental benefits.

Other NATS Service lines

	2015	2014
Financial performance:		
Revenue (£m)	2.5	2.7
Service line contribution (£m)	1.7	2.0

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

Revenues at £2.5m (2014: £2.7m) were £0.2m lower than previously. Service line contribution reduced by £0.3m to £1.7m (2014: £2.0m) reflecting the reduction in income recognised and higher costs.

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

R C-Col

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 2015.

Details of significant events since the balance sheet date are contained in note 30 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 £46.0m (£4.60 per share) and £23.5m (£2.35 per share) were approved (2014: £57.0m). The Board recommends a final dividend for the year of £nil (2014: £nil).

In May 2015 the Board declared an interim dividend for the year ending 31 March 2016 of £4.83 per share (totalling £48.3m) which was paid to its parent company in June 2015.

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 (resigned 31 August 2014)

Richard Deakin (resigned 18 May 2015)

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

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 this report and the 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 (EU). 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 position and performance, business model and strategy.

Auditors

BDO LLP was appointed as independent auditor at the Annual General Meeting (AGM) on 31 July 2014. A resolution to reappoint BDO will be proposed at the next AGM.

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

Richard Churchill-Coleman
Secretary
25 June 2015

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 2015 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. 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 statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on 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 2015 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 Strategic report and 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 returns adequate for our audit have not been received from branches not visited by us; 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.

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
25 June 2015

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

Income statement
for the year ended 31 March

	Notes	2015 Before exceptional items £m	2015 Exceptional items £m	2015 Result for the year £m	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Result for the year £m
Revenue	4	740.2	-	740.2	742.5	-	742.5
Staff costs	7	(286.0)	-	(286.0)	(297.9)	(40.7)	(338.6)
Services and materials		(46.1)	-	(46.1)	(48.0)	-	(48.0)
Repairs and maintenance		(31.9)	-	(31.9)	(29.1)	-	(29.1)
External research and development		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Depreciation, amortisation and impairment	6b	(106.4)	-	(106.4)	(104.1)	-	(104.1)
Goodwill impairment	6b	-	(17.0)	(17.0)	-	(32.0)	(32.0)
(Loss)/profit on disposal of non-current assets		(0.2)	-	(0.2)	4.2	-	4.2
Other operating charges		(52.9)	-	(52.9)	(51.0)	-	(51.0)
Other operating income		1.0	-	1.0	0.6	-	0.6
Deferred grants released	6b	0.4	-	0.4	0.4	-	0.4
Net operating costs		(522.2)	(17.0)	(539.2)	(525.0)	(72.7)	(597.7)
Operating profit	6	218.0	(17.0)	201.0	217.5	(72.7)	144.8
Investment revenue	8	4.1	-	4.1	5.5	-	5.5
Fair value movement on derivative contract	9	1.5	-	1.5	17.7	-	17.7
Finance costs	10	(33.9)	-	(33.9)	(34.1)	-	(34.1)
Profit before tax		189.7	(17.0)	172.7	206.6	(72.7)	133.9
Tax	11	(37.6)	-	(37.6)	(32.4)	9.4	(23.0)
Profit for the year attributable to equity shareholders		152.1	(17.0)	135.1	174.2	(63.3)	110.9

Statement of comprehensive income
for the year ended 31 March

	Notes	2015 £m	2014 £m
Profit for the year after tax		135.1	110.9
Other comprehensive (loss)/income for the year			
Items that will not be reclassified subsequently to profit and loss			
Actuarial loss on defined benefit pension scheme	26	(283.2)	(44.5)
Deferred tax relating to items that will not be reclassified	22	56.9	9.9
Items that may be reclassified subsequently to profit and loss			
Change in fair value of hedging derivatives		(0.2)	(0.9)
Transfer to income statement on cash flow hedges		(4.3)	0.5
Deferred tax relating to items that may be reclassified	22	1.0	0.1
		(229.8)	(34.9)
Total comprehensive (loss)/income for the period net of tax attributable to equity holders of the company		(94.7)	76.0

Balance sheet
at 31 March

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	13	302.0	319.0
Other intangible assets	14	379.9	326.9
Property, plant and equipment	15	585.9	592.4
Trade and other receivables	16	64.1	69.8
		1,331.9	1,308.1
Current assets			
Trade and other receivables	16	170.0	153.5
Short term investments	19	29.7	29.7
Cash and cash equivalents	19	77.2	71.5
Derivative financial instruments	18	4.0	0.4
		280.9	255.1
Total assets		1,612.8	1,563.2
Current liabilities			
Trade and other payables	20	(113.2)	(122.6)
Current tax liabilities		(12.9)	(14.7)
Borrowings	17	(29.7)	(28.6)
Provisions	21	(0.9)	(0.7)
Derivative financial instruments	18	(3.5)	(0.3)
		(160.2)	(166.9)
Net current assets		120.7	88.2
Non-current liabilities			
Trade and other payables	20	(44.8)	(27.1)
Borrowings	17	(638.5)	(643.1)
Retirement benefit obligations	26	(267.3)	(9.5)
Deferred tax liability	22	(38.3)	(88.9)
Provisions	21	(7.8)	(6.7)
Derivative financial instruments	18	(128.0)	(128.9)
		(1,124.7)	(904.2)
Total liabilities		(1,284.9)	(1,071.1)
Net assets		327.9	492.1
Equity			
Called up share capital	23	10.0	10.0
Hedge reserve		(3.2)	0.3
Special reserves		34.9	34.9
Other reserves		14.1	15.5
Retained earnings		272.1	431.4
Total equity		327.9	492.1

