NATS

Annual Report and Accounts 2013

NATS Holdings Limited

Company Number: 04138218

Business and financial review

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1
Our business

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

NATS Holdings Limited

NATS Holdings Limited (NHL) owns two principal operating subsidiaries and a number of other companies which, together with NHL, form the NATS Group. NATS provides air traffic control services for aircraft flying 'en route' in UK airspace and the eastern part of the North Atlantic through its subsidiary NATS (En Route) plc and at 15 airports in the UK and at Gibraltar through NATS (Services) Limited.

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

NATS (En Route) plc

NERL is the sole provider of air traffic control services for aircraft flying 'en route' in UK airspace and the eastern part of the North Atlantic. It provides approach services to aircraft arriving at or departing from the major airports around London and air traffic control services to helicopters operating in the North Sea. NERL also has a long-term agreement to provide the military with engineering, surveillance and communications services. It is economically regulated by the Civil Aviation Authority (CAA) and operates under licence from the Secretary of State for Transport. It operates from two air traffic control centres, at Swanwick in Hampshire and Prestwick in Ayrshire.

NATS (Services) Limited

NATS Services is not subject to economic regulation, and provides air traffic services at most of the UK's major airports. These range from the world's busiest dual-runway airport, Heathrow, and Gatwick, the world's busiest single-runway airport, to the city airports of Glasgow and Edinburgh. NATS Services also manages air traffic at airports in Aberdeen, London City, Luton, Manchester and Stansted.

NATS Services has a joint venture with Spanish infrastructure company Ferrovial, which is contracted to provide air traffic control tower services at 10 airports in Spain.

NATS Services also provides engineering, consultancy (including training), defence and aviation information management services to customers in 31 countries, including the UK.

1 Highlights

We handled just over 2.1 million flights in the year (2012: 2.2 million) and maintained our safety record, with no risk-bearing airprox attributable to NATS.

2.1m flights

0 airproxes

Financial performance

(£m unless otherwise specified)	2013	2012	Change	%
Revenue	**899.6**	864.9	+34.7	+4.0
Operating profit	**245.0**	239.5	+5.5	+2.3
Profit before tax	**190.7**	194.5	-3.8	-2.0
Capital expenditure	**128.9**	127.9	+1.0	+0.8
Net debt[1]	**457.1**	509.1	-52.0	-10.2
Gearing[2] (%)	**54.5%**	57.8%	-3.3%	-5.7%
Dividends	**40.0**	50.7	-10.7	-21.1

Safety, operational and environmental performance

> We successfully managed the special aviation requirements for the London 2012 Olympic Games, coordinating extensively with key stakeholders to provide exceptional service performance during this period. This proved to be one of the transport infrastructure success stories of the Games.

> We handled just over 2.1 million flights in the year (2012: 2.2 million) and maintained our safety record, with no risk-bearing airprox attributable to NATS. Average delay per flight was 1.4 seconds compared with 7.3 seconds last year, reflecting the benefit of new controller tools and systems on which frontline operational staff received training last year.

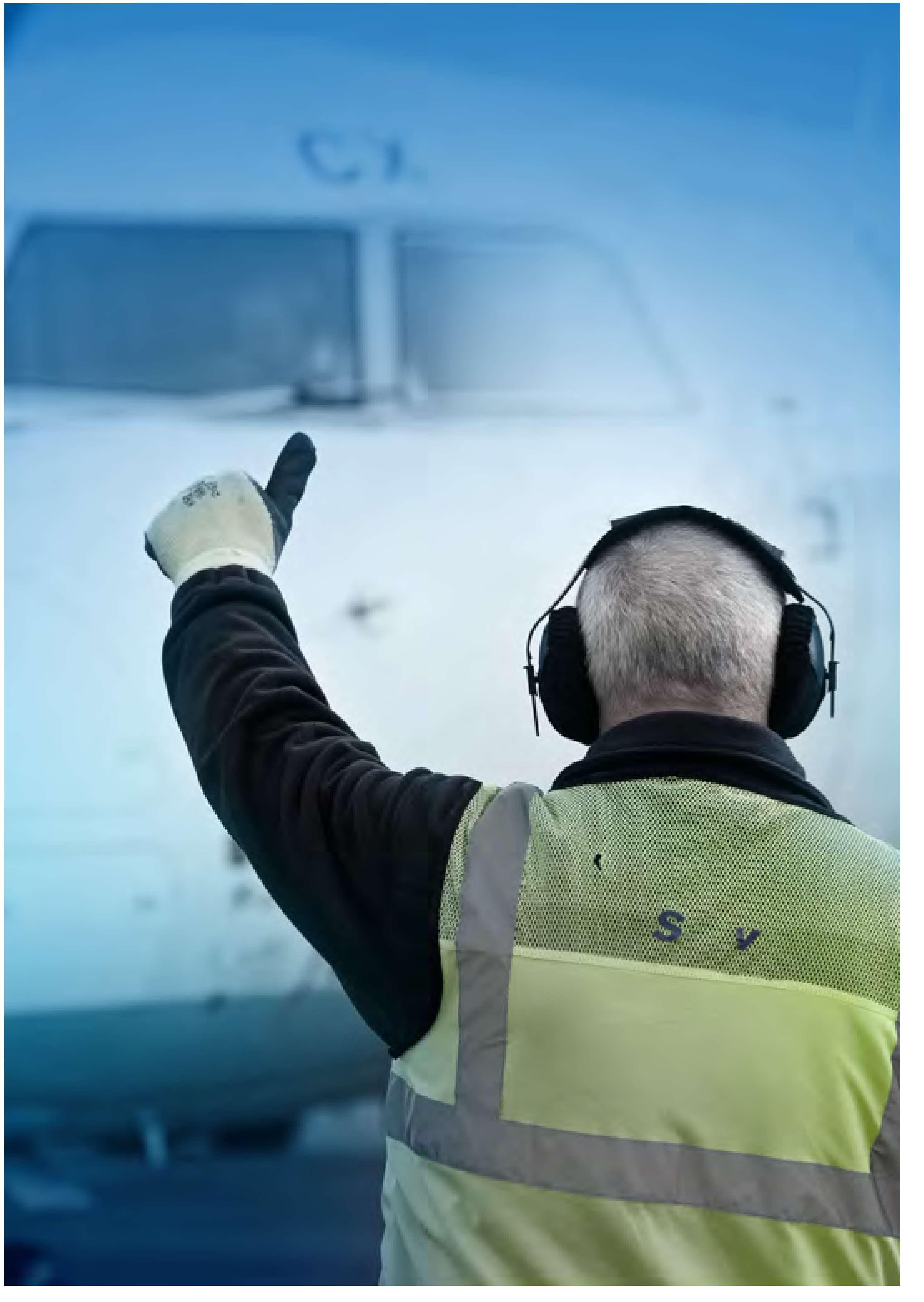
> Mindful of the difficult economic environment facing airline customers the charges for UK en route services and London Approach were set £6m below the level allowed by the economic regulator.

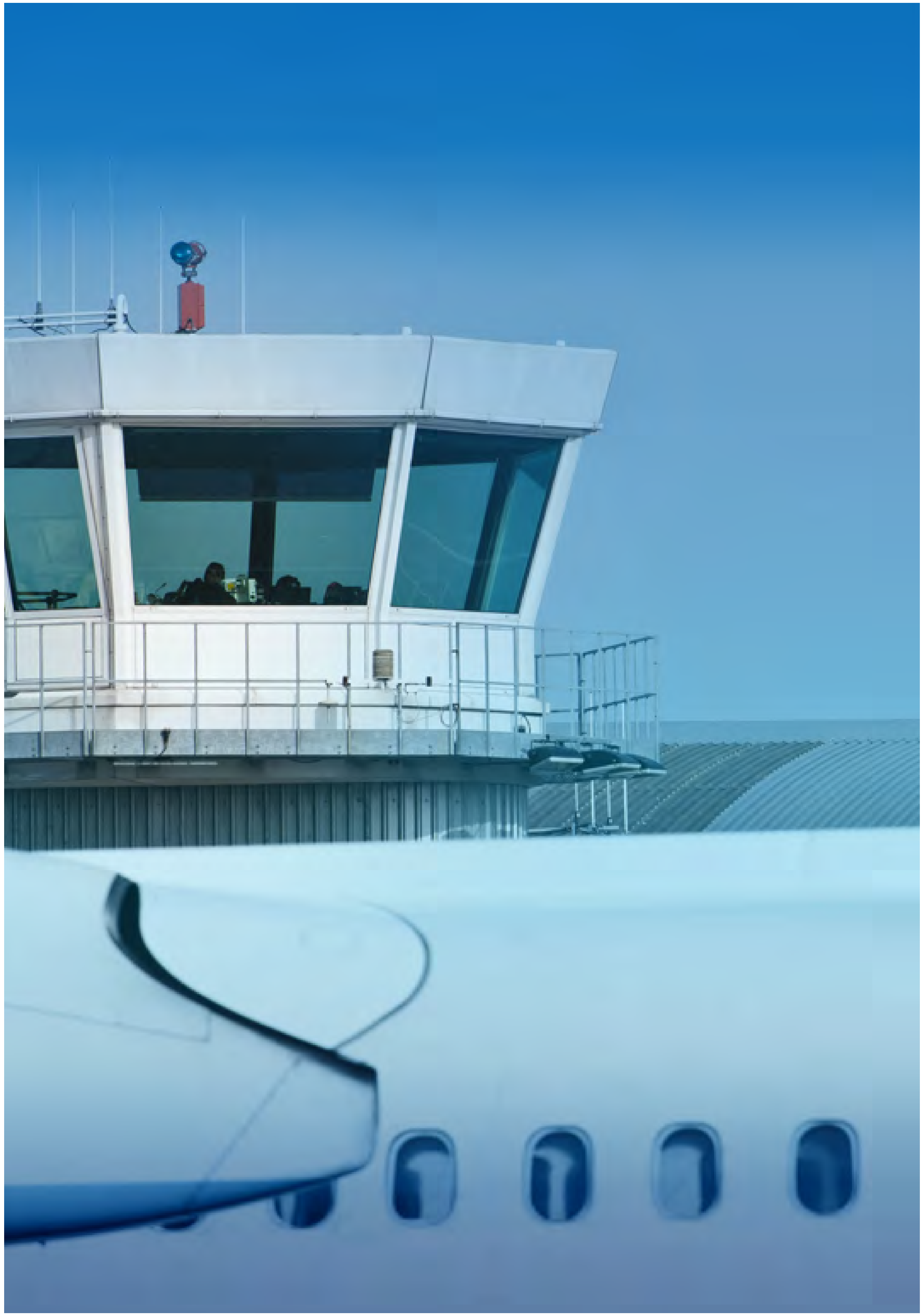
> By providing our customers with more efficient flight profiles, in 2013 we enabled further savings of 6,926 tonnes of fuel worth approximately £4.5m. Cumulatively, since 2008, we have enabled fuel savings of 250,000 tonnes saving customers £160m. We are also meeting the economic regulator's target for environmental efficiency.

> On the business development side, we renewed contracts with Heathrow and Luton airports and we were contracted to fit-out Birmingham airport's control tower. Our US subsidiary was part of a consortium awarded a contract by the US's Federal Aviation Administration, five Spanish airports are now being operated by our local joint venture and we continued to expand our activities in the Middle East.

1 Excludes derivative financial instruments

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





1 Chairman's statement

This year saw the company make significant progress towards its strategic objectives and I am pleased to report another good set of results.

This year saw the company make significant progress towards its strategic objectives and I am pleased to report another good set of results.

We continued to progress with our strong programme of safety improvement and remain focused on achieving service consistency with minimal delay to our customers' operations. We provided a safe service and achieved record punctuality with 99.9% of flights experiencing no delay at all whilst enabling further savings in ATM-related fuel and CO_2 emissions for customers through our environmental initiatives. Our financial performance saw us achieving a profit before tax of £190.7m, which compares with £194.5m last year. The company also paid a dividend of £40m.

The highlight of the year was, of course, the London Olympics and the service that NATS provided, working alongside the military to ensure national security, whilst not inconveniencing our commercial airline customers. The service levels achieved were quite extraordinary and one of the major infrastructure successes of the Games.

Our success proved the importance of effective planning. We spent three years meticulously preparing for this with our military colleagues and despite the peaks in traffic we maintained a safe service with very low levels of delay. I credit this success to the remarkable efforts of our employees in the run-up to the Olympics and throughout the Games.

Whilst our service performance may be one of the best in Europe, our customers and regulators want us to focus on reducing our en route charge. The coming year will be a very important one as the European Commission (EC) publishes targets for the next regulatory Reference Period (RP2: calendar years 2015 to 2019). The EC has made it clear that it expects significant cost reductions from major providers like NATS and this has been at the forefront of our RP2 business planning undertaken over the last few months.

Customer consultation on this business plan takes place this summer. We are offering customers a choice which reflects the trade-offs between service and price.

This flexible approach to customer requirements is exactly the kind of innovative response that customers have come to expect of NATS, and one which sets us apart from other providers. The company is more customer-focused than ever before, and that is reflected in an 82% satisfaction rating in this year's customer survey.

In a further demonstration of the company's wider sensitivity to the business climate, we decided that charges for en route services in 2013 should be set at £5m below the level allowed by the economic regulator and the charges set for London Approach for the 2013/14 financial year were set £1m below the regulatory cap.

1

Chairman's statement

Cont'd

82%

Customer satisfaction rating in this year's customer survey

The challenge of RP2 will dominate the NATS agenda over the coming year and the Board is strongly supporting the Executive's efforts in taking action to reduce its costs to prepare for the cost reduction challenges ahead of the EC targets being published. Important pension changes have been agreed with staff and a voluntary redundancy programme will take place this summer. These actions are a credit to both trades unions and management teams.

Also high on the agenda for this coming year will be the support that NATS will provide to the Airports Commission, appointed by the Government to report on airport capacity and connectivity. NATS will advise on the airspace aspects of the various options under consideration.

NATS has been very successful over the past year in highlighting the importance of airspace in delivering efficiency and supporting the UK's Future Airspace Strategy and airspace developments which will be required to achieve the Single European Sky (SES). So much of the focus is now on European developments: partnerships and alliances continue to shape the industry, especially so in Europe where the pace to deliver the SES is now quickening.

We continue to explore new markets around the world in a carefully targeted growth agenda. In the past year we have entered the Far East market with agreements in Singapore and Japan, and been part of a winning consortium for a contract in the USA.

We opened an office in Abu Dhabi to accelerate our work in the Middle East and closer to home, our joint venture is now running five of the ten Spanish airport towers it won last year.

Importantly, we have also renewed contracts with Heathrow Airport and with Luton, which was won following an open market tender process.

After a call for evidence on its shareholding, the Government decided last summer to retain its 49% stake in NATS. Some of the members of The Airline Group (AG), the Government's strategic partner which owns 42% of the company, are considering the sale of their shareholdings in AG. I expect them to reach a decision during the coming year.

Giovanni Bisignani is stepping down from the NATS Board this summer and I would like to thank him for his excellent work and wise counsel. Giovanni's successor at IATA, Tony Tyler, will take up his non-executive seat on the Board. Also, Warwick Brady has been appointed as a non-executive director by The Airline Group and Martin Rolfe joins as an executive director. I welcome them and look forward to working with them to ensure the levels of performance seen consistently in recent years.

John Devaney
Chairman

Richard Deakin ©

1 Chief Executive's review

It has been another excellent year for NATS characterised by outstanding safety and service performance, especially during the London Olympics, notable contract renewals and continuing success in new markets, whilst continuing to deliver solid financial performance. Ahead of this summer's consultations on the next regulatory reference period we have expended considerable effort in developing an innovative proposal for our en route customers and in mitigating a potential increase in pension costs. It has also been a year which has brought us firmly into the public eye as part of the wider debates on transport infrastructure, leading to a better understanding of the role that we play in this respect and highlighting our potential as an exporter of expertise in air traffic management.

Our high safety standards were maintained and our attributable average ATFM delay[1] was 1.4 seconds per flight (2012: 7.3 seconds). This is about 4% of the equivalent European average (2012: 11%) in a year when we faced the challenge of London hosting the 2012 Olympic Games. We met the en route service performance targets set by the Civil Aviation Authority (CAA), including the 3Di metric which tracks our performance in providing efficient flight profiles to help airlines reduce their fuel burn and ATM-related CO_2 emissions.

We renewed important domestic airport contracts with Heathrow and Luton this year and we are fulfilling contracts, notably in Qatar, Kuwait, Hong Kong and the US. However, after a tender process, Birmingham airport chose to take the air traffic control function in-house as part of its wider in-sourcing strategy, and we will help them with that transition.

We delivered another solid set of financial results in 2012/13. Revenue improved by £34.7m to £899.6m (2012: £864.9m) reflecting an increase in UK en route revenues, contractual increases in airport charges and the benefit of new business, especially in the Middle East. Our pre-tax profits fell by £3.8m to £190.7m (2012: £194.5m) in part because of higher operating costs, which included depreciation charges on controller tools and systems introduced last year, and higher net finance charges. We invested £128.9m (2012: £127.9m), largely in our economically regulated activities to sustain our operations and to develop future systems focused on future capability compatible with the European SESAR programme. We also secured debt financing through to 2016 by agreeing a new £275m bank facility. Finally, shareholders received dividends of £40.0m compared with £50.7m in 2012, as a measured response ahead of the outcome of the valuation of the defined benefit pension scheme.

We measure our operational performance against a set of key performance indicators. These are set out on page 60, and we continue to set the standards across European Air Navigation Service Providers (ANSPs).

1 Air Traffic Flow Management (ATFM) 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.

1 Chief Executive's review
Cont'd

£899.6m revenue

We delivered another solid set of financial results. Revenue improved by £34.7m to £899.6m

Olympics success

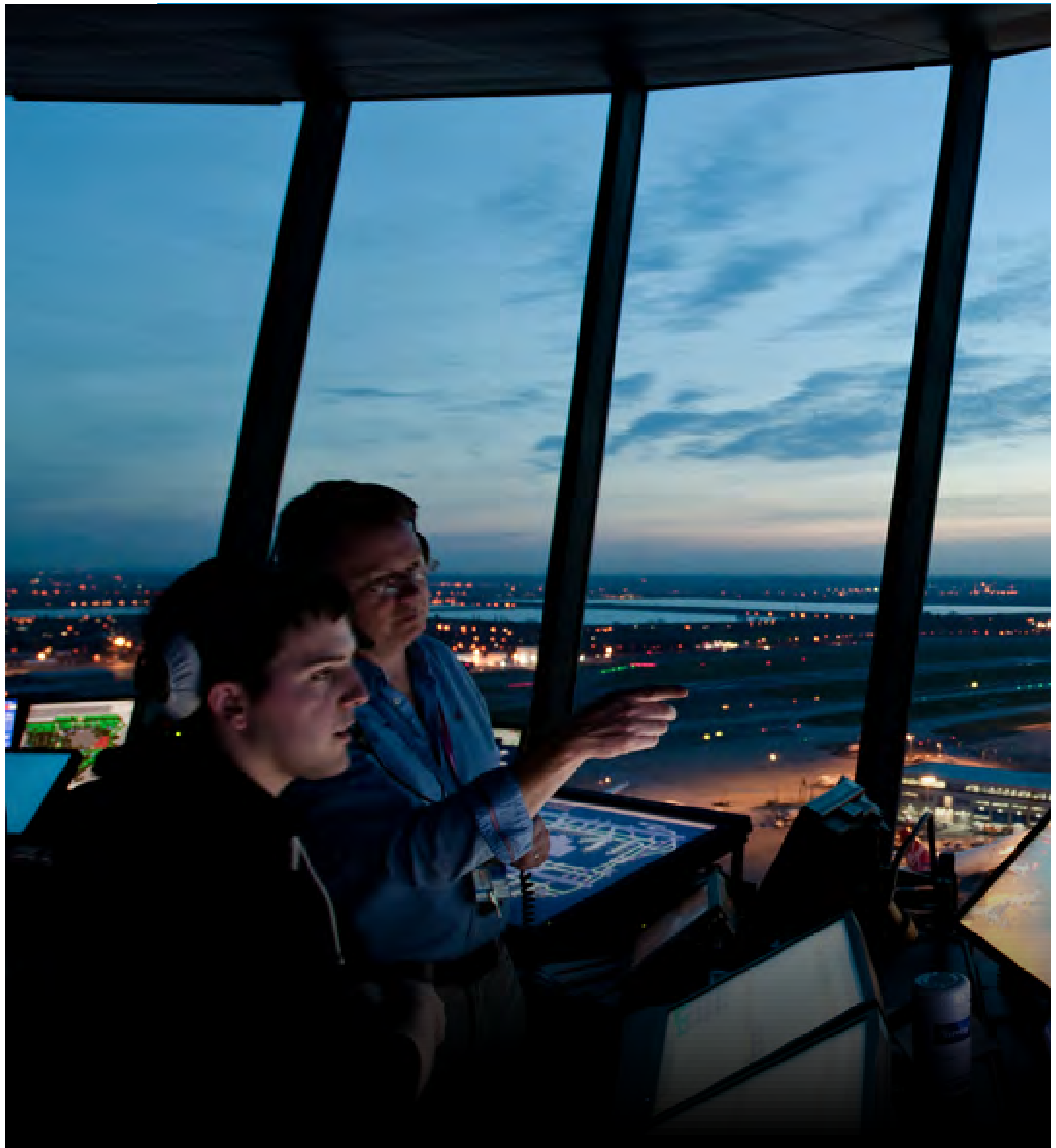
I am delighted with NATS' exceptional performance during the Olympics period and the part we played in managing a seamless service for our customers during this opportunity to showcase the United Kingdom.

The London 2012 Games presented NATS with a unique challenge: safely managing an influx of air traffic into some of the most complex and congested airspace in the world, without disruption to our commercial airline customers and whilst accommodating HM Government's national security requirements.

Meeting this challenge required three years of planning, consultation and liaison with the Department for Transport, the military, the CAA, European ANSPs, EUROCONTROL, airlines, airports and the general and business aviation communities.