The financial statements (Company Number 04129273) were approved by the Board of directors and authorised for issue on 25 June 2015 and signed on its behalf by:

Chief Executive — Martin Rolfe

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[1] £m	Hedge reserve £m	Other reserves[1] £m	Retained earnings £m	Total £m
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/(loss) for the year	-	1.2	(0.3)	(1.6)	(34.2)	(34.9)
Total comprehensive income/(loss)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
At 1 April 2014	10.0	34.9	0.3	15.5	431.4	492.1
Profit for the year	-	-	-	-	135.1	135.1
Other comprehensive loss for the year	-	-	(3.5)	(1.4)	(224.9)	(229.8)
Total comprehensive loss for the year	-	-	(3.5)	(1.4)	(89.8)	(94.7)
Dividends paid	-	-	-	-	(69.5)	(69.5)
At 31 March 2015	10.0	34.9	(3.2)	14.1	272.1	327.9

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

Cash flow statement

for the year ended 31 March

	Notes	2015 £m	2014 £m
Net cash inflow from operating activities	24	256.7	243.0
Cash flows from investing activities			
Interest received		0.6	0.6
Purchase of property, plant and equipment and other intangible assets		(147.8)	(121.0)
Proceeds from disposing of property, plant and equipment		1.2	2.9
Changes in short term investments		-	0.4
Net cash outflow from investing activities		(146.0)	(117.1)
Cash flows from financing activities			
Interest paid		(31.4)	(33.0)
Interest received on derivative financial instruments		0.7	0.9
Bank and other loans		25.0	(9.0)
Repayment of bond principal		(29.8)	(28.4)
Dividends paid		(69.5)	(57.0)
Net cash outflow from financing activities		(105.0)	(126.5)
Increase/ (decrease) in cash and cash equivalents during the year		5.7	(0.6)
Cash and cash equivalents at 1 April		71.5	72.1
Cash and cash equivalents at 31 March		77.2	71.5
Net debt (representing borrowings net of cash and short term investments)		(561.3)	(570.5)

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 29. 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 11. 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.

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

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

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

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

IAS 1 (amendments): *Disclosure Initiative*

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

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

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

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

The directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements in future periods.

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

Leases

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

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Property, plant and equipment

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

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

Freehold land and assets in the course of construction and installation are not depreciated. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

Borrowing costs

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

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

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

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; and
- Held to maturity investments

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit and loss

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

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

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are accounted for on an 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 5-6% (2014: 7-8%). If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. Refer to notes 13, 14 and 15.

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the 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 position.

Recoverability of revenue allowances

The economic regulatory price controls for UK en route services for Control Period 3 (2011 to 2014) and Reference Period 2 (2015 to 2019) established an annual revenue allowance that is recovered through a price based on the economic regulator's forecasts of traffic volumes and inflation made at the start of the price control period. Where traffic volumes or inflation differ from the regulator's forecasts, revenue actually recovered may be higher or lower than the revenue allowance. Where this is the case, the EU Charging Regulation allows an adjustment to be made to the price two years later to reflect any over or under-recovery. Also, following the CP3 price control review, the economic regulator deferred the recovery of adjustments for traffic volume risk sharing and service performance incentives arising in the previous control period (CP2: 2006 to 2010) and allowed these to be recovered through an adjustment to prices in the last three years of CP3. The weakness of the economy in the early part of CP3 has resulted in traffic volumes which are lower than the regulator assumed for CP3. Inflation has also been higher than assumed. When combined with the remaining balances deferred from CP2 and service performance incentives, recoverable revenue allowances totalled £121.7m at 31 March 2015 (2014: £108.8m). The legal right to recover the revenue adjustments discussed above is provided by the EC Charging Regulation and NERL's air traffic services licence. The company expects to recover these amounts through adjustments to prices starting in RP2.

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:

	2015 £m	2014 £m
NATS Airspace	737.7	739.8
Other NATS Service lines	2.5	2.7
	740.2	742.5
Other operating income	1.0	0.6
Investment revenue (see note 8)	4.1	5.5
	745.3	748.6

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 profit of £4.3m (2014: loss of £0.5m).

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 services to the military 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:

	2015			2014		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
NATS Airspace	715.3	22.4	737.7	719.0	20.8	739.8
Other NATS Service lines	2.5	-	2.5	2.7	-	2.7
	717.8	22.4	740.2	721.7	20.8	742.5

Intercompany revenue includes revenue for services to NATS (Services) Limited of £21.6m (2014: £19.9m) and to NATSNav Limited of £0.8m (2014: £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:

	2015 £m	2014 £m
NATS Airspace	379.9	391.3
Other NATS Service lines	1.7	2.0
Service line contribution	381.6	393.3
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(106.0)	(103.7)
Impairment of goodwill	(17.0)	(32.0)
(Loss)/ profit on disposal of non-current assets	(0.2)	4.2
Pension accrual rate variance to budget	-	(15.0)
Employee share scheme costs	-	(3.4)
Redundancy and relocation costs	(0.6)	(40.8)
Professional fees and costs	(0.1)	-
Other costs not directly attributed to service lines	(57.5)	(58.3)
Above the line tax credits	0.8	0.5
Operating profit	201.0	144.8

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:

	2015 UK air traffic services £m	2015 North Atlantic air traffic services £m	2015 Total £m	2014 UK air traffic services £m	2014 North Atlantic air traffic services £m	2014 Total £m
Revenue	712.6	27.6	740.2	715.7	26.8	742.5
Operating costs	(516.5)	(22.7)	(539.2)	(574.5)	(23.2)	(597.7)
Operating profit	196.1	4.9	201.0	141.2	3.6	144.8

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 and financial assets) by geographical location:

	Revenue 2015 £m	Revenue 2014 £m	Non-current assets 2015 £m	Non-current assets 2014 £m
UK	317.5	320.3	966.6	919.4
Rest of Europe	257.7	257.4	0.5	0.6
North America	112.2	115.8	0.9	1.0
Other	52.8	49.0	-	-
Total	740.2	742.5	968.0	921.0

Information about major customers

Included in revenues arising from NATS Airspace are revenues of £81.2m (2014: £83.0m) 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

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

Relocation costs are incurred as a result of the redeployment of staff following site closures. Credits are reported where costs incurred were lower than originally estimated. To the extent that staff are not redeployed, termination terms are agreed. In response to the economic downturn and changes in technology, voluntary redundancy is also offered to staff in some areas of the business.

	2015 £m	2014 £m
Exceptional voluntary redundancy costs (including pension augmentation costs, see note 7a)	-	40.7
Other redundancy costs	0.6	0.2
Relocation of staff to the Prestwick centre	-	(0.1)
	0.6	40.8

b) Other items

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

	2015 £m	2014 £m
CAA regulatory charges	5.6	5.5
Impairment of goodwill	17.0	32.0
Depreciation of property, plant and equipment	76.5	75.0
Impairment of property, plant and equipment	0.4	2.0
Amortisation of intangible assets	29.1	27.1
Impairment of intangible assets	0.4	-
Deferred grants released	(0.4)	(0.4)
Above the line tax credits relating to research and development costs	(0.8)	(0.5)
Research and development costs	7.9	7.4
Auditors remuneration for audit services (see below)	-	-

Fees payable to BDO 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

	2015 £m	2014 £m
Net charges for services provided by parent undertaking	9.0	11.7
Charges for services provided by other group companies	19.1	18.4

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

	2015 £m	2014 £m
Salaries and staff costs were as follows:		
Wages and salaries	223.1	268.5
Social security costs	24.5	24.2
Pension costs (note 7b)	84.8	89.4
	332.4	382.1
Less: amounts capitalised	(46.4)	(43.5)
	286.0	338.6

Wages and salaries include a credit of £1.6m for redundancy subsequently settled as pension contributions, share-based payment charges, other allowances and holiday pay. Pension costs include £2.2m (2014: £1.9m) 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

	2015 £m	2014 £m
Defined benefit pension scheme costs (note 26)	79.9	85.4
Defined contribution pension scheme costs	4.9	4.0
	84.8	89.4

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

c) Staff numbers

	2015 No.	2014 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,182	1,266
Air traffic service assistants	535	566
Engineers	810	840
Others	656	674
	3,183	3,346

8. Investment revenue

	2015 £m	2014 £m
Interest on bank deposits	0.5	0.4
Other loans and receivables	3.6	5.1
	4.1	5.5

Interest on bank deposits has been earned on financial assets, including cash and cash equivalents and short term investments. Other loans and receivables includes the effect of unwinding the discount on amounts receivable after more than 1 year.

9. Fair value movement on derivative contract

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

10. Finance costs

	2015 £m	2014 £m
Interest on bank overdrafts, loans and hedging instruments	1.4	1.4
Bond and related costs including financing expenses	29.1	30.5
Other finance costs	3.1	1.9
Interest payable on intercompany loans	0.3	0.3
	33.9	34.1

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

11. Tax

	2015 £m	2014 £m
Current tax	30.8	28.3
Prior year adjustment	(0.5)	(0.7)
	30.3	27.6
Deferred tax (see note 22)		
Origination and reversal of temporary timing differences	7.4	9.0
Effects of tax rate change on opening balance	(0.1)	(13.6)
	7.3	(4.6)
	37.6	23.0

Corporation tax is calculated at 21% (2014: 23%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:	2015 £m	2015 %	2014 £m	2014 %
Profit on ordinary activities before tax	172.7		133.9	
Tax on profit on ordinary activities at standard rate in the UK of 21% (2014: 23%)	36.3	21.0%	30.8	23.0%
Tax effect of change in corporation tax rate from 21% to 20% (2014: 23% to 20%)	(0.1)	(0.1%)	(13.6)	(10.2%)
Tax effect of research and development expenditure increased deductions	(0.1)	(0.1%)	(0.1)	-
Profit on disposal	-	-	(0.7)	(0.5%)
Patent box	(1.1)	(0.5%)	(1.0)	(0.7%)
Tax effect of prior year adjustments	(0.5)	(0.3%)	(0.7)	(0.6%)
Goodwill impairment	3.6	2.1%	7.4	5.5%
Tax effect of other permanent differences	(0.5)	(0.3%)	0.9	0.7%
Tax charge for year at an effective tax rate of 21.8% (2014: 17.2%)	37.6	21.8%	23.0	17.2%
Deferred tax credit taken directly to equity (see note 22)	(57.9)		(10.0)	

12. Dividends

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend of £4.60 per share (2014: £4.28 per share)	46.0	42.8
Second interim dividend of £2.35 per share (2014: £1.42 per share)	23.5	14.2
	69.5	57.0

In May 2015, the Board declared an interim dividend for 2016 of £4.83 per share (totalling £48.3m), which was paid to the company's parent in June 2015.