Temporary airspace arrangements were necessary to manage the anticipated increase in air traffic volumes and national security arrangements. This required our engineers to update our systems and develop new controller workstations to reflect changes to airspace and our air traffic controllers to undertake intensive training to operate the new airspace and routings.

During the Olympics period we achieved an average delay per flight of just 1.5 seconds. This performance reinforces our internationally-recognised expertise in developing and safely managing complex airspace solutions. We are perfectly placed to provide advice and guidance to future hosts of the Games or other global events, particularly in regions that are experiencing a rapid growth in air traffic volume. Our experience and skill in managing our own congested airspace during the Olympics period means we can help solve these and similar issues.



Our vision and strategy

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

Our strategy, illustrated in the graphic below, is based on three fundamental principles: to defend our existing market position; to grow our business by providing new and innovative products and services based on our core competencies; and to strengthen the capability of our business to enable us to realise our ambitions. At the very heart of this strategy is our intention to help our customers to deliver a better passenger experience.

Our business is founded on providing a safe, efficient and cost effective air traffic control service to our UK and North Atlantic en route and airport customers.

Performance through Innovation

Our journey to 2015


Richard Deakin ©

1
Chief Executive's review
Cont'd

To defend our existing contracts we must continue to make our customer proposition attractive by focusing on service levels, our prices and the value which we offer. These principles are at the heart of our proposals for RP2, which we believe offers real choice to our en route customers, for our Airspace activities. On the Airports side, we believe that a genuinely competitive market for Terminal Air Navigation Services (TANS) remains the most effective long-term business model for airport customers in the UK and overseas. We will continue to take the necessary steps to support the demonstration of competition in the UK market and challenge inappropriate forms of economic regulation that would undermine the development of competition. In support of our strategy, we successfully renewed a number of contracts in the year.

We have developed a compelling growth strategy that sees a broader range of products and services offered to our existing and new customers and which transforms NATS from a mainly UK-focused business to one which operates internationally, in 31 countries including the UK. Our strategy is to focus our resources on carefully prioritised customers and countries most likely to provide long-term sustainable business on a significant scale and at manageable risk.

This year our Engineering business was contracted to fit-out Birmingham airport's control tower and, on the Consultancy side, our US subsidiary (NATS (USA) Inc.) was part of the winning consortium for a $331 million contract awarded by the US's Federal Aviation Administration to develop its air traffic data communications systems.

While there are limited new business openings in Europe at present, reflecting the difficult economic environment, we are pursuing opportunities in the Middle East, Asia Pacific and the US.

Our vision will only be achieved if enabled by improving our approach to competing for and delivering new business. To this end we are developing our commercial capabilities and ensuring that our internal processes are appropriate for the task, whilst placing increased emphasis on international partnerships to access new markets and minimising commercial risk. In addition, significant improvements have been made to our recruitment, succession planning and talent development programmes.

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Chief Executive's review
Cont'd

Our ambition is to accelerate through £1bn of sustainable revenue by 2015.

Our ambition is to accelerate through £1bn of sustainable revenue by 2015 and this year we reorganised our economically regulated and non-regulated businesses into six service lines. These reflect our core competencies and our routes to market and provide greater clarity to our customers of the capabilities offered under the NATS brand.

Our main priorities for the foreseeable future however, and the mainstays of the business, will remain Airspace and Airports where we believe there are plenty of opportunities to create customer value. The performance of the air transport network (which is illustrated below) relies on what happens from the cruise, on the ground and then back to the cruise and the complex interactions at each stage of flight between airlines, airport operators and NATS. We believe we are well placed to bring all parties together to improve the efficiency of the network and this will shape our strategy beyond 2015.

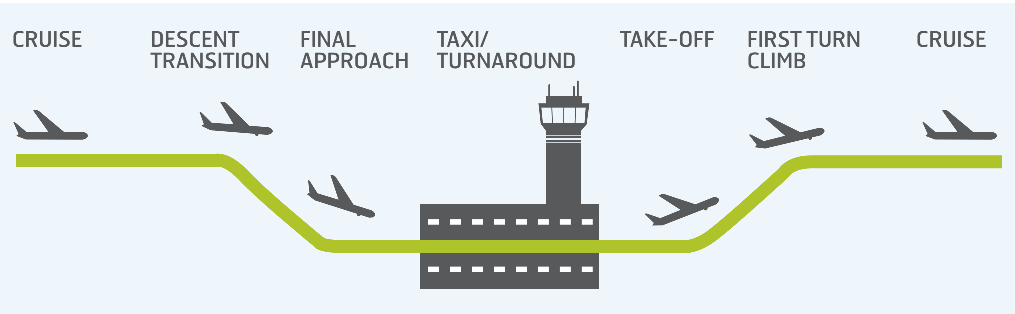
Safety

Our first priority remains the safety of aircraft and the travelling public. We have an international reputation for our approach to safety management, our well established safety culture and our excellent safety record.

Our safety improvements focus on tackling operational risks and subsequent sources of safety incidents, including working with others in our industry to do so. The most significant operational risks are: infringements of controlled airspace, level busts[2] and human performance.

During the year we have reduced the Weighted Safety Significant Event (SSE)[3] index by a further 7% when considering all events. For events that are attributable partly or wholly to NATS the reduction is 35%. This is an excellent achievement and is a further testament to the work we have done to reduce our contribution to safety risk in aviation. Over the first two years of this control period we have reduced the Weighted SSE index by a cumulative 26% for all events and 36% for events attributable to NATS.

For the fifth successive financial year we achieved our target of no category A or B Airprox[4] attributable to NATS and our strategic safety target to March 2015 is to maintain this record along with a further 10% reduction in our Weighted SSE index.



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

3 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.

4 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 total number of Airprox events has increased since last year both in terms of the total number when NATS was providing a service (31 to 37) and the number of NATS attributed events (5 to 11). With such small numbers being reported we are focusing on further analysis of common causal factors for this increase, and the identification of associated lead indicators to ensure that this is reversed. It is also worth noting that the actual number of loss of separation events associated with any Airprox where NATS was providing a service reduced from 13 in 2012 to 10 in 2013.

During the 2012 London Games, NATS safely implemented and controlled additional temporary airspace in conjunction with the military. No overloads or incidents within the temporary controlled airspace were attributable to NATS.

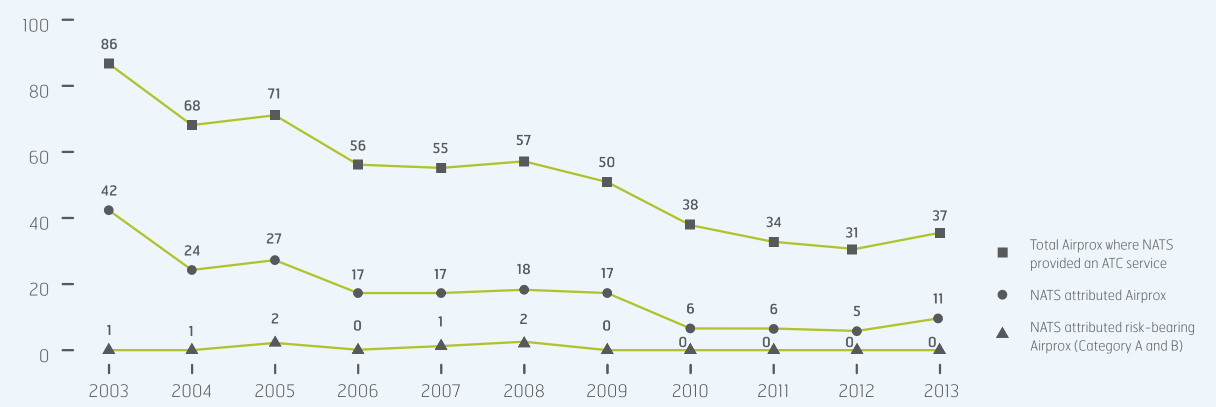
Our safety improvement activities have been focused on addressing our most significant operational risks. The key activities on level busts have included a further roll-out of a broadcast of the Transition Level on the Automatic Terminal Information Service (which provides weather and essential airfield information to aircraft) at Luton and Heathrow to remind pilots of the level at which the altimeters need to be adjusted. This is to assist crews in avoiding a loss of separation. Also, the Barometric Pressure Setting Advisory Tool (BAT) continues to provide valuable mitigation in alerting controllers to incorrect pressure settings by flight crew.

With regards to infringements, NATS awarded the first Infringement Prevention Award to Stapleford Flight Centre for their success in reducing infringements by 50% from the previous year. This was achieved by working with NATS to improve pilot briefings and training. It is our intention to build on this with other airfields and flying clubs and we look forward to making this award on many more occasions in 2014.

To ensure we continue to develop our air traffic controllers, we have put in place a continuous professional development (CPD) programme. This is providing a foundation for improvements in safety and performance by ensuring that controllers are kept up to date with the demands of their continuously changing profession. CPD is now f irmly embedded at Swanwick and is being implemented at Prestwick and at airports.

As the opportunities for tactical safety improvement continue to reduce, NATS is looking at how to address future risks to the ATM industry. To this end we have been developing our safety strategy through to 2025. This has included ensuring we are closely aligned to SESAR and developing long-term strategies for automation and human performance. Taken together these strategies will enable the evolution of safety performance, reporting and monitoring within NATS over the next 10 years.

Airprox: annual totals for the financial year ended 31 March



Note: Safety statistics for 2013 include NATS assessment of the outcome of UK Airprox Board reviews

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Chief Executive's review
Cont'd

Regulatory developments

The overarching regulatory framework in which NATS' regulated activities operates is now determined by the European Commission's Single European Sky (SES) legislation. Under this framework, certain EU-wide performance targets are established and it is the role of member states and national regulators to develop Performance Plans consistent with these targets.

Last summer the European Commission (EC) approved the UK's National Performance Plan for Reference Period 1 (2012-2014), fulfilling the UK's obligations under the SES, which aims to modernise and optimise Europe's air traffic management network including the performance of air traffic service providers. NATS (En Route) plc's (NERL) plans for its economically regulated activities formed the majority of this plan for the UK, which is consistent with the CAA's previous decision for the price control period 2011-2014. If it fulfils the assumptions made by the CAA for CP3, NERL will earn a cash-based regulatory return of c. 6.8% p.a. on its regulatory asset base.

The EC and CAA have already started preparations for the next regulatory period, Reference Period 2 (RP2), which runs from 2015 to 2019. The EC plans to finalise targets for RP2 in December 2013 covering four Key Performance Areas (KPAs): safety, capacity, environment and cost efficiency. Targets for RP1 were set for en route cost efficiency and capacity only.

For the first time, RP2 will also include performance targets for air navigation services provided at airports which handle more than 70,000 Instrument Flight Rule (IFR) movements p.a..

Following consultation on potential changes to the regulations for RP2, the EC accepts that the impact of financial market conditions on defined benefit pension costs could be fully reflected in prices (subject to a stewardship test), that appropriate incentives should continue to exist to reward excellent service performance and penalise poor performance (subject to a cap) and that the one-off restructuring costs necessary to achieve its challenging cost efficiency targets could be included in prices and taken into account when assessing the contribution of ANSPs to cost efficiency targets. NATS welcomed the EC's decision to raise the threshold of terminal air navigation services included within the scope of the performance scheme to 70,000 IFR movements p.a..

EU member states will be required to submit draft Performance Plans by June 2014 to enable the EC to assess whether these plans make an adequate contribution towards the EU-wide targets and therefore whether they should be accepted. Unlike RP1, these Performance Plans will be established at Functional Airspace Block (FAB) level and therefore for the UK this means a combined UK-Irish submission.

Reflecting the requirements of airline customers, the EC's priority for RP2 is to secure significant en route price reductions, with the EC challenging ANSPs to reduce prices significantly at the same time as improving performance across all the other KPAs. The EC has stated that it expects a significant contribution from the major ANSPs to EU-wide cost efficiency for RP2. Although it accepted the UK's Performance Plan for RP1, the EC stated that it expects a more significant contribution to cost efficiency targets from the UK, especially as it currently has the highest unit rate in the EU.

It is worth noting though that when measured using the EC's own financial cost-effectiveness measure (cost per flight hour), NATS is the best of the largest five ANSPs (others being France, Germany, Italy and Spain) and it is on a par with Ireland.

The EC's advisers on economic regulation (the Performance Review Body) published in February 2013 initial proposals for RP2 cost efficiency targets ranging from real reductions in the unit rate of between 3.2% p.a. and 6.9% p.a. and revised this in May 2013 to between 3.9% p.a. and 5.8% p.a. (using STATFOR's base case forecast). By comparison, the EU-wide target for RP1 was for real reductions of 3.5% p.a.. NERL has developed a draft RP2 Business Plan taking account of the initial target range and is putting forward two price reduction offerings for customers to consider: a service-led plan at lower price and a price-led plan. The former is aimed at customers who want the lowest price for a similar quality of service that we provide today together with airspace and system improvements in line with Future Airspace Strategy and SESAR (see below), and the latter delivers an even lower price in RP2 with good performance but with customers taking on more service risk. This Business Plan was published for customer consultation in May 2013. Following consultation in summer 2013 and publication by the EC of further information on its targets, NERL expects to submit a revised Business Plan to the CAA in October 2013. Following CAA scrutiny, this plan will form part of the UK-Ireland FAB Performance Plan.

1 Chief Executive's review

Cont'd

The small airspace volume contained within the UK-Ireland FAB relative to other FABs in Europe makes it challenging to find direct cost saving opportunities. However, our 'design and build' approach has delivered significant operational benefits to our customers, including cumulative savings which are estimated to arise between 2008 and 2020 of €337m through reducing fuel usage by 332,000 tonnes. Our RP2 Performance Plan will also include an extension of the High Level Sectors work by exploring the possibility of dynamic sectorisation both ways across our airspace boundary through operational trials in 2013 and 2014. Ensuring both operational and cost efficiency benefits to our customers will be key to its success.

In other developments, the CAA has conducted a study on whether Terminal Air Navigation Services (TANS) at the 8 UK airports with more than 70,000 IFR movements satisfy the market conditions criteria specified in SES regulations. In February 2013, the CAA advised the Department for Transport (DfT) that the balance of evidence did not support the existence of market conditions. The CAA reported that airport operators did not report any dis-satisfaction of their relationship with NATS or the quality of service it provides, but were uncertain about managing the transition of services between suppliers and the credibility of some of the alternative suppliers to NATS. While there were no statutory barriers to competition in the UK market, the CAA highlighted three potential economic barriers that may be limiting competitive activity in the market: a perceived lack of transparency around the operational interface between NERL and NATS Services (the main concern), protections from the 2001 PPP for members of NATS' defined benefit pension scheme, and career progression and licensing of air traffic controllers. NATS believes that market conditions in the UK do exist and during the CAA's review presented evidence to support this view and also offered a number of commitments to the CAA to help address these perceived economic barriers. NATS also believes that the recent loss of the Birmingham contract supports its view about the presence of market conditions.

The CAA says it wants stronger competition in the market and does not want to frustrate its development or the quality of TANS service provision. It will, with stakeholders, consider what steps it could take to further encourage competition.

In May 2013, the DfT accepted the CAA's advice that insufficient evidence exists to support the existence of market conditions and that it would not, therefore, be seeking an exemption from the EC from the SES requirement for Member States to economically regulate charges for TANS services at these 8 UK airports from January 2015 onwards. As a consequence, NATS believes that some form of economic regulation will apply from that date. In implementing such economic regulation, it will be important for the DfT and CAA to ensure that while the UK's legal obligations are satisfied, any economic regulation is introduced in the least harmful way possible to future competition and that it remains an attractive market both for airport customers and suppliers of air traffic services. At present, NATS cannot be certain how this economic regulation will be implemented or the impact it might have on the NATS business.

In the longer term, we believe the EC and UK Government and regulators should encourage the liberalisation of those TANS markets across Europe which are closed. As well as evidence from the UK market, our Spanish joint venture is an example of the benefit of liberalising markets, with airport operators there making significant cost savings on their airport air traffic service contracts.

Single European Sky (SES)

One of the challenges in Europe over the coming years will be deploying the technology and concepts that will help deliver the SES vision. The development of the new generation of technological systems is currently being managed by the SES ATM Research (SESAR) Joint Undertaking: a collaboration of the European Commission and the aviation industry, including NATS. Once this is completed in 2013, the deployment phase (2014 to 2020) will see the large-scale production and implementation of new air traffic management infrastructure that will be fully harmonised and interoperable across Europe. To manage this phase it is important that the deployment management role is clearly defined this year. Whilst there are a number of parties interested in the role, and a fully cooperative approach will be required in practice, as one of the biggest investors in the ATM system of the future it is vital that ANSPs play a pivotal role in shaping deployment. NATS has been gathering support for an ANSP-led approach from the A6 Group, an alliance of the largest European ANSPs set up to drive the modernisation of ATM systems in Europe which we chair, and the Civil Air Navigation Services Organisation (CANSO), which represents the interests of ANSPs worldwide and on which we sit on the Executive Council. As a key step towards making the business case to airlines, NATS will continue to work within the A6 Group to ensure the next edition of the SESAR Master Plan (due in 2014) contains a robust assessment of deployment costs for all stakeholders and the net benefits it will enable, and press for the EC to accelerate setting up the deployment manager as an essential prerequisite to timely deployment.

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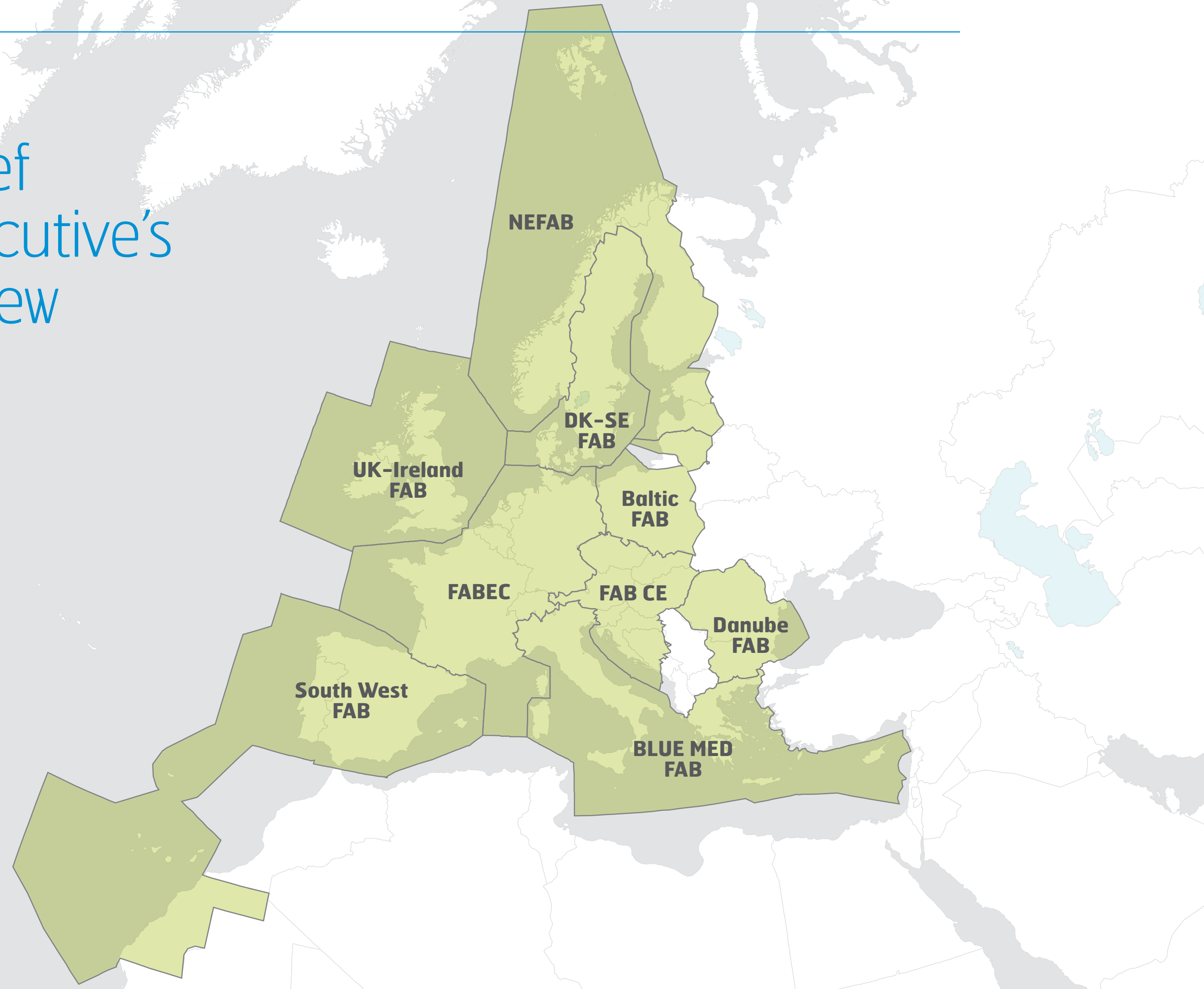
Chief Executive's review

Cont'd



Source: EUROCONTROL

Alliancing strategy

Given the strong EC regulatory focus on addressing Europe's current fragmented ATM system, achievement of future regulatory requirements through isolated national action by individual ANSPs will be challenging. Therefore, there is growing pressure for operationally beneficial partnerships which build on, or compliment, the current frameworks (FABs and SESAR) to deliver the future SES ATM system.

Over the past few years NATS has entered into a number of alliances with a view to positioning itself as a European leader in ATM within the context of SES. The form and nature of these alliances varies, but fundamentally they have been focused on delivering operational benefit to our customers. For example, we are a member of the Borealis Alliance of 9 North European ANSPs which focuses on strategic business cooperation between ANSPs, seeking economies of scale and projects that can be achieved on a commercial basis, complementing the work of the northern European Functional Airspace Blocks (FABs – see illustration) but without the need for regulatory or State involvement. This alliance also helps achieve Single European Sky ATM Research (SESAR) deployment, in service of a Single European Sky (SES).