13. Goodwill

	£m
Cost	
At 31 March 2014 and 31 March 2015	351.0
Accumulated impairment losses	
At 1 April 2013	-
Impairment provision recognised in income statement	32.0
At 1 April 2014	32.0
Impairment provision recognised in income statement	17.0
At 31 March 2015	49.0
Carrying amount	
At 31 March 2015	302.0
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 5-6%, 2014: 7-8%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of Reference Period 2 (31 December 2019 for UK Air Traffic Services and North Atlantic Air Traffic Services) as assumed in the company's business plans, and a terminal value at that date, reflecting the regulatory asset bases of £1,175.4m (2014: £1,174.8m) and a market premium which is assessed annually. The 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 9.42% (2014: 10.28%) 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 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 1 April 2014	176.0	57.7	22.6	206.4	462.7
Additions internally generated	0.8	-	-	28.1	28.9
Additions externally acquired	9.6	4.2	1.4	34.1	49.3
Transfers during the year	8.5	10.0	2.2	(16.4)	4.3
At 31 March 2015	194.9	71.9	26.2	252.2	545.2
Accumulated amortisation					
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 1 April 2014	71.8	33.7	13.9	16.4	135.8
Charge for the year	18.4	8.9	1.8	-	29.1
Impairment provision recognised in income statement	-	-	-	0.4	0.4
At 31 March 2015	90.2	42.6	15.7	16.8	165.3
Carrying amount					
At 31 March 2015	104.7	29.3	10.5	235.4	379.9
At 31 March 2014	104.2	24.0	8.7	190.0	326.9

An annual review is performed to assess the carrying value of other intangible assets, including assets in the course of construction. The accumulated amortisation of assets in the course of construction represents impairment provisions.

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 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 1 April 2014	240.3	42.8	1,206.9	16.7	46.8	1,553.5
Additions during the year	1.4	-	18.6	0.1	54.6	74.7
Disposals during the year	-	-	(0.2)	-	-	(0.2)
Other transfers during the year	0.2	-	16.9	0.1	(21.5)	(4.3)
At 31 March 2015	241.9	42.8	1,242.2	16.9	79.9	1,623.7
Accumulated depreciation and impairment						
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 1 April 2014	106.0	28.4	815.7	10.7	0.3	961.1
Provided during the year	7.8	1.7	65.8	1.2	-	76.5
Provisions for impairment	-	-	-	-	0.4	0.4
Disposals during the year	-	-	(0.2)	-	-	(0.2)
At 31 March 2015	113.8	30.1	881.3	11.9	0.7	1,037.8
Carrying amount						
At 31 March 2015	128.1	12.7	360.9	5.0	79.2	585.9
At 31 March 2014	134.3	14.4	391.2	6.0	46.5	592.4

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, net impairment charges of £0.4m (2014: £2.0m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and assets and the likelihood of benefits being realised in full.

During the year the company capitalised £1.2m (2014: £1.2m) of general borrowing costs at a capitalisation rate of 1.9% (2014: 1.9%), in accordance with IAS 23: *Borrowing costs.*

16. Financial and other assets

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

Trade and other receivables

	2015 £m	2014 £m
Non-current		
Prepayments	2.2	1.7
Accrued income	61.9	68.1
	64.1	69.8
Current		
Receivable from customers (gross)	52.3	54.2
Allowance for doubtful debts	(3.8)	(4.2)
	48.5	50.0
Other debtors	4.2	5.2
Prepayments	7.0	6.5
Amounts due from fellow undertaking	0.2	2.3
Accrued income	110.1	89.5
	170.0	153.5

The average credit period taken on sales of services is 29 days (2014: 32 days). Interest is charged by Eurocontrol to UK en route customers at 10.24% (2014: 10.89%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £3.8m (2014: £4.2m). 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 regulatory adjustments for calendar year 2014 and the period January to March 2015 and revenues earned in the previous regulatory control periods, which will be recovered through 2016 charges. Accrued income which is current includes unbilled revenues for services provided in March 2015 and regulatory adjustments for calendar years 2013 and 2014 which will be recovered through 2015 and 2016 charges.