We will continue to develop alliances with European ANSPs and believe this wider cooperation is likely to deliver greater benefits to customers in RP2 than the current FAB approach.

We are also influencing the industry in other ways. We are a member of the Aviation Platform, made up of representatives of the European aviation sector, set up to provide strategic advice to the EC on how to establish the basis for a sustainable future for air transport and a competitive future for the European aviation industry.

UK aviation strategy

The DfT published its draft policy framework for aviation in July 2012. Its strategy focuses on more frequent flights to emerging markets, improved access to airports and a reduction of the impact of airports on local communities. The final policy framework is due for publication in July 2013.

Of particular relevance to NATS is support for the SES programme. To this end NATS is in the early stages of developing the airspace design which will deliver the Future Airspace Strategy published by the CAA in 2011, though any changes to airspace rely on clear environmental parameters being established by the aviation policy framework.

We are also contributing to the Airports Commission's review of options for ensuring appropriate hub capacity in the UK. It expects to publish an initial report later in the year that will include interim measures to address South-East airspace capacity pending development of a future hub strategy.

People

Our people are committed and professional at what they do. Our strategic objective is to have a motivated and competent workforce, proud of their contribution to NATS' success in delivering an excellent performance to customers: people valued and adding value.

The successful delivery of a safe and efficient air traffic service during the Olympic period is a testament to the professionalism of our front line operational staff and engineers and those supporting them. I would like to take this opportunity to congratulate and thank everyone involved in NATS and in our partners who contributed in the planning and execution of the Games service.

Our employees have faced other challenges this year too in the form of pension changes. Like many other UK defined benefit schemes, the fall in real gilt yields in recent years to record low levels has had the effect of significantly increasing the liabilities of NATS' defined benefit scheme but without a corresponding increase in scheme assets (two thirds of which are equities and similar return-seeking assets).

As a result, it was clear that NATS would be facing a material increase in pension contributions after the actuarial valuation at 31 December 2012 unless changes were made. Through Working Together with NATS' trades unions staff were balloted on, and agreed, to reduce the existing limit on the annual rate of increase in pensionable pay and to recommend to the scheme's Trustees that future service benefits should be indexed at CPI (rather than RPI). When these changes were reflected alongside the Trustees' assumptions for the 2012 valuation the deficit was £382.6m (compared with £351.1m in 2009) and contributions were set at a more affordable level.

Staff also agreed to a 3-year pay award closely linked to CPI which provides certainty to them and the company alike. The company will also introduce from 2014 a Company Performance Related Pay Scheme which directly links the company's profit performance and the value of an employee's total rewards.

In order to achieve the cost efficiency targets we expect in RP2 we will have to reduce our headcount, and we announced a voluntary redundancy scheme to staff in May 2013. Crucially, to achieve the level of savings necessary, this will require staff reductions within our economically regulated business including operational front line staff. This will be challenging and will require excellent engagement, careful resource planning, focused staff development and positive and constructive industrial relations through Working Together with trades unions.

1 Chief Executive's review
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Service line financial performance

From April 2012 we organised our activities according to service lines, each representing a core set of products and services that we offer to our customers. A brief description of each service line is provided below together with a summary of financial and operational performance. The principal financial targets for each service line are revenue and contribution. The latter takes account of the operating costs which service line managers are able to influence directly. For this reason depreciation charges, exceptional items, costs managed outside of service lines and variances to budgeted pension costs, for example, are not included in service line contribution. The volatility of market conditions between setting the budget for pension costs and the rate being known at the start of the financial year, combined with the size of the scheme, means these variances can be material. A reconciliation of service line contribution to the group's operating profit is provided in the notes to the financial statements.

This year saw good financial performance across each of our service lines with each reporting a growth in revenue and an improvement in service line contribution.

NATS Airspace

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

Revenue from NATS Airspace increased to £711.7m (2012: £693.0m), principally due to an increase in UK en route revenues, after allowing for lower traffic volumes and higher inflation than assumed in the CP3 settlement, and due to better service performance. Offsetting these were reductions arising from the deferred recovery of permitted revenue adjustments under EC charging rules and the impact of pricing below the level of permitted revenue allowances. The latter was a response to the difficult economic environment facing our en route and London Approach customers and saved them c. £1m this financial year and c. £5m in the 2014 financial year.

Service line contribution improved to £368.1m (2012: £345.9m). Attributed operating costs were lower mainly reflecting staff pension charges (at budgeted rates), capitalised staff costs and lower headcount which offset annual pay increases and indexation uplifts on property maintenance costs.

	2013	2012
Financial performance:		
Revenue (£m)	**711.7**	693.0
Service line contribution (£m)	**368.1**	345.9
Capital expenditure (£m)	**127.0**	127.1
Operational performance:		
Flights handled ('000s)	**2,126**	2,167
Risk-bearing airprox (no.)	**nil**	nil
Average delay per flight (seconds)	**1.3**	7.0
Enabled fuel savings (tonnes)	**6,926**	25,000

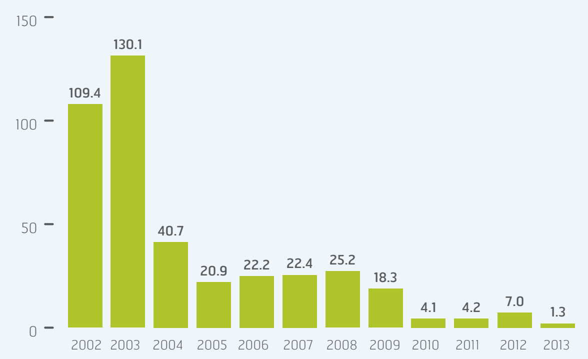
The volume of flights handled in the year of 2.1m was 1.9% lower than the previous year, reflecting the weak UK and European economies and airlines increasing aircraft load factors.

The level of delay attributable to NATS Airspace represented an average delay per flight of 1.3 seconds, with 99.9% of flights not delayed (2012: 99.3%). This was achieved despite releasing operational staff for Olympics training in the first half of the year and reflects the benefit of iFACTS (interim Future Area Control Tools Support) which reduces controller workload in planning and maintaining safe separation, allowing more flights to be handled with improved safety. Last year NATS Airspace achieved 7.0 seconds when frontline staff were being trained on iFACTS. The average delay per delayed flight was also lower at 15.6 minutes (2012: 16.6 minutes).

This service performance is within the CP3 par value targets (adjusted for lower traffic volumes than assumed in the CP3 settlement) for the Olympic period and for the rest of the 2012 calendar year, and earned a bonus of £6.8m (2012: £5.4m).

	2013	2012	Year-on-year change
	('000s)	('000s)	%
Chargeable Service Units	**9,395**	9,676	(2.9)
Total UK traffic (flights):			
Domestic	**385**	395	(2.5)
North Atlantic	**310**	322	(3.7)
Other	**1,431**	1,450	(1.3)
Total	**2,126**	2,167	(1.9)
Oceanic traffic (flights):			
Chargeable flights	**393**	402	(2.2)

Airspace: average delay per flight in seconds



CP3 metrics: 2012 calendar year	**Olympics period**		**Rest of period**	
	Target adjusted for traffic	**Actual**	Target adjusted for traffic	**Actual**
T1: avg. delay per flight (secs)	13.6 -27.6	**1.5**	7.7	**1.5**
T2: delay impact (score)	38.5-78.9	**3.0**	21.8	**3.2**
T3: delay variability (score)	299.3	**-**	1,137.5	**1.0**
T4: 3Di metric (score)	n/a	**n/a**	24.0	**23.9**

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In addition to measures of delay, we are incentivised on the environmental performance of our network. The flight efficiency metric, the 3Di (three dimensional inefficiency score), was introduced for the 2012 calendar year. It compares the actual trajectory that an aircraft takes with an optimal profile that minimises fuel burn and ATM-related CO_2 emissions. We achieved the CP3 target of 24.0.

Our customers also set us service targets under our Operational Partnership Agreement (OPA) by which we work together to agree priorities and achieve short-term operational improvements. We achieved the financial year targets for reducing early morning delays, avoiding the prolonged application of short-term air traffic flow restrictions and for generating fuel savings.

Our environmental strategy includes ensuring we consider the impact of how we control aircraft every day. This includes how we improve the efficiency of our airspace, route network and in the investment decisions we make regarding new technology. We also seek to deliver short-term tactical benefits to our customers and this year we enabled 6,926 tonnes (2012: 25,000 tonnes) of fuel savings from changes to procedures, equivalent to 22,025 tonnes (2012: 80,000 tonnes) of ATM-related CO_2 emissions, and worth approximately £4.5m in savings to our customers (based on average fuel prices of £650 per tonne).

NATS Airspace invested £127.0m (2012: £127.1m) in support of its air traffic control infrastructure in the year. This included continuing to develop the next generation flight data processing system which will be compatible with European systems, though future expenditure on the necessary workstation and the timing and sequence of deploying this technology into air traffic control centres has been reviewed in light of lower traffic volumes.

iFACTS, a significant investment made last year, is now in full operational service. It still features in our investment programme as we continue to upgrade our core systems.

The radar replacement programme is nearing successful completion with 26 of 27 radars having been replaced over the last 10 years. Investment is now focusing on voice and data network modernisation and on implementing the EC's mandate for datalink services between pilots and air traffic controllers.

Additional investments are also being made in service of the UK's airspace strategy, discussed above. Of particular importance will be the development of airspace in the South-East, which will enable better safety, efficiency and environmental performance.

OPA performance targets for 2012/13

	Target	Stretch	Actual
Early morning delays (flights delayed > 15 minutes)	2,200	1,600	**199**
Short-term flow regulations (% < = 45 minutes duration)	94%	96%	**96%**
Enabled fuel savings (tonnes)	4,250	5,500	**6,926**

NATS Airports

NATS Airports offers our innovative ATC and airport optimisation services to UK and international airport customers, based upon helping them find better solutions by working with them to generate efficiencies and capacity in a cost effective manner. This service line supplies air traffic control and related engineering support services to 15 UK airports and to Gibraltar. In addition, our FerroNATS joint venture is now managing five Spanish airports following successful completion of a complex transition from Aena, the Spanish air traffic control provider, with the last five transitioning in the next year. The joint venture's financial performance is included in the service line's result.

The economic climate this year proved challenging for all our airport customers. Whereas in the past we had many customers asking us to help them with their airport re-development and expansion plans, we now have a number of customers (both existing and new) who are seeking our help to maximise their returns on current assets and to improve their cost effectiveness. In both cases we use our expertise to tailor specific solutions to customers.

Revenue increased by £8.0m to £182.6m (2012: £174.6m) mainly due to contractual increases in charges and income earned from support provided to the joint venture.

The service line generated a contribution of £60.0m (2012: £57.4m), a £2.6m improvement. The result includes a share of joint venture losses arising from airport contract start-up and transition.

During the year we successfully renewed the Heathrow contract, secured contract extensions at Gibraltar and Cardiff airports and, following an open market tender process, we were awarded the contract to provide air traffic and engineering services at Luton airport. Regrettably though, Birmingham airport informed us in March 2013 that it will not be awarding NATS a contract beyond March 2014 (although it is likely they will exercise the option for a one year extension to March 2015 for transition). Birmingham airport is positive about service performance, and the recent control tower fit-out undertaken by NATS Engineering. The airport is bringing this and a number of other functions in-house. We will now support the airport to plan for this transition.

We continued to provide a safe service at airports with no risk-bearing airprox events. We maintained our focus on service delivery at the same time as rising to the challenge posed by the Olympics and Paralympics. The average delay per flight attributable to Airports was 0.1 seconds, compared with 0.3 seconds last year. We also track events which impact service delivery arising from equipment failure and staffing shortages.

On the environmental side, a Flight Profile Monitor tool was developed to measure the efficiency of aircraft taking-off and landing at airports and was successfully trialled at Edinburgh airport, saving fuel and CO_2 emissions and reducing noise. Noise respite trials have also been conducted at Heathrow.

	2013	2012
Financial performance:		
Revenue (£m)	**182.6**	174.6
Service line contribution (£m)	**60.0**	57.4
Capital expenditure (£m)	**0.9**	0.7
Operational performance:		
Airports served: UK (no.)	**15**	15
Airports served: Overseas, incl. JV (no.)	**6**	1
Risk-bearing airprox (no.)	**nil**	nil
ATC service delivery events (no.)	**5**	2
ATC asset non-availability (hours)	**42**	n/a
Average delay per flight (seconds)	**0.1**	0.3

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Chief Executive's review
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NATS Engineering

NATS Engineering provides services to airport operators, construction companies and industry suppliers, mainly integrating new air traffic control infrastructure at airports.

NATS Engineering revenue at £21.0m was £6.4m higher than last year (2012: £14.6m) reflecting an increase in activity, including the fit-outs of control towers at Birmingham and Manchester airports. There was an increase in staff and material costs which were necessary to deliver its contracts. Overall it achieved a service line contribution of £4.4m (2012: £3.2m).

We continue to provide engineering services to a number of airports at which NATS does not provide the air traffic control, including Belfast City, Inverness and Oxford. Highland & Islands airports agreed to a three year extension of its engineering support contract, extending coverage to include Dundee.

We continued to build our presence overseas providing engineering resources to a Kuwaiti contract and our US subsidiary, NATS (USA) Inc., was part of the winning consortium led by Harris Corporation that was awarded a Data Communication Integrated Services (DCIS) contract by the FAA. Our role is to support Harris Corporation with the development of new operational procedures and in communicating the goals and benefits of DCIS to airlines and other stakeholders.

Key milestones met during the year included the successful introduction into service of new primary and secondary surveillance radars at Edinburgh airport, new instrument landing systems at Belfast and Southampton airports. In addition, upgrades to the electronic flight progress systems at the majority of NATS' customers' airports and a suite of approach service assets at Oxford airport were delivered.

	2013	2012
Financial performance:		
Revenue (£m)	**21.0**	14.6
Service line contribution (£m)	**4.4**	3.2
Capital expenditure (£m)	**0.6**	0.1
Significant milestones:		
Edinburgh airport: primary and secondary surveillance radars		
Southampton airport: instrument landing system		
Oxford airport: approach service assets		
Belfast City airport: instrument landing system		
Luton airport: voice and surveillance data recorder		
Birmingham airport: primary radar		
4G remediation of radars: Glasgow, Edinburgh, Kincardine		
Southampton airport: voice and surveillance data recorder		
Humberside airport: radar data processor		

Other NATS Service lines

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

Revenues at £21.2m (2012: £15.5m) were £5.7m higher than previously, mainly due to airspace design and airports consultancy contracts in the Middle East and windfarm projects. Costs associated with these contracts and those in service of new business development increased by £2.6m. Service line contribution increased by £3.1m to £6.7m (2012: £3.6m).

NATS Consultancy is the initial point of contact for many of our new UK and international customers. Its activities include airspace development and airport capacity improvement projects for which our UK expertise in managing some of the world's busiest airspace and airports is recognised. This is reflected in the breadth of the contracts which we are currently engaged with: in Qatar, Hong Kong, Singapore, Japan and Turkey as well as the UK.

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

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

Orders were secured in the year in the UK for airspace consultancy and services to windfarm operators and abroad, including Qatar, Singapore and Hong Kong, with a total value of £14.9m (2012: £22.6m).

	2013	2012
Financial performance:		
Revenue (£m)	**21.2**	15.5
Service line contribution (£m)	**6.7**	3.6
Capital expenditure (£m)	**0.4**	-
Secured order value:		
UK contracts (£m)	**10.6**	10.9
Overseas contracts (£m)	**4.3**	11.7

1 Chief Executive's review
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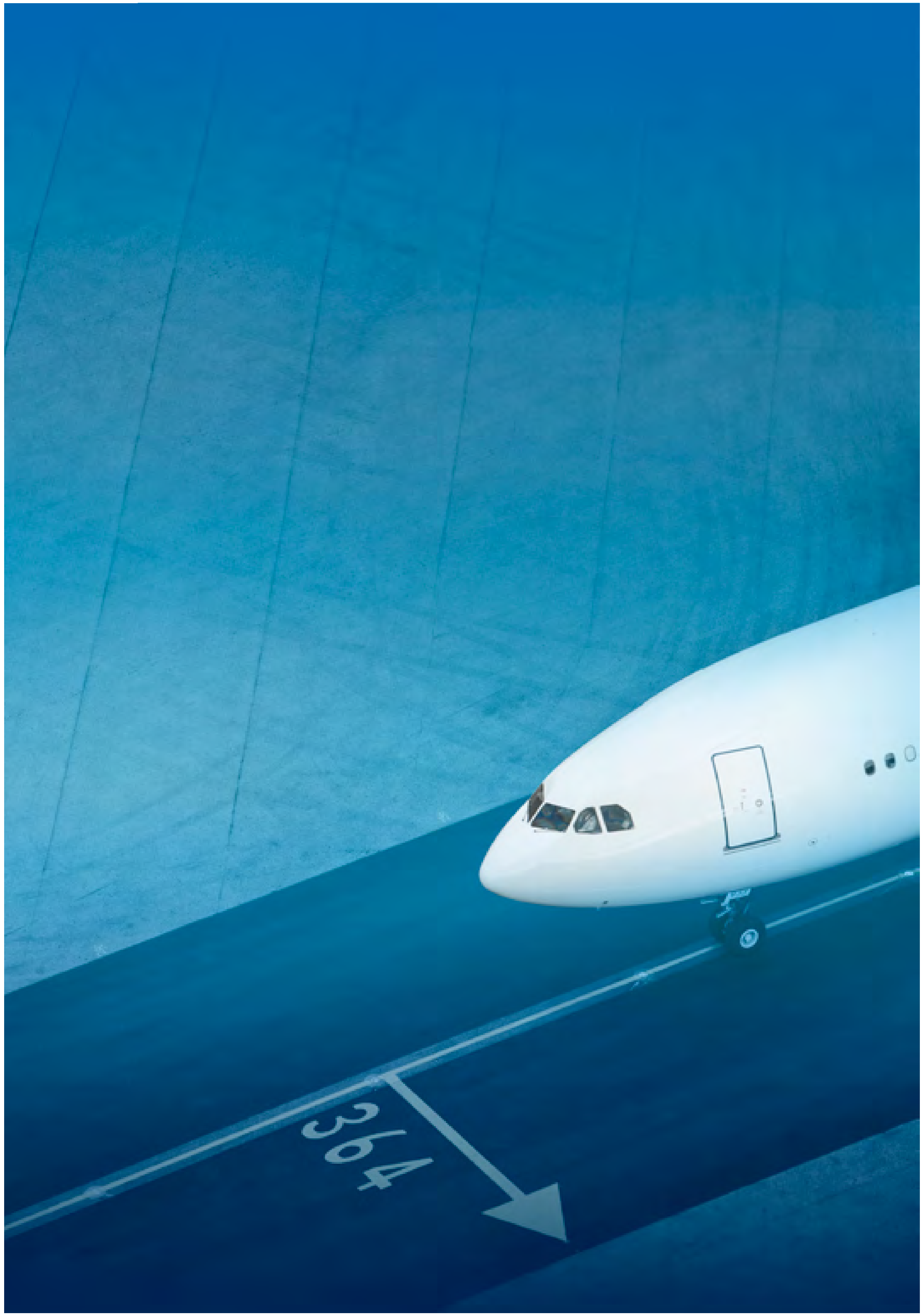
Outlook

For now we remain firmly focused on understanding what our en route customers require from us in RP2. We understand that price reduction is a key concern for them and for economic regulators. Therefore we are presenting them with choices which offer a trade-off between price and service performance, without compromising on safety.

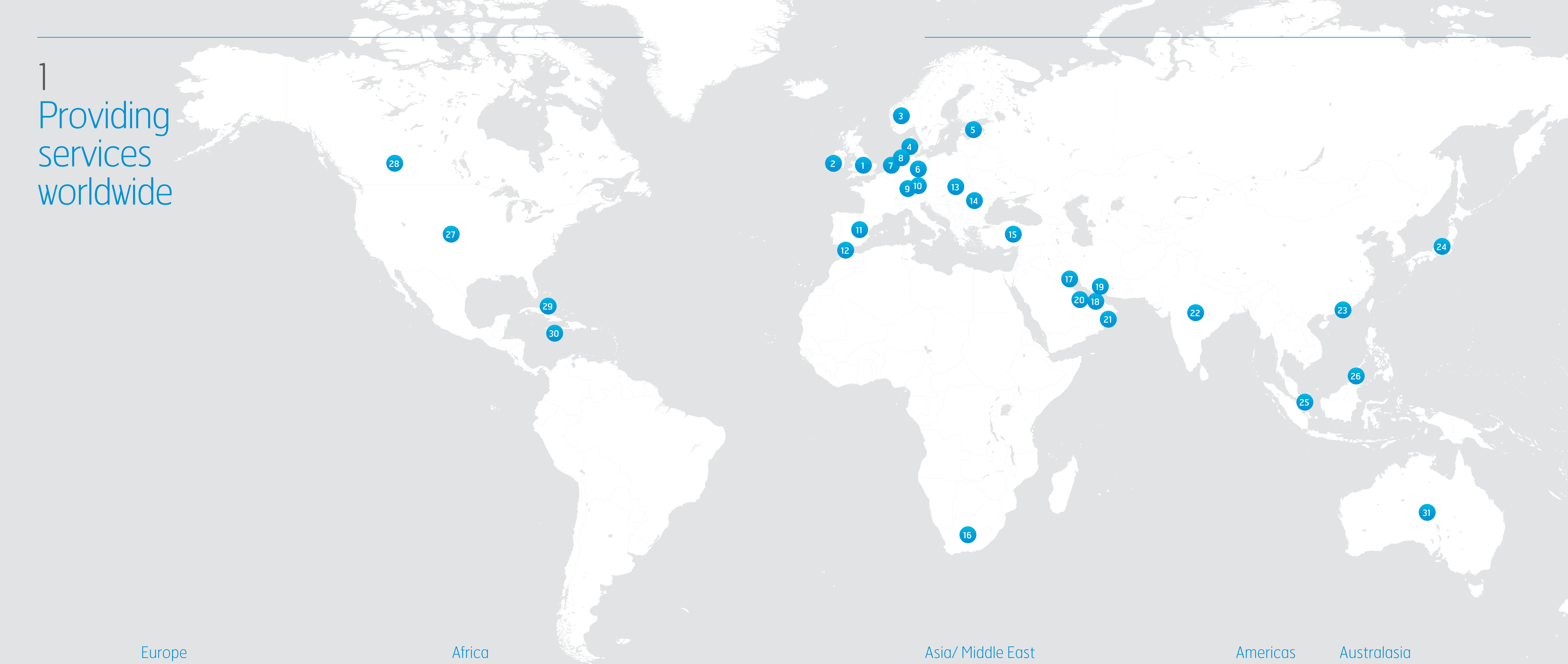
A key unknown is the strength of the economy from now to the end of the next control period, RP2, and what this means for traffic volumes. Currently, in the near-term, the UK and European economies remain weak and airline operators are maintaining a cautious approach to network expansion. A slight improvement is expected for RP2, though the average annual flight growth of c. 2.4% p.a. is below pre-financial crisis levels. Flight volumes for the UK are now not expected to return to the previous peak level (achieved in 2007) until 2020. This is markedly later than Europe as a whole (2017), reflecting the severity of the impact of the financial crisis and slow recovery in the UK. This uncertainty is challenging for us and for our customers as we seek to agree investment plans and resource requirements for the RP2 period, which takes us to the end of the decade.

Many countries recognise that transport infrastructure and the air transport sector in particular, is an important driver of economic growth. To this end governments are assessing their strategy for aviation capacity to maintain or create transport hubs which provide national competitive advantage. We have a clear role to play in supporting the development of the UK's infrastructure by contributing to the debate about hub capacity and bringing the industry together to optimise the efficiency of the network. We believe that this latter point will shape our strategy in future.

Richard Deakin
Chief Executive Officer



1 Providing services worldwide



Europe

1 UK
- Tower air traffic and engineering services at 15 of the UK's busiest airports
- Control tower fit outs at Heathrow, Manchester, Birmingham and Newcastle
- World first environmental metric and performance scheme to drive down carbon emissions and fuel costs

2 Ireland
- Airport capacity studies

3 Norway
- ATC supervisor training for Avinor AS ATS data services
- Aviation data and specialist ATC training services

4 Denmark
- Navigation charge collection

5 Estonia
- Eurocat ATM system and Unit Safety Case Consultancy

6 Germany
- Receiver performance analysis study

7 Belgium
- Eurocontrol Consultancy

8 Netherlands
- Onward routed radar data feed (EUROCONTROL)

9 Luxembourg
- Air Traffic Safety Electronic Personnel course material developed for EUROCONTROL

10 Switzerland
- EVFR chart provision

11 Spain
- iTEC partnership with DFS, AENA, LVNL, Indra
- Galileo Services consolidation
- ferroNATS to provide ATS at ten airfields

12 Gibraltar
- Air traffic control and medical services
- Hazard analysis

13 Slovakia
- Ab-initio safety management training
- Ab-initio controller training

14 Romania
- ATC refresher training for Romatsa
- Ab-initio refresher training services

15 Turkey
- Capacity Study contract at Istanbul's Atatürk International Airport

Africa

16 South Africa
- Procedure design for ATNS South Africa around 2010 World Cup

Asia/ Middle East

17 Kuwait
- Single Runway Operations consultancy contract for Kuwait International Airport
- AIM roadmap for the Kuwait Directorate General of Civil Aviation
- Engineering Consultancy for Kuwait International Airport

18 UAE
- Regional Middle East office established to support local customers with ATC expertise
- Operational performance summary for Dubai International Airport
- Prepared Concept of Operations for Al Maktoum International Airport and procedure design for other airports
- Public Safety Zone studies for Dubai Airports

19 Bahrain
- Airport capacity study
- Procedure design work

20 Qatar
- Two year airspace design and implementation consultancy at the new Hamad International Airport

21 Oman
- Airspace design, safety management and transition support for Directorate General of Meteorology and Air Navigation

22 India
- Capacity enhancement study to analyse reducing congestion, enhancing productivity and increasing operational efficiency at Mumbai and Delhi International Airports

23 Hong Kong
- Airspace redesign and ATC training services for Civil Aviation Department

24 Japan
- Airport capacity modelling and analysis at Narita

25 Singapore
- Terminal airspace design and ATC system surveillance trackers' performance projects underway

26 Brunei Darussalam
- ATCO and supervisor training
- Ab-initio training/ Met observer training

Americas

27 USA
- Technical support services to commission FAA en route infrastructure delivered through the ETASS contract
- Transatlantic networking of SWIM enabling technologies (eg. A-CDM)
- Support for the FAA's $331m DCIS project to enable air traffic service data to be transmitted directly to pilots via an aircraft's onboard avionics

28 Canada
- Height Monitoring Unit renewal of service provision

29 Bahamas
- Support to the Government of The Bahamas on becoming an independent ANSP

30 Jamaica
- ATC examiner training courses

Australasia

31 Australia
- Airport capacity benchmarking and operational performance analysis for four airports: Brisbane, Melbourne, Perth, Sydney
- Programme management enhancement for Air Services Australia

1 Financial review

It was a year of solid financial performance for the group. Revenues improved by £34.7m to £899.6m (2012: £864.9m) due largely to net increases in en route revenue after allowing for the impact of lower traffic volumes and higher inflation than assumed in the CP3 settlement and better service performance, contractual price increases at airports and the benefit of new business growth. The factors impacting on revenue are described in more detail in the review of service line performance above.

Profit before tax fell by £3.8m to £190.7m (2012: £194.5m). This reflected higher staff pension costs, a full year's depreciation charge for new controller tools (iFACTS and EFD) and higher net finance costs. The latter included the change in the market value of the index-linked swap contract and the unwinding of the discount applied to property re-instatement costs. The following table explains the reduction in profit before tax for the year.

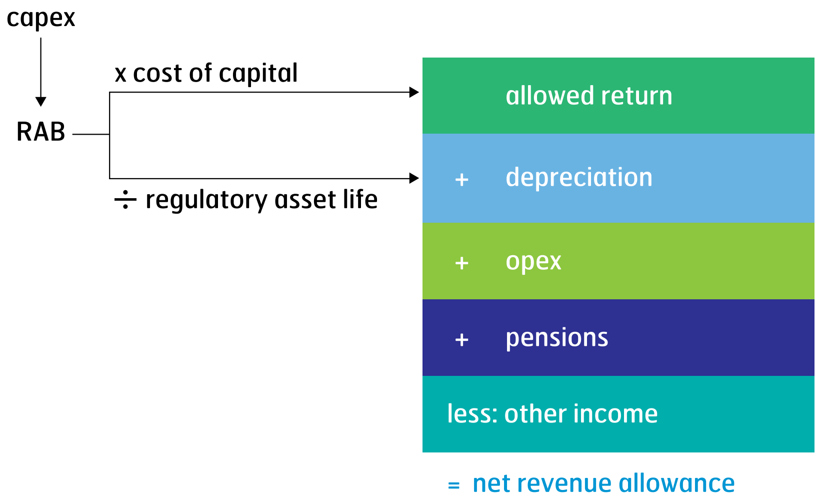
	2013	2012
	£m	£m
Revenue	**899.6**	864.9
Operating profit	**245.0**	239.5
Profit before tax	**190.7**	194.5
Profit after tax	**148.1**	157.0
Dividends	**40.0**	50.7

		Profit before tax
	£m	£m
2012 profit before tax		194.5
Revenue changes		
Airspace		
Net increase in revenue (allowing for traffic volumes & inflation)	17.1	
Deferred recovery of revenue adjustments	(3.3)	
Pricing below the revenue cap	(1.0)	
Service performance incentive	1.4	
Other revenue changes	1.6	
		15.8
Airports		7.4
Engineering		5.9
Other NATS Service lines		5.6
Cost changes		
Staff costs	(14.5)	
Non-staff costs	(7.4)	
		(21.9)
Depreciation & amortisation, net of deferred grants	(11.5)	
Asset impairment charges	3.2	
Disposal of assets	1.0	
		(7.3)
Change in fair value of index-linked swap contract	(3.6)	
Other finance costs (net)	(4.4)	
		(8.0)
Results of associates and joint ventures		(1.3)
2013 profit before tax		**190.7**

Economic regulatory framework and price controls

NATS' economically regulated subsidiary, NATS (En Route) plc (NERL), provides en route air traffic services under a licence granted by the Secretary of State under the Transport Act 2000. The Act gives the Civil Aviation Authority (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.

Following consultations with airlines and other stakeholders, the CAA established revenue allowances for 2011 to 2014 (Control Period 3 or CP3) for the economically regulated services. These were set at levels designed to 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 our regulated businesses, was adjusted to reflect asset additions, disposal proceeds, regulatory depreciation and the rate of inflation. Certain other income generated outside of the economically regulated activities was deducted under a 'single till', leaving a net revenue allowance. The price condition for CP3 in NERL's Licence has been set to allow NERL to recover this net revenue requirement based on forecast traffic for the control period. This regulatory model is illustrated below.



1 Financial review
Cont'd

£2.2bn
The price control for CP3 was based on total revenues of £2.2bn

4,562
The average number of staff employed during the year was 4,562

The price control for the four years of CP3 (the last three years of which coincide with Reference Period 1) was based on total revenues of £2.2bn (expressed by the CAA in 2008/09 prices) and provides a pre-tax real return on the RAB of 7.0% p.a.. This headline cost of capital was adjusted by the CAA to 6.8% to allow for the re-investment of surplus cash during each year. If the regulatory and other assumptions are borne out in practice, then a return of 6.8% p.a. would result.

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

As noted in the business review above, we have developed a customer consultation business plan for RP2. We expect the structure of the economic regulatory framework for UK en route services for RP2 will be largely consistent with CP3 and with similar risk mitigations but the scope of regulation will extend to terminal air navigation services at large UK airports from January 2015 onwards.

Comparison between reported profit and regulatory return

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

> lower historical cost depreciation compared with regulatory depreciation which is indexed to enable the replacement of the capital investment base; 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, generally, reported profit is some £100m higher than regulatory return. This regulatory view is set out in NERL's audited published regulatory accounts.

Review of operating costs

The group incurred operating costs of £654.6m (2012: £625.4m).

Staff costs account for 59.7% (2012: 60.2%) of the group's operating costs. These increased by 3.9% on the previous year. Pension charges (before redundancy-related past service cost) were £10.0m higher at £94.6m (2012: £84.6m) mainly due to an increase in the accrual rate to 27.3% (2012: 24.1%), before salary sacrifice, for the defined benefit pension scheme reflecting the scheme's financial position at the start of the year and actuarial assumptions. The remainder of the net increase in employee costs represented wage rises and an increase in headcount to support business growth in NATS Services.

The average number of staff employed during the year was 4,562 (2012: 4,533) and those in post at 31 March 2013 increased by 1.5% to 4,585 (2012: 4,519).

Non-staff costs at £159.4m (2012: £152.0m) increased by 4.9% and included costs associated with higher revenues from Engineering and Other NATS Service lines.

Depreciation, amortisation and impairment charges increased in aggregate to £105.1m (2012: £97.0m) as a full year's charge was incurred for technology introduced during the last financial year (such as iFACTS and Electronic Flight Data). Impairment charges were £0.8m (2012: £4.0m).

	2013	2012
	£m	£m
Staff costs	(390.9)	(376.4)
Services and materials	(77.2)	(77.7)
Repairs and maintenance	(37.9)	(34.1)
External research and development	(0.2)	(0.3)
Other operating charges (net)	(44.1)	(39.9)
	(550.3)	(528.4)
Depreciation and amortisation	(104.3)	(93.0)
Asset impairment charges	(0.8)	(4.0)
Deferred grants	0.8	1.0
Loss on disposal of non-current assets	-	(1.0)
Operating costs	(654.6)	(625.4)

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Financial review

Cont'd

Net finance costs

Net finance costs increased by £8.0m to £53.1m (2012: £45.1m). This included an increase in the market value liability of the index-linked swap, reflecting market expectations of inflation and swap discount rates, and the effect of unwinding the discount on provisions for property re-instatement costs.

Taxation

The tax charge of £42.6m (2012: £37.5m) was at an effective rate of 22.3% (2012: 19.3%). This is lower than the 2012/13 headline rate of corporation tax of 24% due to the deferred tax impact of a reduction in the corporation tax rate to 23% from April 2013, as enacted by the 2013 Finance Bill.

NATS now undertakes business in over 31 countries across the world, though the bulk of its taxes arise in the UK. For each country in which we operate, we organise our operations to pay the correct and appropriate amount of tax at the right time according to the laws of the relevant country and ensure compliance with the group's tax policies and guidelines. The group's tax strategy is reviewed annually by a Tax Committee and covers the application of all taxes, both direct and indirect, to our business including corporation tax, payroll taxes and value added tax.

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

Dividends

During the year the company paid dividends totalling £40.0m (2012: £50.7m).

In May 2013 the Board declared and paid an interim dividend for the year ending 31 March 2014 of £46.5m.

Balance sheet

The group balance sheet can be summarised as follows:

	2013	2012
	£m	£m
Goodwill	351.0	351.0
Tangible and intangible fixed assets	913.3	889.7
Other non-current assets	60.6	49.3
Cash and short-term deposits	228.1	218.2
Derivatives (net)	(145.8)	(126.2)
Pension scheme surplus/(deficit)	14.0	(37.8)
Borrowings	(685.2)	(727.3)
Deferred tax liability	(104.6)	(94.1)
Other net assets	4.5	3.2
Net assets	635.9	526.0

Shareholders' funds increased by £109.9m to £635.9m during the year. This mainly reflects the retained earnings for the year less dividends of £40.0m.

Movements in pensions, cash and borrowings are explained below. Changes in fixed assets reflect the group's capital investment in the year of £128.9m, net of depreciation charges. Other significant changes in the financial position include the movement on derivative financial instruments and changes in the deferred tax liability mainly arising from the change in the pension financial position.

1 Financial review
Cont'd

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2013, measured under international accounting standards and the associated best estimate assumptions, the company's defined benefit scheme was in surplus with assets (of £3,873m) exceeding liabilities (of £3,859m) by £14.0m (2012: £37.8m deficit). The improved funding position was due to growth in the scheme's assets which offset the increase in liabilities, the latter being driven by a reduction in the discount rate from 5.05% to 4.45%. Under IFRS, the discount rate is based on the yield on AA corporate bonds.

The pension funding position under IFRS can be sensitive to certain changes in market conditions which impact on the value of pension scheme assets and/or liabilities (for example, a change in corporate bond yields).

Actuarial valuations at 31 December:

	2012	2009
	£m	£m
Assets	3,527.5	2,793.9
Liabilities	(3,910.1)	(3,145.0)
Deficit	(382.6)	(351.1)

b. Actuarial – funding basis

From January 2011, the group started to pay deficit recovery contributions to the defined benefit scheme under an 11-year recovery plan agreed with the Trustees following their 2009 actuarial valuation. This valuation, which is for funding purposes and uses assumptions including a margin for prudence, gives rise to a different valuation than that disclosed under international accounting standards. It determines the contributions that NATS is required to make to the defined benefit scheme.

The 2009 actuarial valuation reported a deficit of £351.1m (see table). During the year to 31 March 2013 the company paid deficit recovery payments of £25.1m (2012: £24.2m). Before pension salary sacrifice payments of £15.3m and redundancy-related augmentation payments of £1.4m, the group's overall contributions to the defined benefit scheme were £125.6m (2012: £125.6m), equivalent to 45.9% of pensionable pay (2012: 45.5%).

The scheme actuary's latest triennial valuation of the scheme was prepared as at 31 December 2012. This reported a scheme deficit of £382.6m, an increase since the valuation as at 31 December 2009 despite the deficit recovery payments made since 2011 and the subsequent pension changes. This deficit has arisen mainly because the liabilities of the scheme increased significantly in the intervening period as a result of a reduction in real gilt yields, and because there was not a corresponding increase to the value of the assets. The increase in liabilities would have been significantly worse, had mitigating action not been taken by the company to reduce the limit on increases in pensionable pay from RPI + 0.5% to CPI + 0.25%.

Following confirmation of the results of the 2012 actuarial valuation, the Trustees and the company have agreed a revised schedule of contributions and a deficit recovery plan for the period to 31 December 2023. This requires the company to contribute in line with the existing schedule of contributions until 1 January 2015. From 1 January 2015 future service contributions will reduce from 36.7% of pensionable pay (excluding salary sacrifice) to 29.4%, reflecting the revised cap on pensionable pay increases and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Also, from 1 January 2015, annual deficit contributions will be revised and will start at £28.6m, increasing by 2.37% each year. This means that for the period of RP2 (2015 to 2019), contributions will average c. 41% of pensionable pay, compared with c. 46% currently. The lower cap on pensionable pay and change in future service indexation are estimated to avoid contribution increases amounting to c. £280m in RP2, with c. £200m relating to the en route business.

The company also continues to work with Trustees to ensure an appropriate investment strategy is in place, with increasing focus on de-risking the scheme as funding levels improve and thus mitigating future volatility in the funding position.

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Financial review

Cont'd

Funding and treasury management

In May 2012 NERL refinanced its bank facilities with a £275m facility expiring in December 2016.

At 31 March 2013, borrowings were £685.2m (2012: £727.3m). Cash and investments increased to £228.1m (2012: £218.2m). Overall, net debt decreased by £52.0m to £457.1m (2012: £509.1m).

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2012	218.2	(727.3)	(509.1)
Cash flow	10.3	43.6	53.9
Short-term deposits	(0.4)	-	(0.4)
Non-cash movements	-	(1.5)	(1.5)
Balance at 31 March 2013	**228.1**	**(685.2)**	**(457.1)**

Cash flow

Overall, the group's balance of cash and cash equivalents increased by £10.3m in the year to £198.0m (2012: £187.7m).

Net cash flows from operating activities at £255.6m were £31.5m higher than last year (2012: £224.1m) reflecting higher income receipts and lower outflows from operating costs. This enabled the group to finance its capital investment, service its debt obligations and pay dividends to shareholders. Bond repayments were £28.4m (2012: £14.2m) and £12.3m of bank loans were repaid (2012: £28.8m drawn).

	2013 £m	2012 £m
Cash generated from operations	283.2	247.7
Taxation	(27.6)	(23.6)
Net cash from operating activities	**255.6**	224.1
Interest received	1.3	1.4
Capital expenditure (net of costs of disposal)	(128.6)	(121.5)
Investment in associate	(1.4)	(0.3)
Changes in short-term investments	0.4	(14.1)
Net cash outflow from investing activities	**(128.3)**	(134.5)
Interest paid	(34.7)	(35.6)
Interest received on derivative financial instruments	1.3	2.3
Repayment of bond principal	(28.4)	(14.2)
Bank drawings and other loans (net)	(12.3)	28.8
Bank facility and arrangement fees	(2.9)	-
Dividends paid	(40.0)	(50.7)
Net cash outflow from financing activities	**(117.0)**	(69.4)
Increase in cash and cash equivalents	**10.3**	20.2

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Financial review

Cont'd

Principal risks and uncertainties

The operational complexities inherent in the business leave NATS exposed to a number of significant risks. The group has maintained a focus on mitigating those 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 Board believes that the risks and uncertainties described below are the ones that may have the most significant impact on the long-term value of NATS. These risks are re-assessed regularly and reflect the Board's assessment as at the date of this report. The list is not intended to be exhaustive.

The group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. A more detailed summary of our internal control and risk management processes is set out in the Corporate Governance statement on page 64.

The principal operational risks and uncertainties of the group are described at high level in the Chief Executive's business review and above. Specifically, these are:

The risk of aircraft collision

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

Loss of service from an air traffic control centre

A loss of service from a centre would result in a loss of revenues as flow management procedures would be introduced to maintain safety standards. The extent of loss would depend on the time necessary to resume a safe service. To this end NATS has invested in developing contingency arrangements.

Operational systems resilience

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

Pension scheme funding

Adverse movements in pension asset and liability values arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the pension deficit. Management regularly reviews the financial position of the defined benefit scheme and is consulted by Trustees on the design of the risk reduction strategies that are in place. The scheme was closed to new entrants in 2009, pensionable pay rises have been capped for existing members and indexation of future service benefits will be CPI-linked from 1 November 2013. The next formal review of the funding of our defined benefit scheme will take place as part of the triennial valuation as at 31 December 2015.

Industry outlook

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

1 Financial review
Cont'd

Economic regulation of UK Terminal Air Navigation Services (TANS)

As noted above, in May 2013 the DfT accepted the CAA's advice that there is insufficient evidence to demonstrate that the SES market conditions tests for terminal air navigation services at large airports in the UK are satisfied. It is therefore likely that some form of economic regulation will be applied in accordance with the requirements of SES regulations from January 2015 onwards. At present, NATS does not know what form this economic regulation will take although, as a minimum, we expect the CAA to scrutinise TANS charges and costs, and set targets for price reductions. NATS is currently discussing with the CAA and the DfT whether and how the regulations can be implemented in a way that is both compliant with the legal requirements and which encourages the development of competition in the UK market. NATS has also proposed making a number of commitments to address the perceptions of airport operators about the economic barriers operating in the market. The aim of this is to strengthen the evidence in support of the existence of market conditions when the CAA next reviews the UK market, which NATS expects to start in 2018, or potentially earlier.

Key programme and project risks

The complex and unique nature of some of NERL's technology projects create an inherent risk of project overruns, delayed benefits and damage to reputation with customers and other stakeholders. Changes in technology may also arise during the development period. NATS has mature project management processes and industry experts to mitigate this risk.

Electronic and other external threats

NATS has security processes, procedures and risk mitigation plans to address potential electronic and other external threats.