Ageing of past due but not impaired trade receivables

	2015 £m	2014 £m
30-90 days	0.4	0.1
91-365 days	0.7	0.2
More than 365 days overdue	-	0.1
	1.1	0.4

Movement in the allowance for doubtful debts

	2015 £m	2014 £m
Balance at the beginning of the year	4.2	4.8
Increase in allowance recognised in the income statement	0.4	-
Exchange movement in the year	(0.4)	(0.1)
Amounts written off as irrecoverable	(0.4)	(0.5)
Balance at end of year	3.8	4.2

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. 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 £2.7m (2014: £3.0m) 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

	2015 £m	2014 £m
30-90 days	0.3	0.2
90-365 days	0.4	0.6
More than 365 days overdue	3.1	3.4
	3.8	4.2

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 £331.8m (2014: £316.3m).

17. Borrowings

	2015 £m	2014 £m
Unsecured loans		
Intercompany loan with fellow subsidiary	22.5	22.5
Secured loans		
£600m 5.25% Guaranteed Secured Amortising Bonds due 2026	498.0	527.5
Bank loans (revolving term loan and revolving credit facility expiring 2016)	152.0	127.0
Gross borrowings	672.5	677.0
Unamortised bond issue costs	(3.2)	(3.6)
Unamortised bank loan issue costs	(1.1)	(1.7)
	668.2	671.7
Amounts due for settlement within 12 months	29.7	28.6
Amounts due for settlement after 12 months	638.5	643.1

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 £152m made by NERL under its £275m 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 £1,429m (2014: £1,391m), including the carrying amount of balance sheet goodwill of £302m (2014: £319m).

The average effective interest rate on the bank loans in the year was 1.6% (2014: 1.5%) and was determined based on LIBOR rates plus a margin and utilisation fee.

Costs associated with the issue of the £600m bond are being amortised over the life of the bond. Costs associated with the issue of the £275m bank facilities are also being amortised over the term of the facility.

Undrawn committed facilities	2015 £m	2014 £m
Between one and two years	123.0	-
Expiring in more than two years	-	148.0
	123.0	148.0

NERL has, as at 31 March 2015, outstanding drawings of £152.0m (2014: £127.0m) on its committed bank facilities. These facilities expire on 21 December 2016.

18. Derivative financial instruments

Fair value of derivative financial instruments

	2015 £m	2014 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	4.0	0.4
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(3.5)	(0.3)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.6)	-
Derivative financial instruments classified as held for trading		
Index-linked swaps	(127.4)	(128.9)
	(128.0)	(128.9)

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

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. NERL's gearing ratio at 31 March 2015 was 53.4% (2014: 54.0%). This target and cap remains in place for the current reference period (2015-19).

Significant accounting policies

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

Categories of financial instrument

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

	2015 £m	2014 £m
Financial assets		
Trade and other receivables, excluding prepayments	224.9	215.1
Cash and cash equivalents and short term investments	106.9	101.2
Derivative financial instruments in designated hedge accounting relationships	4.0	0.4
	335.8	316.7
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(4.1)	(0.3)
Derivative financial instruments classified as held for trading	(127.4)	(128.9)
Other financial liabilities at amortised cost	(808.7)	(816.1)
	(940.2)	(945.3)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding 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 £1.5m has been recorded in the income statement in the year (2014: £17.7m).

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 (2014: 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	
	2015	2014	2015	2014
	£m	£m	£m	£m
Euro	88.2	84.8	(21.1)	(12.3)
Canadian Dollars	0.6	0.1	(0.5)	(0.1)
Norwegian Krone	-	0.1	-	-
Danish Krone	0.1	-	-	-
	88.9	85.0	(21.6)	(12.4)

Foreign currency sensitivity analysis

The company holds foreign currency cash balances of £2.9m (2014: £3.9m), which at 31 March 2015 were in euro and canadian dollar.

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	2015 Impact £m	2014 Impact £m
Euro	5.6	6.5
Canadian Dollars	-	(0.3)
	5.6	6.2

The company's sensitivity to the euro decreased during the year reflecting a net reduction in euro denominated monetary assets and a net reduction 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:

	2015				2014		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-3 months	160.2	215.6	0.7429	0-3 months	144.4	174.3	0.8285
Euro bought	€m	£m		Euro bought	€m	£m	
0-3 months	12.9	10.2	0.7906	0-3 months	6.3	5.3	0.8361
Over 3 months	33.1	27.3	0.8229	Over 3 months	1.6	1.3	0.8268
	46.0	37.5	0.8138		7.9	6.6	0.8352
Canadian dollar bought	C$m	£m		Canadian dollar bought	C$m	£m	
0-3 months	-	-	-	0-3 months	1.5	0.8	1.8244
Over 3 months	-	-	-	Over 3 months	3.3	1.8	1.8503
	-	-	-		4.8	2.6	1.8422
US dollar bought	US$ m	£m		US dollar bought	US$ m	£m	
0-3 months	0.1	0.1	1.5320	0-3 months	-	-	-

At 31 March 2015, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £4.0m (2014: £0.3m 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 2015 to sell euro anticipated to be received in July 2015 totalling £62.2m 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 2015 (2014: none).