Employee relations

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

Financial risks

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

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

> currency risk: the group's objective is to reduce the effect of exchange rate volatility on earnings. Transactional currency exposures that could significantly impact the income statement are hedged, typically using forward sales of foreign currencies. The group's most significant currency exposure arises because UK en route charges, which contribute 66% (2012: 66%) of total turnover, are set in sterling but are billed and collected in euros by applying a conversion rate determined monthly by EUROCONTROL, which administers the UK en route revenue collection. The resultant currency risk is materially eliminated by entering into forward foreign exchange contracts. At the year end, forward foreign currency transactions entered into to buy and sell sterling, designated as cash flow hedges, equivalent to £125.7m (net) were outstanding (2012: £113.6m (net)) as detailed in note 18.

> interest rate and inflation risk: the group's policy is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. NERL's strategy is to hedge a proportion of net debt in order to reduce its exposure to interest rate risk on its cash holdings. The regulatory charge control conditions that apply to the company's UK and North Atlantic en route services determines a revenue allowance for financing charges that is linked to inflation. To achieve an economic hedge of this income, in August 2003 coincident with the issue of its £600m bond, the company entered into an 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 and pays interest at a rate adjusted for the movement in RPI. The swap does not qualify for hedge accounting under international accounting standards and is classified as held for trading. As such, movements in the fair value are taken to the income statement. As at 31 March 2013 (after derivatives), approximately 91.1% (2012: 89.4%) of NERL's net debt was either at fixed rates or at rates indexed to inflation.

1 Financial review
Cont'd

- counterparty risk: as at 31 March 2013 the group had cash and deposits (shown as short-term investments) totalling £228.1m (2012: £218.2m). To minimise risk, funds may only be invested in high quality liquid investments. Credit risk associated with the investment of surplus funds (and from the use of interest rate and currency hedging derivatives) is managed by setting limits for counterparties based on their credit rating. An aggregate limit has also been established for each counterparty.
- liquidity risk: in addition to undrawn committed bank facilities totalling £139.0m at 31 March 2013, the group had cash and short-term deposits totalling £228.1m. Included in cash of £198.0m is a liquidity reserve account balance held by NERL of £21.3m to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants. The short-term deposit of £30.1m represents a debt service reserve account held by NERL to fund bond principal, interest and fees scheduled for payment in the 6 months ending 30 September 2013. The group's policy is to hold free cash within NERL equivalent to between one and two months of projected UK en route services revenue (being between £49m and £98m for 2013) and to use surplus cash to reduce borrowings. The policy for NATS Services is to hold sufficient cash to fund working capital requirements to finance new business development opportunities in line with targets approved by the Board and to meet pension obligations as they fall due.
- funding risk: the policy of the group is to ensure that committed funding is available at a competitive cost to meet its anticipated needs for the period covered by its business plan. This is achieved by maintaining a portfolio of debt diversified by source and maturity and ensuring it has access to long-term funding to finance its long-term assets. Hence, the group's borrowings include a £600m amortising bond (of which £42.6m had been repaid by 31 March 2013) issued by NERL with a final maturity date of 2026. At 31 March 2013 NERL had bank facilities totalling £275.0m that expire in December 2016.

Going concern

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

The group holds adequate levels of cash and as at 31 March 2013 had access to £139.0m of undrawn committed bank facilities that are available until December 2016. The group's forecasts and projections, which reflect its expectations for CP3 and its initial assumptions for RP2 and taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its existing facilities for the foreseeable future. The UK en route business also benefits from some protections against traffic volume risk afforded by its price control conditions.

Other sources of income are generated mainly from long-term contracts, some of which were renewed in the year. The group also continues to actively make real reductions in the en route underlying operating cost base to meet cost efficiency targets expected to apply in RP2. As a result, the directors believe that the group is well placed to manage its business risks successfully despite the weak economic environment.

The directors have formed a judgement that taking into account the financial resources available to the group, it has adequate resources to continue to operate for the foreseeable future and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2013.

Nigel Fotherby

Nigel Fotherby
Finance Director

1 Corporate responsibility

As a responsible business, we are committed to minimising the environmental impact of air traffic management (ATM) and, by making smarter investments, we are reducing the impact of our own activities on the environment.

6,926

We delivered fuel savings of 6,926 tonnes equivalent to 22,000 tonnes of CO_2 worth £4.5m to our airline customers

As a responsible business, we are committed to minimising the environmental impact of air traffic management (ATM) and, by making smarter investments, we are reducing the impact of our own activities on the environment. Our employees also take great pride in building sustainable links in and around our workplaces to support local communities.

Minimising the environmental impact of ATM

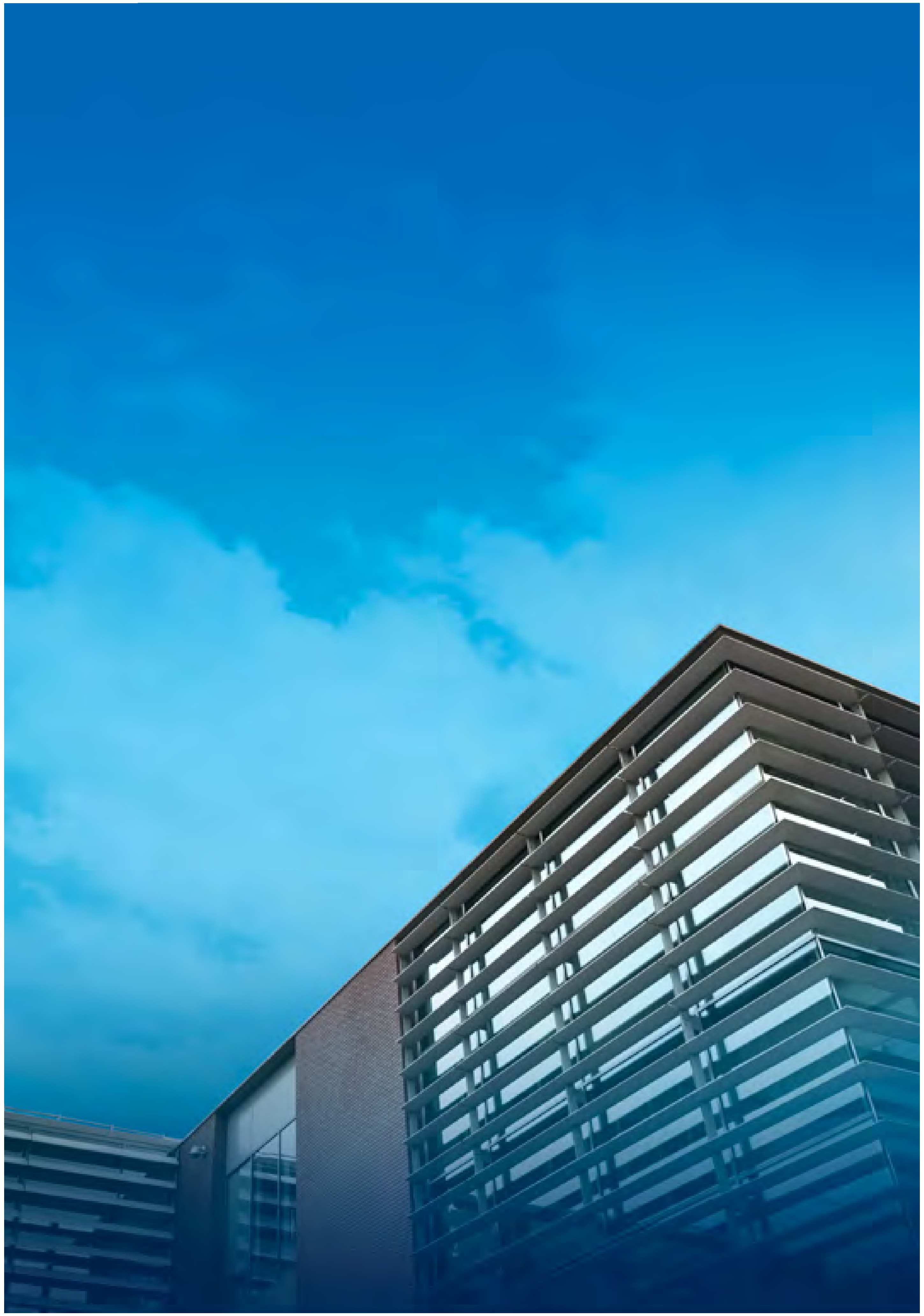
By working with our industry partners to reduce fuel burn, ATM-related CO_2 emissions and noise impacts we are driving towards a more sustainable future for aviation.

In 2008 NATS was the first ATM organisation in the world to set environmental targets for reducing CO_2 emissions. We set a long-term strategic target to reduce emissions by an average 10% per flight by 2020 (from a 2006 baseline) with an interim target to achieve an average 4% per flight reduction by 2015. To date we have enabled a 1.4% reduction in ATM CO_2 emissions across our airspace which is equivalent to c. 110,000 tonnes of fuel per annum against the 2006 baseline, enabling savings of c. £72m each year to airline customers (at fuel prices of £650 per metric tonne).

Our main focus for 2013 was the London Olympics so opportunities to introduce airspace efficiency measures were limited. Nevertheless, through a combination of procedure changes and investments, we delivered fuel savings of 6,926 tonnes equivalent to 22,000 tonnes of CO_2 worth £4.5m to our airline customers. Since 2006 we have achieved cumulative reductions in CO_2 emissions of 800,000 tonnes, equivalent to enabled fuel savings of c. £160m to airlines.

From January 2012, we were the first ANSP to be financially incentivised on the performance of its network with the introduction of a 3D inefficiency score (3Di) which measures on vertical and horizontal trajectories performance against an optimum flight path. The CAA estimates that achieving the 3Di target through CP3 would generate 600,000 tonnes of CO_2 savings compared to historic levels by the end of 2014, worth over £120m to airlines.

By analysing historic performance, the CAA established a par value target against which to measure performance with an incentive bonus or penalty applying if performance is scored 3 points better or 3 points worse than par respectively. For the 2012 calendar year we achieved a 3Di score of 23.9 compared with the par value target of 24.



1 Corporate responsibility
Cont'd

We also focus on making near-term fuel savings through joint initiatives with our customers through the Operational Partnership Agreement (OPA). Challenging annual targets are set by the OPA which count towards our strategic ATM CO_2 target above. These joint initiatives are mostly small scale procedural improvements across our airspace network that deliver fuel savings. For 2013, we were set a target of 4,250 tonnes of fuel saving, with a stretch target of 5,500 and we enabled savings of 6,926 tonnes. For 2014, the OPA has set a target of 12,000 tonnes with a stretch of 18,000.

Achieving our CO_2 target beyond 2015 is heavily dependent upon investment and as such is subject to the outcome of RP2. A focus on achieving lower prices could materially affect those key programmes that enable flight efficiencies, impacting our environmental performance during RP2.

We have also undertaken a number of specific projects during the year to improve environmental performance.

At Edinburgh airport we trialled our Flight Profile Monitoring tool. This tracked aircraft during phases of flight providing airports and airlines with information on the environmental performance of arriving and departing aircraft. The trial has led to an improvement in continuous descent approaches (CDA) for arriving aircraft, enabling fuel savings of at least 160 tonnes per annum (510 tonnes CO_2) representing a £0.1m annual saving to airlines using Edinburgh airport. CDA procedures also reduce community exposure to noise.

We also participated in trials which sought to provide predictive noise respite, rather than noise reduction to the communities around Heathrow airport. Finally working alongside other members of the aviation industry in the UK, Canada and the United States we are seeking to achieve the optimal trajectory for 60 transatlantic flights to achieve minimal emissions and delay. It is expected that each flight will save around 500kg in fuel, equivalent to nearly 1.6 tonnes of CO_2 emissions.

Reducing the impact of our estate

Our direct carbon emissions relate mostly to the fuel and energy we use in operating our air traffic control facilities and infrastructure.

Our overall energy consumption is down by almost 29% since 2006 saving £2.7m per year, and £9m cumulatively. This has been achieved through investing in more energy efficient facilities.

We continue to reduce the amount of waste we generate across our sites and in 2012 (calendar year) 69% was recycled, 19% went to 'waste to energy' plants and just 12% to landfill. Our major projects are also recycling most of the waste they generate: we decommissioned a redundant building next to the new Prestwick Centre and achieved a 92% recycling rate.

Our consolidation into 3 main sites since 2006 has dramatically reduced our water consumption, which is down by 45%.

We are also reducing our commuting footprint by implementing a number of sustainable travel schemes such as car sharing, cycle to work and low emission car schemes.

We are aiming to achieve Environmental Management System (EMS) certification based on ISO 14001 by the end of 2014, underlining our commitment to achieving environmental standards and providing a benchmark for new international business.

1

Corporate responsibility

Cont'd

Supporting charities and communities

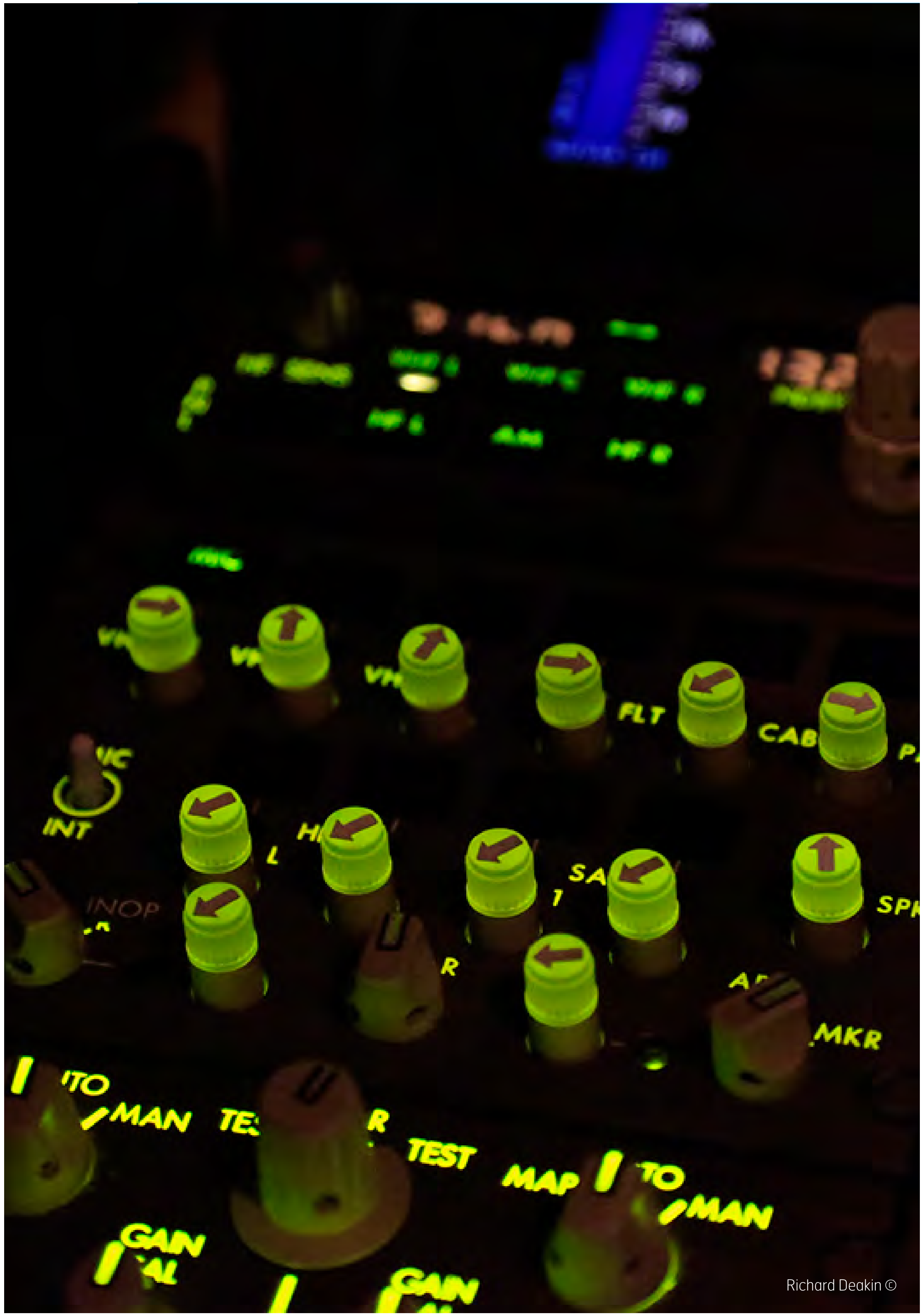
We are sensitive to the needs of people who live and work at, or alongside, our operations. In 2008 we established a social responsibility fund (Footprint Fund) which aims to encourage strong community partnerships, to support local projects and charities, and to support our colleagues with their volunteering, fundraising and environmental endeavours. Our people can apply for funding to support their active involvement with local charities and communities and in 2013 the Footprint Fund donated around £31,000 to some 40 local causes and £19,000 through other means.

Many of our people volunteered their services during the year in support of community and charitable initiatives. Examples include work to conserve and enhance an outdoor education area at a local school, interior improvements for the Rowans Hospice and support to Aerobility[5], the CEO's charity of the year. Aerobility provides people with disabilities the opportunity to fly.

To support staff, we provide a community volunteering team leader's handbook and the NATS Gives community volunteering portal that connects our volunteers together with one another and with volunteering opportunities in the community.

Our people have raised over £50,000 through their own fundraising events. Also over the last couple of years, working with the trades unions, our employees, their families and friends raised £155,000 for Aerobility. These funds bought a specially adapted light aircraft for the charity.

Finally, our staff donated £98,000 to charities they care about in 2013 through the Give As You Earn company payroll scheme. This is £30,000 more than last year.



Richard Deakin ©

5 www.aerobility.com

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Our key performance indicators

We adopt a number of financial and non-financial key performance indicators (KPIs) that enable us to track progress against our business plan objectives and which are relevant to the different activities of our principal operating subsidiaries: NERL and NATS Services. These metrics are also used to set targets for remuneration purposes and so align the interests of managers across the company with our business strategies and the needs of our stakeholders (see Remuneration Committee report, page 74).

NATS' actual performance against financial and non-financial KPIs

Description	As at 31 March 2013	As at 31 March 2012
Financial KPIs		
Management EBITDA[1] – NERL	£316.6m	£291.9m
Management EBITDA[1] – NATS Services	£42.0m	£45.4m

[1] Management earnings before interest, tax, depreciation and amortisation (EBITDA) is stated before exceptional costs, the cost of employee shares, certain variances between actual and budgeted revenues and pension costs, the costs of business development and gains or losses on asset sales. This definition of profit reflects performance that managers are able to control. For the economically regulated business (NERL), the management focus is on meeting service quality, environmental and cost efficiency targets. For NATS Services, the focus of management is on growing the business profitably.

Description	As at 31 March 2013	As at 31 March 2012
Non-financial KPIs		
Safety:		
Category A or B Airprox[2] attributable to NERL or NATS Services	Nil	Nil
Service performance:		
Average delay per flight (seconds) – NERL	1.4	7.3
Attributable delay of > 15 minutes between 05:00 and 08:59 (local time) – NERL	199	1,577
Staff attributable delay (minutes) – NERL	10,006	81,569
Service quality penalties at HAHL airports (% of contract revenue) – NATS Services	0.15%	0.02%
Customer satisfaction score (%) – NERL	82%	81%
Environmental performance:		
Enabled fuel saving (tonnes) – NERL	6,926	25,000

[2] 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.

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Governance

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2 Corporate Governance

Code of best practice

NATS is committed to maintaining the highest standards of corporate governance. The Strategic Partnership Agreement (SPA) between the Secretary of State for Transport, The Airline Group Limited (AG) and Heathrow Airport Holdings Limited (HAHL) (formerly BAA Limited) requires the company and the directors, so far as reasonably practicable in light of the strategic partnership arrangements, to adhere to current best practice in corporate governance. For the financial year ended 31 March 2013 the applicable standard is the 2010 UK Corporate Governance Code (the Code).

Whilst NATS has applied the principles of the Code to the extent considered appropriate by the Board, a number of principles and provisions in the Code are not relevant to the partnership nature of the NATS group ownership. The principal areas where NATS does not comply are summarised below.

Corporate Governance Code A.3.1:

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

Corporate Governance Code A.4.1, B.1:

The arrangements for appointing non-executive directors, as set out in the Strategic Partnership Agreement, are such that none of the directors meet the Code's criteria for independence. This affects NATS' ability to comply with a number of the Code's provisions, including the requirement to appoint a senior independent director. In practice, the Chairman is considered to be the most independent of the directors.

Corporate Governance Code B.2.1, D.2.1:

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

Corporate Governance Code B.3.2:

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

Corporate Governance Code B.7:

The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding group's selection processes, rather than those included in the provisions of the Code. They are therefore not subject to periodic re-election as stipulated by Section B.7 of the Code, although Partnership Directors are appointed by the Government on three-year fixed-term contracts, which is in line with the maximum period between re-election as recommended in B.7.1.

Corporate Governance Code Section E:

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

2 Corporate Governance
Cont'd

The roles of the Chairman and Chief Executive Officer

The Chairman of the NATS group is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the group.

During the year under review the Chief Executive Officer, Richard Deakin, had direct charge of the executive management of the NATS group.

The Board

The Board provides leadership and direction and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets. The Boards of the subsidiary companies are accountable to the NATS Holdings Board for all aspects of their business activities.

During the year under review the Board comprised a non-executive Chairman and twelve directors, made up as follows:

Executive directors

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

Non-Executive directors

- Three Partnership Directors, appointed by the Crown Shareholder;
- Five non-executive directors appointed by AG, including the International Air Transport Association (IATA) representative; and
- One non-executive director appointed by HAHL.

On 1 April 2013 the Managing Director, Operations, Martin Rolfe was appointed to the Board and on 23 May 2013 Warwick Brady was appointed to the Board by AG as a non-executive director, giving a total of four executive directors and ten non-executive directors in addition to the Chairman.

Brief biographies of the directors are provided on pages 84 to 89. All directors have access to the advice and services of the General Counsel and Company Secretary, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the group's expense.

All non-executive directors are considered by the Board to be independent of the company management. As outlined above there is no senior independent director, but the Chairman is in practice regarded as the independent member of the Board to whom concerns can be conveyed by the shareholders. The non-executive directors occasionally meet with the Chairman without the executive directors present, although no such meeting was held on a formal basis during the year.

Shareholders' meetings are held twice a year, linked to the planning and reporting cycles, and provide the principal shareholders with an opportunity to participate in the development of the company's long-term strategy. The two meetings during the year under review were the Annual General Meeting held on 26 July 2012 and a further meeting on 31 January 2013. Shareholders may also meet informally with the Chairman, Chief Executive Officer, Finance Director or other members of the executive management teams upon request.

The Board met nine times during the year with each member attending as follows:

Name	Number of meetings attended
John Devaney	9/9
Richard Deakin	9/9
Nigel Fotherby	9/9
Paul Reid	9/9
Giovanni Bisignani	7/9
Roger Cato	9/9
Baroness Dean of Thornton-le-Fylde	6/9
Barry Humphreys	9/9
Andy Lord	9/9
Peter Read	9/9
Sigurd Reinton	8/9
Nigel Turner	9/9
Andrew White	8/9

2

Corporate Governance

Cont'd

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

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

Partnership and Airline Group directors

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

HAHL director

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

The Board has established five standing committees, operating within approved terms of reference. The committee structure comprises an Audit Committee, Nomination Committee, Remuneration Committee, Safety Review Committee and Technical Review Committee.

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

	Audit	Nomination	Remuneration	Safety Review	Technical Review
No. of meetings	3	1	8	4	4
John Devaney	3/3	1/1			
Roger Cato		1/1		3/4	4/4
Baroness Dean of Thornton-le-Fylde			8/8		
Barry Humphreys			8/8		
Andy Lord			7/8		
Peter Read		1/1		4/4	4/4
Sigurd Reinton	3/3	1/1			
Nigel Turner	3/3				
Andrew White				4/4	4/4

The terms of reference for the Board and its committees are available to all staff and shareholders, and can be made available externally with the agreement of the Company Secretary.

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

A performance evaluation of the Board, its committees and the Chairman was conducted during the year. This Board Effectiveness Review was managed by KPMG LLP using structured questionnaires and interviews with all Board members, and the results were assessed by the Board at its March 2013 meeting.

Executive management

During the year under review, the day-to-day management of the NATS group was the responsibility of the Chief Executive Officer, Richard Deakin, supported by the NATS executive team.

The NATS executive team is responsible for setting NATS' overall strategy, which currently focuses on defending and growing the business whilst improving the organisation's capabilities. In order to achieve these strategic priorities the executive team is currently structured as follows:

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

2 Corporate Governance
Cont'd

Audit Committee

The Audit Committee meets three times per year. It is chaired by the non-executive Chairman John Devaney and Sigurd Reinton and Nigel Turner are the remaining two members of the Committee. The members all have wide-ranging commercial and management experience. Mr Turner has recent, relevant financial experience.

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

Part of each meeting is set aside, if required, for members of the Committee to hold discussions without executive management present.

The duties of the Committee include monitoring the integrity and compliance of the company's financial statements, reviewing the effectiveness of the internal audit department and external auditors, reviewing the scope and results of internal and external audit work and reviewing internal controls and risk management. The Committee also advises on matters relating to the appointment, independence and remuneration of the external auditors and, to ensure independence, monitors the extent of non-audit services provided by the external auditors.

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

Nomination Committee

The Nomination Committee is chaired by the non-executive Chairman John Devaney and comprises three further non-executive directors, Peter Read, Sigurd Reinton and Roger Cato. The Committee may invite executives and advisors to attend meetings as appropriate.

The Committee meets when considered necessary by its members. During the year under review it met once, in February 2013, to discuss the appointment of Martin Rolfe to the Board.

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

Remuneration Committee

The Remuneration Committee of the Board is chaired by Barry Humphreys and comprises two further non-executive directors, Baroness Dean of Thornton-le-Fylde and Andy Lord. The Committee meets when necessary and is responsible for determining the company's policy on directors' remuneration and approving remuneration and incentive payments for senior managers, including the criteria for establishing performance targets. The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current Corporate Governance Code. No director is involved in deciding his or her own remuneration.

The Chief Executive Officer and HR Director are invited to attend meetings of the Committee together with other executives and advisers as appropriate.

Safety Review Committee

The role of the Safety Review Committee is to support the Board in the discharge of its accountabilities for the safe provision of operational air traffic services and for security arrangements in group companies. It meets as a formal committee on a regular basis and additionally undertakes special exercises at the request of the Board. Its remit includes the requirement to monitor and review the effectiveness of the safety arrangements in place in the group, review the delivery of the group's safety objectives through its operations, structures and processes, review the quality of the company's safety performance, and to monitor the implementation of safety enhancement programmes.

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

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

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

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

- Professor James Reason, formerly Professor of Psychology at Manchester University and an expert on human factors; and
- Don Lloyd, vice-president and head of the health, safety, security and environment function for BG Group, and an associate professor in risk management at Brunel University.

2 Corporate Governance
Cont'd

Technical Review Committee

This Committee's role is to support the Board in the monitoring and development of adequate and cost-effective technical systems and services in support of operations. The Committee is chaired by Peter Read and there are two other non-executive directors as members, Andrew White and Roger Cato. The Chief Executive Officer, Managing Director of Operations, and senior technologists are invited to each meeting by standing invitation.

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

- Dr Nigel Horne, a former interim Director of Engineering at NATS who also held senior positions within GEC plc, KPMG and Alcatel Ltd;
- Roger Graham, former Chairman and CEO of the BIS Group and an adviser to companies in the internet sector; and
- David Mann, former CEO and Deputy Chairman of Logica Group.

The Board was sorry to learn that Nigel Horne passed away during the year, his contribution will be missed.

Financial reporting and internal control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness. This system was in place for the year under review and up to the date of approval of the Annual Report and Accounts.

The NATS system of internal control is designed to ensure that the significant financial, operational, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. As with all such systems, controls can provide reasonable but not absolute assurance against misstatement or loss.

Risk management

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

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

The Board formally reviews the 'Top Risks' to NATS and the risk management process on a rolling basis. This is complemented by detailed risk identification at divisional level which is recorded and measured in a controlled and managed enterprise-wide database.

The Audit Committee and Board have assessed the group's 'Top Risks' and performance against these during the year ended 31 March 2013 and agreed actions for the 'Top Risks' for the year ending 31 March 2014. Reports to the Audit Committee on the process of risk management and internal control are supplemented by regular monthly reporting to the Managing Director Operations, Managing Director Services, and the NATS executive team which address business controls and the progress of mitigating actions associated with NATS' risks.

The company's Internal Audit Department reviews the controls in place to manage NATS' business risks, which includes reviews of internal financial control. The results of audits and action plans are reported as appropriate to relevant board directors, executive members, senior managers, and local managers.

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

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

Safety

NATS has an industry-leading safety management system and an embedded safety culture. There is also an objective of continuous improvement in safety performance. NATS' safety objectives, targets, performance and strategic actions to achieve the objectives are all detailed in a Strategic Plan for Safety.

Non-audit work performed by the external auditor

From time-to-time the external auditor performs non-audit services for the group. Part of the Audit Committee's remit is to ensure that such engagements do not impair the auditor's objectivity or independence. The principal non-audit services performed by Deloitte LLP in the year ended 31 March 2013 were advice in connection with NATS' new Low Emissions Car Scheme and certification of certain expenditure incurred in relation to work undertaken by NATS for the European Commission. Details of the cost of these services are set out in note 6 of the Notes forming part of the consolidated accounts.

2 Remuneration Committee report

This report has been prepared by the Remuneration Committee and approved by the Board.

Information not subject to audit

Membership and responsibilities of the Remuneration Committee

The Remuneration Committee is comprised entirely of non-executive directors: Barry Humphreys (Chairman), Baroness Brenda Dean and Andy Lord.

Where appropriate, the Committee takes advice on specific issues from the Chief Executive Officer, the HR Director and independent consultants. The independent consultants advising the Committee are Kepler Associates, who have no other connection with the Company. Kepler Associates supported the Committee with its review of performance incentive plan arrangements.

The Committee met eight times in 2012/13 and is responsible for:

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

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

> considering and approving a statement of remuneration policy;

> confirming details of the remuneration of each director for inclusion in the annual report and accounts; and

> confirming pay packages for executive team members.

Performance management

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

Managers' rewards are related not only to what they achieve but to how they achieve it through their people (informed by an Employee Opinion Survey). Managers understand that they are expected to achieve outstanding results to gain substantial payment of performance related incentives.

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

Policy on pay

It is the company's policy to establish and maintain competitive pay rates that take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers. In fulfilling this policy, the company fully embraces the principles of and complies with the provisions of the UK Corporate Code on directors' remuneration as outlined below.

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

2

Remuneration Committee report

Cont'd

Remuneration principles

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

> target performance levels must be stretching and in line with the Board's agreed business plans and strategic growth agenda;

> the Committee sets Performance Incentive Scheme targets taking into account approved business plans for the Annual Remuneration Plan to support the Board's strategic growth plans for NATS;

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

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

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

> the remuneration of each position is reviewed periodically to ensure the total overall remuneration package is appropriate and in keeping with the Committee's intention to ensure relativity and that it takes into account an employee's overall performance, their specific individual contribution and experience, market competitiveness and pay awards elsewhere in the group.

Employment contracts

Richard Deakin's employment contract provides for 12 months' notice in the event of termination by the company. Martin Rolfe was appointed a director of NATS Holdings Limited on 1 April 2013 and his employment contract provides for 12 months' notice in the event of termination by the company. Nigel Fotherby and Paul Reid have employment contracts which provide for 6 months' notice from the company.

John Devaney has a fixed-term contract with 6 months' notice and a long-stop termination date of 1 July 2014 to comply with the UK Corporate Code limitation of 9 years' service for a Chairman.

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

Remuneration packages

The remuneration package for executive directors is reviewed each year and consists of annual salary; pension and life assurance; annual and long-term performance related incentive schemes; All Employee Share Ownership Plan; company car or car allowance; and medical insurance. Their annual performance related incentive scheme is consistent with the overall performance related incentive scheme for all Personal Contract Group staff (see below). For executive directors the Long-Term Incentive Plan is based 75% on financial performance and 25% on achievement against strategic objectives assessed over a rolling three year period.

Full details of directors' remuneration for 2012/13 are set out on page 80.

2 Remuneration Committee report
Cont'd

Salaries

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

Charges for the services of the non-executive director appointed by HAHL and for the Partnership Directors are based on market comparatives and each received £36,000 in the financial year. AG directors received no remuneration for their services to the NATS Board. However, a payment of £180,000 per annum (equivalent to £36,000 each for the services of five directors) is made direct to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

Pensions and life assurance

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

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

Non-executive directors do not participate in CAAPS.

Company performance related incentive schemes

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

> ensure rigour and differentiation in the system of performance related incentive scheme rewards; and

> drive up management performance.

The annual performance related incentive scheme opportunity is set at a range of levels for Personal Contract Group staff depending on role, responsibilities and accountabilities; generally in the range from 15% to 45% of salary (70% for the CEO). For the group in general, 40% of the performance related incentive scheme is determined by company performance on key targets and the remaining 60% is dependent on individual performance against targets and leadership behaviours. For directors of the company and members of the executive team, more weighting is given to company performance: 75% with 25% dependent on personal performance. The scheme incorporates an overarching event clause whereby a reduced or zero payment will be made if there has been an incident which is sufficiently serious, in the view of the majority of the non-executive Board members, to justify such action.

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

Employee Share Plan

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

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

Richard Deakin currently holds 800 shares, Nigel Fotherby holds 2,777 shares and Paul Reid holds 2,777 shares.

The current HM Revenue and Customs approved valuation, for the period 1 January 2013 to 30 June 2013, values the shares at 395p each.

Barry Humphreys

2 Remuneration Committee report
Cont'd

Audited information

Directors' remuneration

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

		Salary or fees* £000	Benefits* £000	Performance related payments* £000	Total 2013* £000	Total 2012* £000
Chairman						
John Devaney		160	-	-	160	160
Executive directors						
Richard Deakin		397	20	303	720	736
Nigel Fotherby		262	12	118	392	583
Paul Reid	1	231	11	95	337	232
Non-executive directors						
Baroness Dean of Thornton-le-Fylde		36	-	-	36	36
Sigurd Reinton		36	-	-	36	36
Andrew White		36	-	-	36	36
Barry Humphreys	2	-	-	-	-	-
Andy Lord	2	-	-	-	-	-
Peter Read	2	-	-	-	-	-
Nigel Turner	2	-	-	-	-	-
Giovanni Bisignani	2	-	-	-	-	-
Roger Cato		36	-	-	36	36
Former directors						
Ian Mills		-	-	-	-	731
		1,194	43	516	1,753	2,586

* For year, or from date of appointment or up to date of resignation.
1 With reference to the prior year comparative, Paul Reid was appointed to the Board on 30 June 2011, accordingly his 2012 emoluments up to this date are not included within the table above.
2 These directors are appointed by The Airline Group (AG) who charged NATS a total of £45,000 per quarter (2012: £45,000 per quarter) for the services of the directors.

Martin Rolfe was appointed to the Board on 1 April 2013 and Warwick Brady was appointed on 23 May 2013. Their emoluments from these dates will be disclosed in the Annual Report and Accounts for the year ending 31 March 2014.

Audited information

Directors' remuneration (continued)

Interests of the directors in long-term incentive schemes:

From April 2011, the company established a rolling three year Executive Long-Term Incentive Plan (LTIP), entitling the executive directors to performance related pay contingent on achieving a set of financial and strategic targets. The first cycle commenced in 2011 and will pay out in 2014; the second commenced in 2012 and will pay out in 2015; and the final cycle of the current agreement commences in 2014 concluding in 2016.

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

Richard Deakin	90.0%
Nigel Fotherby	62.5%
Paul Reid	62.5%

The outcome of the LTIP is not known until the end of each cycle. Accordingly, the emoluents table will reflect amounts when paid in relation to each cycle.

In addition, and as disclosed in last year's Annual Report and Accounts, Richard Deakin was entitled to £143,250 under a long-term incentive plan which vested on 31 March 2011, and was paid in April 2013.

Pensions of the directors who were members of the CAA Pension Scheme were as follows:

		Accrued entitlement at 31 March 2012 £000	Real change in accrued pension £000	Inflation £000	Accrued entitlement at 31 March 2013 £000	Transfer value at 31 March 2013 £000	Transfer value at 31 March 2012 £000	Director's contributions in year £000	Cost of benefits accrued during year £000
Executive directors									
Nigel Fotherby	1	49	6	1	56	1,560	1,315	-	148
Paul Reid	1, 2	84	-	1	85	1,761	1,638	-	(29)
		133	6	2	141	3,321	2,953	-	119

1 The NATS section of the Civil Aviation Authority Pension Scheme operates a salary sacrifice arrangement which commenced on 1 April 2009. The directors are members (or were members) of this arrangement and so have not directly paid contributions to the Scheme.
2 Paul Reid ceased to be an active member of the pension scheme on 5 April 2012.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme. The movement in transfer values in the year reflects changes in market conditions (interest rates and inflation) used to value pension obligations.

Richard Deakin is a member of the company's defined contribution pension scheme, whose terms are explained in note 27 to the financial statements. The company paid contributions of £130,655 and Richard sacrificed salary of £65,328 to the defined contribution pension scheme in the year. As disclosed in last year's accounts, this included paying contributions in line with Richard's contractual entitlement of £47, 515 and Richard sacrificing salary of £23,758 to the defined contribution scheme, relating to the period since Richard joined the company on 1 March 2010 to 31 December 2011.

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's All Employee Share Ownership Plan. No shares were sold by directors during the year.

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Remuneration Committee report
Cont'd

Audited information

Directors' remuneration (continued)

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

	Date from which exercisable: Exercisable (brought forward)	17/09/2014 (brought forward)	28/02/2016 (brought forward)	Exercisable (granted in year)	25/09/2017 (granted in year)	Total holding (number of shares)	Value at 31 March 2013 (at £3.95 each) £	Value at 31 March 2012 (at £3.95 each) £
Name of director								
Richard Deakin	200	-	200	200	200	800	3,160	1,580
Nigel Fotherby	1,977	200	200	200	200	2,777	10,969	9,389
Paul Reid	1,977	200	200	200	200	2,777	10,969	9,389
	4,154	400	600	600	600	6,354	25,098	20,358

In September 2011 employees including executive directors were offered the option to participate in an award of up to 200 partnership shares each at fair value (the lower of the share price at the start of and the end of the accumulation period, being £3.55 per share) by deductions from gross salary over a 12 month accumulation period which ended August 2012. Participants also received one free matching share for every partnership share purchased. Partnership shares were granted in September 2012 and the related matching shares vest in September 2017.

The executive directors received dividends based on their shareholdings as of May and November 2012.

Richard Deakin ©

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Directors of NATS Holdings Limited

The directors of the company at 27 June 2013 were:

John Devaney

John joined the Board in July 2005 and was appointed Chairman with effect from 1 September. He is also Chairman of Cobham plc and Tersus Energy plc.

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

Richard Deakin

Richard was appointed as Chief Executive Officer of NATS on 1 April 2010. He was previously Senior Vice President of Thales Group's Air Systems Division based in Paris and, before that, was Managing Director of Thales Group's Aerospace Division in the UK. Richard has over 25 years' experience of major programmes in the aerospace and defence industry sector with BAE Systems, TRW Aeronautical Systems, GKN Aerospace Services and Thales Group.

A Chartered Engineer, Richard holds a first-class honours degree in Aeronautical Engineering from Kingston University and an MBA from Cranfield School of Management. He is also a Fellow of the Royal Aeronautical Society, and was awarded an Honorary Doctorate in Engineering from Kingston University in January 2007.

Nigel Fotherby

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

Paul Reid

Paul has over 23 years experience in air traffic management and was appointed NATS Services' Managing Director in April 2010, with responsibility for the Airports, Consultancy, Defence, Engineering and Information service lines, both in the UK and overseas.

After graduating from the air traffic college as top cadet Paul worked as an air traffic controller at both Glasgow and Heathrow airports. Having progressed into management he has held a number of senior positions within NATS including General Manager roles at London City airport, Gatwick airport and the Swanwick air traffic control centre and more recently Chief Operating Officer.

Martin Rolfe

Martin was appointed NATS Operations Managing Director in March 2012, with responsibility for NATS' economically regulated UK and North Atlantic services.

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

2

Directors of NATS Holdings Limited

Cont'd

Giovanni Bisignani

Giovanni served as Director General and CEO of the International Air Transport Association (IATA) from June 2002 to July 2011. During his tenure with IATA he completely restructured the Association to increase its relevance and speed in driving a broad agenda for industry change. He is also a member of the Board and Strategic, Remunerations and Nominating committees of SAFRAN Group.

Giovanni's airline experience includes five years at the helm of Alitalia as CEO and Managing Director, during which time he also served on the IATA Executive Committee and was Chairman of AEA (Association of European Airlines). Prior to joining IATA, he launched and directed Opodo – the first European airline-owned online travel agency. He has been a member of the Pratt & Whitney Advisory Board and Chairman of the global distribution services provider Galileo International. During his business career, Giovanni has held various high level responsibilities at the energy company ENI and the Italian industrial conglomerate IRI Group. He served as President of Tirrenia di Navigazione the largest Italian ferry company and as CEO and Managing Director of SM Logistics, a group of logistics and freight forwarding companies, partly owned by GE Capital. He is currently a Visiting Professor at Cranfield University – School of Engineering.

Peter Read

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

Warwick Brady

Warwick is currently Chief Operations Officer responsible for easyJet's operations. He joined easyJet in May 2009 as the Procurement Director responsible for fleet management, airport central procurement and regulation. In October 2010 he was appointed Director of Group Operations. He has extensive airline and broad business experience at senior level within the aviation sector. He has led and managed high growth low cost airlines, early start-ups as well as restructuring. Before joining easyJet Warwick was the CEO at Mandala Airlines in Asia where he turned a legacy brand into a modern, low cost carrier with an all Airbus fleet. He also spent two years as Chief Operating Officer of Air Deccan/Kingfisher with commercial and operational accountability. Air Deccan at the time was India's second largest airline and during this time he was instrumental in listing the company on the Bombay stock exchange. Prior to this Warwick was Deputy Operations Director at Ryanair from 2002 to 2005, where he held various senior roles including Deputy CEO of Buzz, following its acquisition from KLM.

Barry Humphreys

Barry spent his early career with the UK Civil Aviation Authority and at the time of his departure was Head of Air Services Policy. He retired in 2009 as Director of External Affairs and Route Development for Virgin Atlantic Airways. Barry is a Fellow of the Royal Aeronautical Society and formerly of the Chartered Institute of Logistics and Transport and the Tourism Society. He is currently an aviation consultant and the Chairman of the British Air Transport Association. He is also a director of AG. Among his charity work Barry is a trustee of the Loomba Trust and Chairman of the Advisory Council and Board member of Airlink Inc.. Barry chairs the Remuneration Committee and is a director of NATS Employee Sharetrust Limited.

Andy Lord

Andy graduated from Manchester University in 1992 with an honours degree in Mechanical Engineering, having joined British Airways in 1989 as part of the airline's sponsored Engineering Undergraduate programme. On completing his apprenticeship, Andy held a number of technical and design engineer positions before moving to Flight Operations in 1996. He has worked overseas and throughout the UK and is still the only non-flying manager in BA's history to have held the position of Chief Pilot. He moved to Operations in 2004.

Andy was appointed Director of Operations in January 2009. He is responsible for the delivery of customer service at all airports worldwide, excluding Gatwick, for the control and performance, safety, compliance and IT systems of the worldwide operation, and corporate business resilience. He is a non-executive Board member of BA CityFlyer and a director of AG. Andy is a member of the Remuneration Committee.

Nigel Turner

Nigel rejoined the Board at the beginning of 2008. He was with bmi for over 20 years and was appointed as Chief Executive Officer in 2004 having previously held a number of senior positions within the company. Before joining bmi he worked for Next and Northern Foods. Nigel stood down as Deputy Chairman in April 2012 when bmi was purchased by BA. Nigel is also Deputy Chairman of Jetscape an American based operating lessor. Nigel was a main Board director of NATS from 2001 until the end of 2003 and was involved in AG's purchase of its controlling stake in the business. Nigel is a member of the Audit Committee and the Treasury Committee.