19. Financial instruments (continued)

Economic interest rate exposure

The company held cash and short term deposits as follows:

2015

Currency	Cash Amount £m	Cash Economic interest rate %	Cash Average maturity days	Short term deposits Amount £m	Short term deposits Economic interest rate %	Short term deposits Average maturity days	Total £m
Sterling	74.3	0.4	2	29.7	0.6	183	104.0
Euro	2.3	-	1	-	-	-	2.3
Canadian dollar	0.6	-	1	-	-	-	0.6
	77.2			29.7			106.9

2014

Currency	Cash Amount £m	Cash Economic interest rate %	Cash Average maturity days	Short term deposits Amount £m	Short term deposits Economic interest rate %	Short term deposits Average maturity days	Total £m
Sterling	67.6	0.4	2	29.7	0.5	183	97.3
Euro	3.7	-	1	-	-	-	3.7
Canadian dollar	0.1	-	1	-	-	-	0.1
Danish krone	0.1	-	1	-	-	-	0.1
	71.5			29.7			101.2

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 2015						
Sterling:						
5.25% guaranteed secured bonds	498.0	-	-	498.0	5.26%	5.2
Bank loans	152.0	152.0	-	-	1.55%	0.4
Intercompany loans	22.5	22.5	-	-	1.58%	0.5
Total	672.5	174.5	-	498.0		
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		

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 2015						
Sterling:						
5.25% guaranteed secured bonds	298.0	-	-	298.0	5.27%	5.2
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.91%	0.5
Bank loans	152.0	152.0	-	-	1.55%	0.4
Intercompany loans	22.5	22.5	-	-	1.58%	0.5
Total	672.5	174.5	200.0	298.0		
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		

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.

	2015 £m		2014 £m	
Net Debt	561.3		570.5	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	294.8	52.6	323.9	56.8
Index-linked	200.0	35.6	200.0	35.0
Floating (net of cash and short term investments and facility fees)	66.5	11.8	46.6	8.2
	561.3	100.0	570.5	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%.

	2015 Impact £m	2014 Impact £m
Cash at bank and short term deposits (2015: £106.9m, 2014: £101.2m)	1.1	1.0
Borrowings (2015: £174.5m, 2014: £149.5m)	(1.7)	(1.5)
	(0.6)	(0.5)

Overall the company's sensitivity to interest rates has increased marginally in the year, reflecting increased 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 (now CPI but previously RPI). 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%.

	2015 Impact £m	2014 Impact £m
Change in index-linked swap interest and mark to market value	(21.4)	(23.2)

The mark to market value of the index-linked swap is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreement. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £9.5m (2014: £10.9m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

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):

	2015			2014		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	3	36.9	34.5	2	7.1	7.1
AA-	1	20.0	18.7	1	20.0	19.7
A+	3	27.5	25.7	3	35.3	34.9
A	3	22.5	21.1	5	38.8	38.3
		106.9	100.0		101.2	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 2015 NERL had access to bank facilities totalling £275m available until 21 December 2016. The facilities comprise a £245m revolving term loan facility and a £30m revolving credit facility;

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:

	2015 £m	2014 £m
Average monthly UK en route service income receipts	51.0	51.2
Free cash at 31 March	55.9	50.2
Ratio of free cash to UK en route service income receipts	1.1	1.0

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

	2015 £m	2014 £m
Bank borrowings	152.0	127.0
Gross borrowings	672.5	677.0
Bank borrowings as a percentage of gross borrowings	22.6%	18.8%

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.

	2015 Unsecured loans £m	2015 Secured loans £m	2015 Other liabilities £m	2015 Total £m	2014 Unsecured loans £m	2014 Secured loans £m	2014 Other liabilities £m	2014 Total £m
Due within one year or less	0.3	59.9	108.1	168.3	0.3	60.1	119.6	180.0
Between one and two years	0.4	219.0	24.4	243.8	0.4	60.1	15.6	76.1
Due between two and five years	1.4	195.9	1.8	199.1	2.2	329.9	1.5	333.6
Due in more than five years	25.8	351.8	1.9	379.5	29.9	412.7	2.4	445.0
	27.9	826.6	136.2	990.7	32.8	862.8	139.1	1,034.7
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(5.4)	(180.9)	-	(186.3)	(10.3)	(213.6)	-	(223.9)
	22.5	645.7	136.2	804.4	22.5	649.2	139.1	810.8

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
2015					
Net settled:					
Index-linked swap receivable/(payable)	1.8	(2.4)	(30.5)	(125.6)	(156.7)
Gross settled:					
Foreign exchange forward contract receivables	188.7	4.1	0.7	-	193.5
Foreign exchange forward contract payables	(187.8)	(4.7)	(0.8)	-	(193.3)
	2.7	(3.0)	(30.6)	(125.6)	(156.5)
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)

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).

	2015 Level 1	2015 Level 2	2015 Level 3	2015 Total	2014 Level 1	2014 Level 2	2014 Level 3	2014 Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	4.0	-	4.0	-	0.4	-	0.4
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(4.1)	-	(4.1)	-	(0.3)	-	(0.3)
Derivative financial instruments classified as held for trading	-	(127.4)	-	(127.4)	-	(128.9)	-	(128.9)
	-	(131.5)	-	(131.5)	-	(129.2)	-	(129.2)

There were no transfers between individual levels in the year.

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

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:

	2015	2014
	£m	£m
Current		
Trade payables	14.1	9.5
Amounts due to parent company	43.3	68.5
Amounts due to fellow undertaking	0.3	-
Accruals and deferred income		
- deferred grants	0.4	0.4
- other	55.1	44.2
	113.2	122.6
Non-current		
Accruals and deferred income		
- deferred grants	2.9	3.3
- other	41.9	23.8
	44.8	27.1
	158.0	149.7

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 42 days (2014: 36 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 2014	0.1	7.3	7.4
Additional provision in the year	-	1.3	1.3
At 31 March 2015	0.1	8.6	8.7

	Total £m
Amounts due for settlement within 12 months	0.9
Amounts due for settlement after 12 months	7.8
	8.7

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, and include property-related costs. 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 reporting periods.

	Accelerated tax depreciation £m	Retirement benefit scheme £m	Financial instruments £m	Other £m	Total £m
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
At 1 April 2014	102.1	(1.9)	(9.8)	(1.5)	88.9
Charge/ (credit) to income	1.4	5.3	1.8	(1.2)	7.3
Credit to equity	-	(56.9)	(1.0)	-	(57.9)
At 31 March 2015	103.5	(53.5)	(9.0)	(2.7)	38.3

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

	2015 £m	2014 £m
Deferred tax liabilities	(103.5)	(102.1)
Deferred tax assets	65.2	13.2
	(38.3)	(88.9)

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 2014 and 31 March 2015	10,000,000	10.0	10,000,000	10.0

24. Notes to the cash flow statement

	2015 £m	2014 £m
Operating profit from continuing operations	201.0	144.8
Adjustments for:		
Depreciation of property, plant and equipment	76.5	75.0
Impairment of goodwill	17.0	32.0
Amortisation of intangible assets	29.1	27.1
Impairment loss	0.8	2.0
Deferred grants released	(0.4)	(0.4)
Loss/(gain) on disposal of property, plant and equipment	0.2	(4.2)
R&D above the line revenue adjustment	(0.8)	(0.5)
Adjustment for pension funding	(25.4)	(24.2)
Operating cash flows before movements in working capital	298.0	251.6
Increase in trade and other receivables	(13.8)	(12.2)
Increase in trade and other payables and provisions	2.4	30.1
Cash generated from operations	286.6	269.5
Tax paid	(29.9)	(26.5)
Net cash inflow from operating activities	256.7	243.0

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

	2015 £m	2014 £m
Capital commitments contracted but not provided for in the accounts.	69.3	44.7
Minimum lease payments under operating leases recognised in the income statement for the year.	6.6	6.4

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:

	2015 £m	2014 £m
Within one year	5.9	6.4
In the second to fifth years inclusive	20.4	20.8
After five years	20.1	24.9
	46.4	52.1

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.

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

	2015 £m	2014 £m
Within one year	0.2	-
In the second to fifth years inclusive	0.9	-
After five years	1.2	-
	2.3	-

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 schemes

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 assets of the scheme are held separately from those of the company in funds under the control of a board of Trustees.

The company 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 2015 employer contributions of £3.2m (2014: £2.7m), excluding salary sacrifice contributions of £1.7m (2014: £1.3m), represented 14.3% of pensionable salaries (2014: 13.8%).

There were 484 company members of the defined contribution scheme at 31 March 2015 (2014: 459).

Defined benefit scheme

NATS Limited, the company's immediate parent undertaking, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. CAAPS is a fully funded defined benefit scheme providing benefits based on final pensionable salaries. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chairman.

During 2009 the 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 pay were limited to a maximum increase in the retail price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners. Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

During 2013 the parent company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable pay 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 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 were paid at 36.7% of pensionable pay until 31 December 2014 and at 29.4% from 1 January 2015 to 31 December 2023. Deficit recovery contributions for the period 1 April 2013 until 31 December 2013 were made at £2.1m per month and at £2.2m per month for calendar year 2014. These are being made at £2.4m per month for calendar year 2015 and increase by 2.37% annually thereafter. 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 the Civil Aviation Authority Pension Scheme and bears the employment (including pension) costs of those personnel.

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

During the year the company paid cash contributions to the scheme of £105.3m (2014: £109.6m). This amount included £11.7m (2014: £11.9m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 45.0% (2014: 46.0%) of pensionable salaries.

Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls. The company's share of the pension scheme's funding is c. 75%.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2016 is £92.5m, including salary sacrifice contributions estimated at £11.5m.

26. Retirement benefit schemes (continued)

Company's accounting valuation under international accounting standards

For the purpose of accounting for the scheme in these financial statements, the company obtains an updated valuation from a qualified independent actuary that is prepared in accordance with IAS 19: *Employee Benefits*.

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared 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 was updated to 31 March 2015 for the company's accounting valuation under IAS 19. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

The mortality assumptions have been drawn from actuarial tables 101% 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. This is unchanged from 2014. These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 31.0 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.1 years and for females to 32.8 years.