2 Directors of NATS Holdings Limited
Cont'd

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

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

Sigurd Reinton

Sigurd is a non-executive director of Monitor, the independent regulator of NHS healthcare providers. He was Chairman of the London Ambulance Service NHS Trust for 10 years until 2009 and before that of Mayday University Hospitals NHS Trust. He was a member of the Board of the Ambulance Services Network of the NHS Confederation and a member of the Advisory Board of The Foundation. He was a member of the Council of the NHS Confederation from 1998 to 2007 and was the lead for London. He was previously a Director (senior partner) at McKinsey & Company. An instrument rated private pilot, Sigurd is a member of the Audit Committee and the Nomination Committee and chairs the NATS Stakeholder Council.

Andrew White

Andrew enjoyed a full career in the Royal Air Force, rising to the rank of Air Vice Marshal. Prior to his retirement from the service in 2006, Andrew had responsibility for managing one third of the Royal Air Force's front line assets, including all military air traffic control in the UK. He was also a member of the Strike Command Management Board. After leaving the RAF Andrew became the CEO of the National Security Inspectorate: he retired from this position in December 2010. Andrew continues to fly as a RAF Reserve pilot. Andrew chairs the Safety Review Committee and is a member of the Technical Review Committee.

Roger Cato

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

Officers

Richard Churchill-Coleman

Richard is General Counsel and Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 20 years experience of working in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express. Richard is a Member of the Royal Aeronautical Society.

2
Report of the directors

The directors present their annual report on the affairs of the group, together with the financial statements and the auditor's report for the year ended 31 March 2013. The Corporate Governance statement, which has not been subject to audit, is set out on pages 64 to 73 and forms part of this report.

Principal activities and business review

The company was established as a holding company to effect the transfer of ownership of NATS from the CAA to the Strategic Partners under the Public Private Partnership (PPP). Initially the company was wholly owned by the Crown. At completion of the PPP the Crown sold 46% of the company to a strategic partner, The Airline Group (AG), and transferred 5% to employees under a share scheme. On 19 March 2003 the group underwent a financial restructuring which resulted in Heathrow Airport Holdings Limited (formerly BAA Limited) acquiring a 4% shareholding in the company with AG's shareholding reducing to 42%. The company does not trade and has no employees or land and buildings.

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

Reviews of the group's activities, including key performance indicators and comments on principal risks and uncertainties, during the year and of future developments are given in the Chairman's statement on pages 9-12 and the Business and financial review on pages 13-60.

Use of financial instruments

The company's operating subsidiaries, NATS (En Route) plc and NATS (Services) Limited, use financial instruments to manage financial risk. The accounting policies and notes to the financial statements explain the financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Results and dividends

The group's results for the year are shown in the income statement on page 98. During the year interim dividends of £30.0m (20.97 pence per share) and £10.0m (6.99 pence per share) were approved (2012: £50.7m). The Board recommends a final dividend for the year of £nil (2012: £nil).

In May 2013, the Board approved and the company paid an interim dividend of £46.5m (32.51 pence per share) for the year ending 31 March 2014.

Charitable donations

The group made aggregate donations of £49,867 (2012: £72,081).

Employees

The group continues its commitment to the involvement of employees in the decision making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company work groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS CEO maintains high visibility with staff through visits to NATS sites where he talks to them about current business issues and takes questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the 'Working Together' programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the trades unions.

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

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

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

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

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 2006 is 32 days (2012: 38 days).

Going concern and subsequent events

The directors' assessment of going concern is explained in the financial review on page 38. Subsequent events are disclosed in note 30 to the financial statements.

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Report of the directors

Cont'd

Directors and their interests

The directors of the company as at 27 June 2013 are set out on pages 84 to 89.

Martin Rolfe was appointed an executive director on 1 April 2013 and Warwick Brady was appointed a non-executive director on 23 May 2013. All other directors served throughout the year.

The interests of the directors in the share capital of the parent company, through their participation in the Employee Share Plan, are set out on page 82.

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

Directors' responsibilities

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

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

> properly select and apply accounting policies;

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

> provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

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

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

Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation 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.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint Deloitte will be proposed at the Annual General Meeting.

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

Richard Churchill-Coleman
Secretary
27 June 2013

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

Registered in England and Wales
Company No. 04138218

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

We have audited the financial statements of NATS Holdings Limited for the year ended 31 March 2013 which comprise the group income statement, the group and company balance sheets, the group statement of comprehensive income, the group cash flow statement, the group and company statements of changes in equity and the related notes 1 to 30 of the group and 1 to 8 of the parent company. The financial reporting framework that has been applied in their preparation is applicable law and 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 auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

> give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit and the parent company's result 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 group financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also 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 part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006; and

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

Matters on which we are required to report by exception

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

> adequate accounting records have not been kept by the parent company; or

> the parent company financial statements and the part of the Remuneration Committee report to be audited 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.

John Clennett
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Southampton, United Kingdom
27 June 2013

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Financial Statements

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3 Consolidated Financial Statements

Consolidated income statement
for the year ended 31 March

	Notes	2013 £m	2012 £m
Revenue	4	899.6	864.9
Staff costs	7	(390.9)	(376.4)
Services and materials		(77.2)	(77.7)
Repairs and maintenance		(37.9)	(34.1)
External research and development		(0.2)	(0.3)
Depreciation, amortisation and impairment	6	(105.1)	(97.0)
Loss on disposal of non-current assets		-	(1.0)
Other operating charges		(44.1)	(40.5)
Other operating income		-	0.6
Deferred grants released	6	0.8	1.0
Net operating costs		(654.6)	(625.4)
Operating profit	6	245.0	239.5
Share of results of associates and joint ventures	29	(1.2)	0.1
Investment revenue	8	4.8	5.3
Finance costs	9	(57.9)	(50.4)
Profit before tax		190.7	194.5
Tax	10	(42.6)	(37.5)
Profit for the year attributable to equity shareholders		148.1	157.0

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

Consolidated statement of comprehensive income
for the year ended 31 March

	Notes	2013 £m	2012 £m
Profit for the year after tax		148.1	157.0
Other comprehensive income /(expense)for the year net of tax			
Actuarial gain/(loss) on defined benefit pension scheme		1.4	(144.7)
Change in fair value of hedging derivatives		0.9	3.7
Transfer to income statement on cash flow hedges		(0.1)	(3.3)
Deferred tax relating to components of other comprehensive income/(expense)	21	(0.4)	36.8
		1.8	(107.5)
Total comprehensive income for the year attributable to equity shareholders		149.9	49.5

3 Consolidated Financial Statements
Cont'd

Consolidated balance sheet
at 31 March

	Notes	2013 £m	2012 £m
Assets			
Non-current assets			
Goodwill	12	351.0	351.0
Other intangible assets	13	286.8	261.8
Property, plant and equipment	14	626.5	627.9
Interest in associates and joint ventures	29	1.2	1.0
Retirement benefit asset	27	14.0	-
Trade and other receivables	15	59.4	48.3
		1,338.9	1,290.0
Current assets			
Trade and other receivables	15	183.1	162.9
Short-term investments	18	30.1	30.5
Cash and cash equivalents	18	198.0	187.7
Derivative financial instruments	17	1.6	0.3
		412.8	381.4
Total assets		1,751.7	1,671.4
Current liabilities			
Trade and other payables	19	(127.4)	(123.5)
Current tax liabilities		(18.8)	(13.9)
Borrowings	16	(27.2)	(176.7)
Provisions	20	(2.4)	(5.9)
Derivative financial instruments	17	(0.8)	(0.4)
		(176.6)	(320.4)
Net current assets		236.2	61.0
Non-current liabilities			
Trade and other payables	19	(23.6)	(16.1)
Borrowings	16	(658.0)	(550.6)
Retirement benefit obligations	27	-	(37.8)
Deferred tax liability	21	(104.6)	(94.1)
Provisions	20	(6.4)	(0.3)
Derivative financial instruments	17	(146.6)	(126.1)
		(939.2)	(825.0)
Total liabilities		(1,115.8)	(1,145.4)
Net assets		635.9	526.0
Equity			
Called up share capital	22	140.6	140.6
Share premium account	23	0.4	0.4
AESOP reserve		(0.3)	(0.3)
Hedge reserve		0.5	(0.2)
Other reserves		(34.7)	(34.7)
Retained earnings		529.4	420.2
Total equity		635.9	526.0

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 27 June 2013 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

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

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	AESOP reserve £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2011	140.6	0.4	(0.3)	(0.5)	(34.7)	421.7	527.2
Profit for the year	-	-	-	-	-	157.0	157.0
Other comprehensive income/(expense) for the year	-	-	-	0.3	-	(107.8)	(107.5)
Total comprehensive income for the year	-	-	-	0.3	-	49.2	49.5
Dividends paid	-	-	-	-	-	(50.7)	(50.7)
At 31 March 2012	140.6	0.4	(0.3)	(0.2)	(34.7)	420.2	526.0
At 1 April 2012	140.6	0.4	(0.3)	(0.2)	(34.7)	420.2	526.0
Profit for the year	-	-	-	-	-	148.1	148.1
Other comprehensive income for the year	-	-	-	0.7	-	1.1	1.8
Total comprehensive income for the year	-	-	-	0.7	-	149.2	149.9
Dividends paid	-	-	-	-	-	(40.0)	(40.0)
At 31 March 2013	140.6	0.4	(0.3)	0.5	(34.7)	529.4	635.9

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

3 Consolidated Financial Statements

Cont'd

Consolidated cash flow statement

for the year ended 31 March

	Notes	2013 £m	2012 £m
Net cash from operating activities	24	255.6	224.1
Cash flows from investing activities			
Interest received on short-term investments		1.3	1.4
Purchase of property, plant and equipment and other intangible assets		(128.7)	(121.3)
Proceeds/(cost) of disposal of property, plant and equipment		0.1	(0.2)
Investment in joint venture		(1.4)	(0.3)
Changes in short-term investments		0.4	(14.1)
Net cash outflow from investing activities		(128.3)	(134.5)
Cash flows from financing activities			
Interest paid		(34.7)	(35.6)
Interest received on derivative financial instruments		1.3	2.3
Repayment of bond principal		(28.4)	(14.2)
Bank and other loans		(12.3)	28.8
Bank facility arrangement fees		(2.9)	-
Dividends paid		(40.0)	(50.7)
Net cash outflow from financing activities		(117.0)	(69.4)
Increase in cash and cash equivalents during the year		10.3	20.2
Cash and cash equivalents at 1 April		187.7	167.5
Cash and cash equivalents at 31 March		198.0	187.7
Net debt (representing borrowings net of cash and short-term investments)		(457.1)	(509.1)

3 Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 93. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Business and financial review.

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

2. Accounting policies

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

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 53. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation. In the current year, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Amendments to IFRS 7: *Financial Instruments: Disclosures* – the group has applied the amendments to IFRS 7 in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred but the transferor retains some level of continuing exposure in the asset.

There are no additional disclosures required by applying this amendment.

The group has applied the amendments to IFRS 7 (amended) titled *Disclosures – Offsetting Financial Assets and Financial Liabilities*. The amendments to this standard require an entity to disclose additional information about the rights to offset financial asset and financial liability balances and any related arrangements for financial instruments.

The impact of the application of this amendment to this standard has resulted in no material disclosures in the financial statements.

Amendments to IAS 12: *Income Taxes* – the group has applied the amendments to IAS 12 (December 2010) titled *Deferred Tax: Recovery of Underlying Assets*. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40: *Investment Property*. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than sale.

The group does not hold any investment property and as such this has not impacted the amounts reported in the financial statements in relation to deferred tax assets and liabilities.

3 Notes forming part of the consolidated accounts

Cont'd

Amendments to IAS 32: *Financial Instruments: Presentation* – the group has applied the amendments to IAS 32 (amended) titled *Offsetting Financial Assets and Financial Liabilities*. The amendments to IAS 32 clarifies that the legally enforceable right to offset financial assets and financial liabilities must exist today and cannot be contingent on the occurrence of future events. There is also clarification as to the definition in IAS 32 of simultaneous realisation and settlement of financial assets and financial liabilities, essentially a settlement process would meet the requirements for offsetting if the financial asset and financial liability are to be settled simultaneously or net.

The impact of the application of these amendments to this standard has resulted in no material disclosures in the financial statements.

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 1 (amended): *Government Loans*

Annual Improvements to IFRSs (2009 - 2011)

IFRS 9: *Financial Instruments*

IFRS 10: *Consolidated Financial Statements*

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

IFRS 11: *Joint Arrangements*

IFRS 12: *Disclosure of Interests in Other Entities*

IFRS 13: *Fair Value Measurement*

IAS 27 (revised): *Separate Financial Statements*

IAS 28 (revised): *Investments in Associates and Joint Ventures*

IFRIC 20: *Stripping Costs in the Production Phase of a Surface Mine*

IAS 19: *Employee Benefits (2011)*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods, except as follows:

IFRS 9: *Financial Instruments* – will impact the measurement and disclosures of financial instruments.

IFRS 12: *Disclosure of Interests in Other Entities* – will impact the disclosure of interests that the group has in other entities.

IFRS 13: *Fair Value Measurement* – will impact the fair value of certain assets and liabilities as well as the associated disclosures.

IAS 19: *Employee Benefits (2011)* – will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating segments

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

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

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

Operating profit

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is recognised as follows:

- income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NATS (En Route) plc's air traffic services licence (including volume risk sharing, service performance incentives and inflation adjustments) and airport contracts and other contracts. Amounts receivable include revenue allowed under the charge control conditions of the air traffic services licence and EC Charging Regulations;
- sales of goods are recognised when they are delivered and title has passed;
- dividend income is recognised when the shareholder's rights to receive payment have been established; and
- interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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Goodwill

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other items are classified as operating leases. The group does not have any finance leases.

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

Property, plant and equipment

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

> leasehold land: over the term of the lease

> freehold buildings: 10-40 years

> leasehold buildings: over the remaining life of the lease to a maximum of 20 years

> air traffic control systems: 8-15 years

> plant and other equipment: 3-15 years

> furniture, fixtures and fittings: 10 years

> vehicles: 5-8 years.

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

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

Borrowing costs

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

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

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

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

Deferred grants and other contributions to property, plant and equipment

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

Investments in associates and joint ventures

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

The results, assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in associates and joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate or joint venture, less any impairment in the value of individual investments.

Non-current assets held for sale

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

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

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Internally-generated intangible assets – research and development expenditure

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

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

> an asset is created that can be identified;

> it is probable that the asset created will generate future economic benefits; and

> the development cost of the asset can be measured reliably.

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Emissions allowances

Consistent with the withdrawal of IFRIC 3, emissions allowances previously recognised at a valuation are now recognised at cost. Emission 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 emission certificates) of the recognised emission certificates. If there is an obligation that is not covered by allowances already on the balance sheet, the corresponding provision made is measured at current market prices.

Amounts recoverable on contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been, or are more likely than not to be, agreed with the customer.

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

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

Share-based payment

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

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

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

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax in the income statement is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Under the Finance Bill 2012 which was enacted on the 17 July 2012,

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the corporation tax rate was reduced to 23% with effect from 1 April 2013. It is the Government's intention that legislation will be introduced in the Finance Bill 2013 to reduce the main rate of corporation tax to 21% for the financial year commencing 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. As the further reductions in UK corporate tax rates have not been substantively enacted at the balance sheet date, this is considered a non-adjusting event in accordance with IAS 10 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

Foreign currency translation

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

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

Retirement benefit costs

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. 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 the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 27. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

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

Financial assets

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

- loans and receivables;
- financial assets at fair value through the profit and loss;
- available for sale financial assets; and
- held to maturity investments

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets are rigorously assessed for indicators of impairment at half year and year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit and loss

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

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

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

Effective interest method

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

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Equity

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

Derivative financial instruments and hedging activities

The group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 17 and 18 to the accounts.

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

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

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

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

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

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

3. Critical judgements and key sources of estimation uncertainty

Impairment of goodwill, intangible and tangible assets

In carrying out impairment reviews of goodwill, intangible and tangible assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections and assessing net realisable values. These include air traffic growth, service performance, future cash flows, the value of the regulated asset bases, market premiums for regulated businesses and the outcome of the regulatory price control determinations. If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact on operating results. A reduction in value in use of 1.4% (2012: value in use of 3%) or a reduction in market premium by 2% (2012: 5%) would result in the recoverable amount being equal to the carrying amount of goodwill. Refer to notes 12, 13 and 14.

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 27 of the notes to the consolidated accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Recoverability of revenue allowances

The economic regulatory price control for UK en route services for Control Period 3 (2011 to 2014) established an annual revenue allowance that is recovered through a price based on the economic regulator's forecasts of traffic volumes and inflation made at the start of the price control period. Where traffic volumes or inflation differ from the regulator's forecasts, revenue actually recovered may be higher or lower than the revenue allowance. Where this is the case, the EC Charging Regulation allows an adjustment to be made to the price in subsequent years (from 2014 onwards, starting 2 years later) to reflect any over or under-recovery. Also, following the CP3 price control review, the economic regulator deferred the recovery of adjustments for traffic volume risk sharing and service performance incentives arising in the previous control period (CP2: 2006 to 2010) and allowed these to be recovered through an adjustment to prices in the last three years of CP3. The weakness of the economy in the early part of CP3 has resulted in traffic volumes which are lower than the regulator assumed for CP3. Inflation has also been higher than assumed. When combined with the remaining balances deferred from CP2 of £39.3m and service performance incentives from CP3 of £8.2m, recoverable revenue allowances totalled £100.0m at 31 March 2013. The legal right to recover the revenue adjustments discussed above is provided by the EC Charging Regulation and NERL's air traffic services licence. The company expects to recover these amounts through adjustments to prices starting in 2014 and through into Reference Period 2 (RP2: 2015 to 2019).

Capital investment programme

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

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4. Revenue

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

	2013 £m	2012 £m
NATS Airspace	693.2	677.4
NATS Airports	169.5	162.1
NATS Engineering	19.9	14.0
Other NATS Service lines	17.0	11.4
	899.6	864.9
Other operating income	-	0.6
Investment revenue (see note 8)	4.8	5.3
	904.4	870.8

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

A portion of the group's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £0.1m gain (2012: £3.3m gain).

5. Business and geographical segments

Operating segments

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

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

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

Principal activities

The following table describes the activities of each operating segment:

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

5. Business and geographical segments (continued)

The service line management reporting structure was introduced from 1 April 2012. As a result the previous period comparatives for the year ended 31 March 2012 have been presented on a consistent basis.

Segment information about these activities is presented below.

Revenue

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

	2013			2012		
	Revenue £m	Intra-group revenue £m	External revenue £m	Revenue £m	Intra-group revenue £m	External revenue £m
NATS Airspace	711.7	(18.5)	693.2	693.0	(15.6)	677.4
NATS Airports	182.6	(13.1)	169.5	174.6	(12.5)	162.1
NATS Engineering	21.0	(1.1)	19.9	14.6	(0.6)	14.0
Other NATS Service lines	21.2	(4.2)	17.0	15.5	(4.1)	11.4
	936.5	(36.9)	899.6	897.7	(32.8)	864.9

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:

	2013 £m	2012 £m
NATS Airspace	368.1	345.9
NATS Airports	60.0	57.4
NATS Engineering	4.4	3.2
Other NATS Service lines	6.7	3.6
	439.2	410.1
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(104.3)	(96.0)
Loss on disposal of non-current assets	-	(1.0)
Pension accrual rate variances to budget	(16.6)	(1.6)
Employee share scheme costs	(1.3)	(3.3)
Redundancy and relocation costs	(2.0)	(2.1)
Cost of investment in business growth	(3.7)	(2.7)
Other costs not directly attributed to service lines	(67.5)	(63.8)
Less: share of results of associates and joint ventures	1.2	(0.1)
	245.0	239.5

The performance of NATS Airspace and NATS Airports include the group share of the results of ESSP SAS and FerroNATS Air Traffic Services SA respectively (see note 29).

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

5. Business and geographical segments (continued)

Geographical segments

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

	Revenue from external customers		Non-current assets	
	2013	2012	2013	2012
	£m	£m	£m	£m
UK	485.8	466.6	970.4	935.1
Rest of Europe	244.3	233.9	1.7	1.4
North America	115.8	117.0	1.0	1.4
Other	53.7	47.4	-	-
	899.6	864.9	973.1	937.9

Information about major customers

Included in revenues arising from airport air traffic services are revenues of £94.4m (2012: £100.7m) which arose from the group's largest customer.

6. Operating profit for the year

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

a. Restructuring items

Redundancy and relocation costs

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

	2013	2012
	£m	£m
Redundancy costs (including pension augmentation costs, see note 7a)	2.1	3.5
Relocation of staff to the Swanwick area	-	0.2
Relocation of staff to the Prestwick area	-	(1.3)
Relocation of staff from Hurn to the Corporate & Technical Centre	(0.1)	(0.3)
	2.0	2.1

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6. Operating profit for the year (continued)

b. Other items	2013 £m	2012 £m
CAA regulatory charges in respect of NERL's air traffic services licence	5.3	5.2
CAA regulatory charges for safety regulation at airports	2.9	2.8
Depreciation of property, plant and equipment	79.1	74.6
Impairment of property, plant and equipment	0.1	1.6
Amortisation of intangible assets	25.2	18.4
Impairment of intangible assets	0.7	2.4
Deferred grants released	(0.8)	(1.0)
Research and development costs	9.2	7.0
Auditor's remuneration for audit services (see below)	0.2	0.2

The analysis of auditor's remuneration is as follows:

	2013 £m	2012 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditor and their associates for other services to the group		
- The audit of the company's subsidiaries	-	-
Total audit fees	0.2	0.2

Total non-audit fees of £28,590 (2012: £60,769) included tax services of £6,566 (2012: £30,566) and other services of £22,024 (2012: £30,203). Total fees payable to the company's auditor for the audit of the subsidiary accounts was £39,600 (2012: £41,700).