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

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

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:

	2015 £m	2014 £m
Current service cost	(78.0)	(85.0)
Past service cost	(2.2)	(1.9)
Net interest expense	1.9	2.9
Administrative expenses	(1.6)	(1.4)
Components of defined benefit costs recognised within operating profit	(79.9)	(85.4)

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

	2015 £m	2014 £m
Return on plan assets (excluding amounts included in net interest expense)	208.9	72.7
Actuarial gains and losses arising from changes in financial assumptions	(541.7)	34.3
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	49.6	(151.5)
	(283.2)	(44.5)

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

	2015 £m	2014 £m
Present value of defined benefit obligations	(3,824.2)	(3,191.1)
Fair value of scheme assets	3,556.9	3,181.6
Deficit in scheme	(267.3)	(9.5)

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

	2015 £m	2014 £m
At 1 April	(3,191.1)	(2,932.9)
Current service cost	(78.0)	(85.0)
Past service cost	(2.2)	(1.9)
Interest expense on defined benefit scheme obligations	(141.8)	(128.9)
Actuarial gains and losses arising from changes in financial assumptions	(541.7)	34.3
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	49.6	(151.5)
Benefits paid	81.0	74.8
At 31 March	(3,824.2)	(3,191.1)

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

	2015 £m	2014 £m
Active members	(2,086.8)	(1,755.6)
Deferred members	(307.9)	(198.7)
Pensioners	(1,429.5)	(1,236.8)
	(3,824.2)	(3,191.1)

26. Retirement benefit scheme (continued)

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

	2015 £m	2014 £m
At 1 April	3,181.6	2,943.7
Interest income on scheme assets	143.7	131.8
Return on plan assets (excluding amounts included in net interest expense)	208.9	72.7
Contributions from company	105.3	109.6
Benefits paid	(81.0)	(74.8)
Administrative expenses	(1.6)	(1.4)
At 31 March	3,556.9	3,181.6

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

	2015 £m	2014 £m
Cash and cash equivalents	72.2	93.7
Equity instruments		
- UK	253.5	230.8
- Europe	73.5	67.0
- North America	216.2	196.3
- Japan	31.5	27.8
- Pacific (excluding Japan)	84.6	78.8
- Emerging markets	251.5	245.5
- Global	517.8	454.9
	1,428.6	1,301.1
Bonds		
- Corporate bonds	691.6	653.1
- Index-linked gilts over 5 years	874.4	528.9
	1,566.0	1,182.0
Other investments		
- Property	196.0	197.4
- Hedge funds	157.3	138.7
- Global tactical asset allocation	89.7	79.5
- Private equity funds	108.2	90.1
	551.2	505.7
Derivatives		
- Futures contracts	(61.1)	99.1
	3,556.9	3,181.6

The scheme assets do not include any investments in the equity or debt instruments of the company 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 and Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. In addition, and as an acceleration of the existing strategy, NATS and the Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2015 was £352.6m (2014: £204.5m).

27. Related party transactions

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

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, Monarch Airlines Retirement Benefit Plan Limited, Thomas Cook Airlines Limited, Thomson Airways Limited, Virgin Atlantic Airways Limited and 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 eight 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 2015	Year ended 31 March 2014	Year ended 31 March 2015	Year ended 31 March 2014
	£m	£m	£m	£m
Ministry of Defence (MoD)	46.8	47.2	4.1	3.2
Department for Transport (DfT)	0.6	0.5	-	-
Meteorological Office	0.3	0.7	0.5	0.5

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2015	Year ended 31 March 2014
	£m	£m	£m	£m
Ministry of Defence (MoD)	5.4	5.3	28.4	19.5
Department for Transport (DfT)	-	-	-	-
Meteorological Office	-	-	-	-

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 (2014: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

The total remuneration payable to the directors of the company in the year was £1,871,000 (2014: £1,999,000). The number of directors paid by the company during the year was three (2014: three). The directors participate in a pension salary sacrifice arrangement. Contributions paid to a defined benefit pension scheme and a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure. Contributions to the defined pension benefit scheme, including salary sacrificed by the director of £11,000 and contributions from the company of £92,000 totalled £103,000. Contributions to the defined contribution scheme, including salary sacrificed by the directors of £65,000 and contributions from the company of £130,000 totalled £195,000. The number of directors participating in the defined benefit scheme during the year was one. The number of directors partcipating in the defined contribution scheme during the year was two.

Remuneration paid to the highest paid director of the company in the year was £943,000 (2014: £1,049,000). 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 £44,000 and contributions from the company of £88,000 totalled £132,000.

Remuneration of key management personnel

The remuneration of key management personnel of the company is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Key management includes the Board of directors of the company and their executive management teams.

	2015	2014
	£m	£m
Short-term employee benefits	4.5	4.2
Post-employment benefits	1.0	0.9
Other long-term benefits	0.7	0.7
Termination benefits	-	0.1
	6.2	5.9

28. Share based payments

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

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

	No. employee shares outstanding at 31 March 2015	No. employee shares outstanding at 31 March 2014
Total employee shares in issue	4,330,687	4,115,701

These shares are valued every six months by independent valuers using discounted cash flows and income multiple methods of valuation. As at 31 March 2015 the price of an employee share was valued at £4.30 (2014: £4.50). The liability on the balance sheet for the employee shares at 31 March 2015 was £16.7m (2014: £16.4m) included in amounts due to parent company. The payments made to employees for the shares they exercised during the year was £2.5m (2014: £1.3m).

29. Parent undertaking

The company's immediate parent undertaking is NATS Limited and the ultimate parent undertaking is NATS Holdings Limited, both are private companies 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.

30. Events after the reporting period

In May 2015, the Board declared an interim dividend for the year ending March 2016 of £4.83 per share (totalling £48.3m), which was paid to the company's parent in June 2015.