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

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

7. Staff costs

a. Staff costs	2013 £m	2012 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	300.6	292.6
Social security costs	32.1	30.6
Pension costs (note 7b)	96.0	87.0
	428.7	410.2
Less: amounts capitalised	(37.8)	(33.8)
	390.9	376.4

Wages and salaries include redundancy costs of £0.7m (2012: £1.1m), share-based payment charges, other allowances and holiday pay. Pension costs include £1.4m (2012: £2.4m) for redundancy related augmentation payments which staff elected to receive in lieu of severance payments.

b. Pension costs	2013 £m	2012 £m
Defined benefit pension scheme costs for year (note 27)	91.9	84.6
Defined contribution pension scheme costs for year	4.1	2.4
	96.0	87.0

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

c. Staff numbers	2013 No.	2012 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,889	1,924
Air traffic service assistants	752	766
Engineers	976	954
Others	945	889
	4,562	4,533

8. Investment revenue

	2013 £m	2012 £m
Interest on bank deposits	1.1	1.1
Other loans and receivables	3.7	4.2
	4.8	5.3

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

9. Finance costs

	2013 £m	2012 £m
Interest payable		
Interest on bank overdrafts, loans and hedging instruments	1.8	1.0
Bond and related costs including financing expenses	31.6	32.1
Other finance costs	4.0	0.4
	37.4	33.5
Loss on derivatives not qualifying for hedge accounting	20.5	16.9
	57.9	50.4

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

10. Tax

	2013 £m	2012 £m
Current tax	34.4	32.0
Adjustments in respect of prior year	(1.9)	(3.4)
Deferred tax (see note 21)	10.1	8.9
	42.6	37.5

Corporation tax is calculated at 24% (2012: 26%) 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:	2013 £m	%	2012 £m	%
Profit on ordinary activities before tax	190.7		194.5	
Tax on profit on ordinary activities at standard rate in the UK of 24% (2012: 26%)	45.8	24.0%	50.6	26.0%
Tax effect of change in corporation tax rate from 24% to 23% from 1 April 2013	(4.5)	(2.3%)	-	-
Tax effect of change in corporation tax rate from 26% to 24% from 1 April 2012	-	-	(7.8)	(4.0%)
Tax effect of prior year adjustments	1.9	1.0%	(3.4)	(1.7%)
R&D expenditure increased deductions	(1.3)	(0.7%)	(1.8)	(0.9%)
Other permanent differences	0.7	0.3%	(0.1)	(0.1%)
Tax charge for year at an effective tax rate of 22.3% (2012: 19.3%)	42.6	22.3%	37.5	19.3%
Deferred tax charge/(credit) taken directly to equity (see note 21)	0.4		(36.8)	

11. Dividends

	2013 £m	2012 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of 20.97 pence per share (2012: 29.71 pence per share) paid in May 2012	30.0	42.5
Second interim dividend of 6.99 pence per share (2012: 5.73 pence per share) paid in November 2012	10.0	8.2
	40.0	50.7

In May 2013, the Board declared and the company paid an interim dividend for the year ending 31 March 2014 of 32.51 pence per share, totalling £46.5m.

12. Goodwill

	£m
Carrying amount	
At 31 March 2013 and 31 March 2012	351.0

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

The carrying value is determined by reference to value in use calculations and the net realisable value of the regulated asset bases of UK Air Traffic Services and North Atlantic Air Traffic Services, representing the cash-generating units, including market premiums for regulated businesses (assumed at 10%, 2012: 10%). The key assumptions for value in use calculations are the discount rate, future cash flows to the end of the current regulatory control period (31 December 2014 for UK Air Traffic Services and 31 March 2015 for North Atlantic Air Traffic Services) as assumed in the group's business plans, and a terminal value at that date, reflecting the regulatory asset bases of £1,214.7m (2012: £1,201.7m) and a market premium which is assessed annually by reference to recent market transactions within the utility sectors. 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 9.74% (2012: 9.99%). See note 3.

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2011	56.3	33.5	18.8	191.4	300.0
Additions internally generated	4.2	0.3	1.0	10.4	15.9
Additions externally acquired	2.4	6.5	0.1	27.3	36.3
Disposals during the year	-	(1.3)	-	(2.7)	(4.0)
Other transfers during the year	77.4	2.1	1.1	(80.7)	(0.1)
At 1 April 2012	140.3	41.1	21.0	145.7	348.1
Additions internally generated	3.3	-	0.3	11.6	15.2
Additions externally acquired	2.0	2.3	0.1	29.2	33.6
Disposals during the year	-	(0.3)	(0.9)	(0.1)	(1.3)
Other transfers during the year	24.0	3.3	0.7	(26.0)	2.0
At 31 March 2013	169.6	46.4	21.2	160.4	397.6
Accumulated amortisation					
At 1 April 2011	25.8	16.7	9.7	17.1	69.3
Charge for the year	11.8	5.0	1.6	-	18.4
Provisions for impairment	0.5	-	-	1.9	2.4
Utilisation of impairment provision	-	-	-	(2.7)	(2.7)
Disposals during year	-	(1.1)	-	-	(1.1)
At 1 April 2012	38.1	20.6	11.3	16.3	86.3
Charge for the year	18.0	5.5	1.7	-	25.2
Provisions for impairment	-	0.3	-	0.4	0.7
Utilisation of impairment provision	-	(0.3)	-	(0.1)	(0.4)
Disposals during year	-	(0.1)	(0.9)	-	(1.0)
At 31 March 2013	56.1	26.0	12.1	16.6	110.8
Carrying amount					
At 31 March 2013	113.5	20.4	9.1	143.8	286.8
At 31 March 2012	102.2	20.5	9.7	129.4	261.8

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

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14. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2011	224.7	47.7	1,128.7	18.5	163.7	1,583.3
Additions during the year	2.0	0.3	27.8	0.8	44.8	75.7
Disposals during the year	(0.4)	-	(117.8)	(1.5)	(3.1)	(122.8)
Other transfers during the year	4.6	1.0	118.4	2.0	(125.9)	0.1
At 1 April 2012	230.9	49.0	1,157.1	19.8	79.5	1,536.3
Additions during the year	3.5	3.2	25.4	0.3	47.7	80.1
Disposals during the year	(2.6)	-	(10.7)	(1.5)	-	(14.8)
Other transfers during the year	7.0	0.5	44.2	0.1	(53.8)	(2.0)
At 31 March 2013	238.8	52.7	1,216.0	18.7	73.4	1,599.6
Accumulated depreciation and impairment						
At 1 April 2011	91.7	33.1	815.6	10.8	3.0	954.2
Provided during the year	6.8	1.6	64.6	1.6	-	74.6
Provisions for impairment	-	-	1.5	-	0.1	1.6
Utilisation of impairment provision	-	-	(1.5)	-	(3.0)	(4.5)
Disposals during the year	(0.3)	-	(115.7)	(1.5)	-	(117.5)
At 1 April 2012	98.2	34.7	764.5	10.9	0.1	908.4
Provided during the year	7.3	2.0	68.2	1.6	-	79.1
Provisions for impairment	-	-	0.1	-	-	0.1
Utilisation of impairment provision	-	-	(0.1)	-	0.3	0.2
Disposals during the year	(2.6)	-	(10.6)	(1.5)	-	(14.7)
At 31 March 2013	102.9	36.7	822.1	11.0	0.4	973.1
Carrying amount						
At 31 March 2013	135.9	16.0	393.9	7.7	73.0	626.5
At 31 March 2012	132.7	14.3	392.6	8.9	79.4	627.9

The group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £0.8m (2012: £4.0m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full.

During the year the group capitalised £1.5m (2012: £1.0m) of general borrowing costs at a capitalisation rate of 2.1% (2012: 1.3%), in accordance with IAS 23: *Borrowing Costs*.

15. Financial and other assets

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

Trade and other receivables

	2013 £m	2012 £m
Non-current		
Other debtors	0.8	1.1
Prepayments	0.1	-
Accrued income	58.5	47.2
	59.4	48.3
Current		
Receivable from customers gross	63.1	61.6
Allowance for doubtful debts	(5.1)	(4.6)
	58.0	57.0
Amounts recoverable under contracts	1.0	4.2
Other debtors	4.5	3.7
Prepayments	8.4	11.8
Accrued income	111.2	86.2
	183.1	162.9

The average credit period taken on sales of services is 29 days (2012: 29 days). Interest is charged by Eurocontrol to UK en route customers at 11.57% (2012: 11.00%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £5.1m (2012: £4.6m). Full provision is made for receivables from UK en route customers that are overdue. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation or where there is evidence of a reduction in the recoverability of the cash flows.

Accrued income which is non-current represents revenues earned in the previous control period (CP2) and regulatory adjustments for the period January to March 2013 which will be recovered through 2015 charges. Accrued income which is current includes unbilled revenues for services provided in March 2013 and regulatory adjustments to revenue for service performance, traffic volume risk sharing and inflation to reflect differences between actual outcomes and the CAA's CP3 assumptions (see note 3).

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15. Financial and other assets (continued)

Ageing of past due but not impaired trade receivables

	2013 £m	2012 £m
31-90 days	0.4	0.2
91-365 days	2.0	0.5
> 365 days	0.3	-
	2.7	0.7

Movement in the allowance for doubtful debts

	2013 £m	2012 £m
Balance at the beginning of the year	4.6	6.0
Increase in allowance recognised in the income statement	1.0	0.6
Foreign exchange movement in the year	-	(0.3)
Release of provision	(0.1)	(0.5)
Amounts written off as irrecoverable	(0.4)	(1.2)
Balance at end of year	5.1	4.6

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

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £3.6m (2012: £3.7m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables

	2013 £m	2012 £m
31-90 days	0.5	0.3
91-365 days	1.0	1.5
> 365 days	3.6	2.8
	5.1	4.6

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

Cash and cash equivalents

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

Overall, the maximum credit risk for the items discussed above would be £462.1m (2012: £417.6m).

16. Borrowings

Secured loans at amortised cost	2013 £m	2012 £m
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	555.7	583.9
Bank loans (variable rate revolving term loan and revolving credit facility expiring 2012-2013)	-	148.3
Bank loans (variable rate revolving term loan and revolving credit facility expiring 2016)	136.0	-
Gross borrowings	691.7	732.2
Unamortised bond issue costs	(4.2)	(4.9)
Unamortised bank facility arrangement fees	(2.3)	-
	685.2	727.3
Amounts due for settlement within 12 months	27.2	176.7
Amounts due for settlement after 12 months	658.0	550.6

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 £136.0m made by NERL under its £275.0m committed bank facilities are similarly secured. Further security provisions are also provided by NATS Holdings Limited and by NATS Limited. The carrying amount of the collateral provided as security for the £600m bond and bank borrowings is c. £1,419m (2012: £1,381m), including the carrying amount of balance sheet goodwill of £351.0m.

The average effective interest rate on the bank loans in the year was 1.8% (2012: 1.4%) and was determined based on LIBOR rates plus a margin and utilisation fee.

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

Undrawn committed facilities	2013 £m	2012 £m
Undrawn committed facilities expire as follows:		
Less than one year	-	22.7
Between one and two years	-	40.0
After more than two years	139.0	-
	139.0	62.7

At 31 March 2013, NERL had outstanding drawings of £136m on its committed bank facilities. These facilities expire in December 2016.

NATS Services has an uncommitted overdraft facility of £1m that was undrawn as at 31 March 2013 and 31 March 2012 and is not included in the table above.

17. Derivative financial instruments

Fair value of derivative financial instruments

	2013 £m	2012 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.6	0.3
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.8)	(0.4)
Non-current liabilities		
Derivative financial instruments classified as held for trading		
Index-linked swaps	(146.6)	(126.1)
	(147.4)	(126.5)

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

The index-linked swap has been classified as a non-current liability and the prior year comparative has been adjusted accordingly.

Fair value measurements recognised on 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).

	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	1.6	-	1.6	-	0.3	-	0.3
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.8)	-	(0.8)	-	(0.4)	-	(0.4)
Derivative financial instruments classified as held for trading	-	(146.6)	-	(146.6)	-	(126.1)	-	(126.1)
	-	(147.4)	-	(147.4)	-	(126.5)	-	(126.5)

There were no transfers between individual levels in the year.

18. Financial instruments

Capital risk management

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

The capital structure of the group consists of debt as disclosed in note 16, cash and cash equivalents and short-term investments, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

External capital requirements

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

As at 31 March 2013, NERL had a corporate rating of AA- (negative outlook) from Standard & Poor's (2012: AA- negative outlook) and A2 (stable outlook) from Moody's (2012: A2 stable outlook).

Gearing ratio

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

Significant accounting policies

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

Categories of financial instrument

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

	2013 £m	2012 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	64.3	66.0
Cash and cash equivalents and short-term investments	228.1	218.2
Derivative financial instruments in designated hedge accounting relationships	1.6	0.3
	294.0	284.5
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.8)	(0.4)
Derivative financial instruments classified as held for trading	(146.6)	(126.1)
Other financial liabilities at amortised cost	(714.9)	(758.6)
	(862.3)	(885.1)

Other financial liabilities at amortised cost includes balances for trade and other payables (excluding accruals and deferred income and including tax and social security), the bond, bank borrowings and other loans.

The index-linked swap is categorised as held for trading. The loss on the movement in its market value of £20.5m has been recorded in the income statement in the year (2012: £16.9m).

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18. Financial instruments (continued)

Financial risk management objectives

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

Market risk

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

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

Foreign currency risk management

The group's principal exposure to foreign currency transaction risk is in relation to UK en route services revenue, accounting for 66% of the group's turnover (2012: 66%). Charges for this service are set in Sterling, but are billed and collected in Euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to NERL, forward foreign currency contracts are entered into. NERL seeks to hedge 95% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a monthly or quarterly basis.

The group also enters into contracts for the purchase and sale of goods and services with overseas suppliers and customers who operate in foreign currencies. To mitigate currency risk the contract value is hedged when a firm commitment arises, either through the use of forward foreign currency contracts or by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

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

	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Euro	92.2	92.0	(11.3)	(3.1)
US Dollar	0.1	0.3	(0.1)	(0.1)
Canadian Dollar	-	0.3	(0.2)	(0.1)
Qatari Riyal	1.5	1.5	(0.2)	-
Kuwaiti Dinar	0.3	-	-	-
Singapore Dollar	0.1	-	-	-
Norwegian Krone	0.2	0.1	(0.2)	(0.2)
Danish Krone	0.1	0.3	(0.1)	-
	94.5	94.5	(12.1)	(3.5)

18. Financial instruments (continued)

Foreign currency sensitivity analysis

The group holds foreign currency cash balances of £11.2m at 31 March 2013 (2012: £10.9m) in Euro, US Dollars, Qatari Riyals, Kuwaiti Dinar, Norwegian Krone and Danish Krone.

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

The table below shows the effect of a 10% strengthening of Sterling against the relevant currency (to the nearest £0.1m). A positive number below indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be an equal and opposite impact on profit and equity if Sterling devalues by 10% against the relevant currency.

Currency	2013 Impact £m	2012 Impact £m
Euro	4.1	1.8
Canadian Dollar	(0.1)	(0.1)
Qatari Riyal	0.4	0.6
	4.4	2.3

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

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

Forward foreign exchange contracts

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

2013				2012			
Euro sold	£m	€m	Average exchange rate	Euro sold	£m	€m	Average exchange rate
0-3 months	125.8	147.5	0.8528	0-3 months	117.6	140.8	0.8354
	125.8	147.5	0.8528		117.6	140.8	0.8354
Euro bought	€m	£m		Euro bought	€m	£m	
0-3 months	3.5	2.9	0.8500	0-3 months	2.5	2.1	0.8449
Over 3 months	1.2	1.0	0.8293	Over 3 months	9.7	8.4	0.8622
	4.7	3.9	0.8393		12.2	10.5	0.8587
US Dollar bought	US$m	£m		US Dollar bought	US$m	£m	
0-3 months	-	-	n/a	0-3 months	0.2	0.1	0.6248
	-	-	n/a		0.2	0.1	0.6248
Canadian Dollar bought	C$m	£m		Canadian Dollar bought	C$m	£m	
0-3 months	0.4	0.2	1.5985	0-3 months	0.6	0.4	1.6002
Over 3 months	1.7	1.1	1.6057	Over 3 months	0.2	0.1	1.6330
	2.1	1.3	1.6045		0.8	0.5	1.6093
Qatari Riyal sold	£m	QARm		Qatari Riyal sold	£m	QARm	
0-3 months	0.5	2.7	5.7526	0-3 months	1.1	6.4	5.7572
Over 3 months	5.0	28.6	5.7002	Over 3 months	6.4	36.9	5.7522
	5.5	31.3	5.7047		7.5	43.3	5.7530
Qatari Riyal bought	QARm	£m		Qatari Riyal bought	QARm	£m	
0-3 months	2.7	0.5	5.5550	0-3 months	-	-	n/a
	2.7	0.5	5.5550		-	-	n/a

18. Financial instruments (continued)

2013				2012			
Kuwati Dinar sold	£m	KWDm	Average exchange rate	Kuwati Dinar sold	£m	KWDm	Average exchange rate
0-3 months	0.2	0.1	0.4538	0-3 months	-	-	n/a
Over 3 months	0.1	0.1	0.4537	Over 3 months	-	-	n/a
	0.3	0.2	0.4862		-	-	n/a
Norwegian Krone bought	NOKm	£m		Norwegian Krone bought	NOKm	£m	
0-3 months	-	-	n/a	0-3 months	1.3	0.1	9.2310
Over 3 months	-	-	n/a	Over 3 months	2.5	0.3	9.3409
	-	-	n/a		3.8	0.4	9.3040
Danish Krone bought	DKKm	£m		Danish Krone bought	DKKm	£m	
0-3 months	1.3	0.1	9.2176	0-3 months	-	-	n/a
Over 3 months	0.7	0.1	9.2112	Over 3 months	-	-	n/a
	2.0	0.2	9.2154		-	-	n/a

At 31 March 2013, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.5m (2012: £0.2m unrealised losses). The majority of these contracts will mature within the first two months of the next financial year at which stage the amount deferred in equity will be realised in the income statement.

In addition to the above, NERL has entered into average rate forward agreements with a contract date after 31 March 2013 to sell Euro anticipated to be received in July 2013 in respect of UK en route revenues. The value of these cash flows is £50.0m. These contracts are also designated as cash flow hedges. They are not included in the table above.

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL. NATS Services and NATS Limited, the intermediate holding company, had no borrowings at 31 March 2013 (2012: £nil).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts. The 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 group's policy, applied to NERL, is to reduce the level of fixed-rate debt over time as per the following table:

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

The group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2013 (2012: none).

18. Financial instruments (continued)

Economic interest rate exposure

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

2013

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

2012

	Cash			Short-term deposits			
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Total £m**
Sterling	176.8	0.4	4	30.5	1.1	182	207.3
Euro	9.8	0.1	4	-	-	-	9.8
US Dollar	0.3	-	1	-	-	-	0.3
Canadian Dollar	0.3	-	1	-	-	-	0.3
Qatari Riyal	0.1	-	1	-	-	-	0.1
Norwegian Krone	0.3	-	1	-	-	-	0.3
Danish Krone	0.1	-	1	-	-	-	0.1
	187.7			30.5			218.2

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

18. Financial instruments (continued)

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

Excluding derivatives

	Total £m	**Variable rate £m**	**Inflation rate £m**	**Fixed rate £m**	**Economic interest rate %**	**Weighted average time rate is fixed years**
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	555.7	-	-	555.7	5.27%	7.0
Bank loans	136.0	136.0	-	-	1.49%	0.5
Total	691.7	136.0	-	555.7		
At 31 March 2012						
Sterling:						
5.25% guaranteed secured bonds	583.9	-	-	583.9	5.27%	8.0
Bank loans	148.3	148.3	-	-	1.50%	0.4
Total	732.2	148.3	-	583.9		

Including derivatives

	Total £m	**Variable rate £m**	**Inflation rate £m**	**Fixed rate £m**	**Economic interest rate %**	**Weighted average time rate is fixed years**
At 31 March 2013						
Sterling:						
5.25% guaranteed secured bonds	355.7	-	-	355.7	5.28%	7.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.72%	0.5
Bank loans	136.0	136.0	-	-	1.49%	0.5
Total	691.7	136.0	200.0	355.7		
At 31 March 2012						
Sterling:						
5.25% guaranteed secured bonds	383.9	-	-	383.9	5.28%	8.0
5.25% guaranteed secured bonds	200.0	-	200.0	-	4.51%	0.5
Bank loans	148.3	148.3	-	-	1.50%	0.4
Total	732.2	148.3	200.0	383.9		

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

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18. Financial instruments (continued)

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

	2013		2012	
	£m		£m	
Net debt	457.1		509.1	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	351.5	76.9	379.0	74.4
Index-linked	200.0	43.8	200.0	39.3
Floating (net of cash, short-term investments and facility costs)	(94.4)	(20.7)	(69.9)	(13.7)
	457.1	100.0	509.1	100.0

At 31 March 2013, NERL had net debt, including an inter-company loan of £22.5m, of £605.5m (2012: net debt £647.6m), NATS Limited held cash balances of £5.8m (2012: cash £5.2m), NATS Services had cash of £119.9m (2012: cash £110.6m) and NATSNav had cash of £0.2m (2012: cash £0.2m).

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

	2013		2012	
	£m		£m	
Net debt	605.5		647.6	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	351.5	58.1	379.0	58.5
Index-linked	200.0	33.0	200.0	30.9
Floating (net of cash, short-term investments and facility costs)	54.0	8.9	68.6	10.6
	605.5	100.0	647.6	100.0

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

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the group's cash and floating rate bank loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2013 Impact	2012 Impact
	£m	£m
Cash on deposit (2013: £228.1m, 2012: £218.2m)	2.3	2.2
Borrowings (2013: £136.0m, 2012: £148.3m)	(1.4)	(1.5)
	0.9	0.7

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

18. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation. To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed-rate bond, NERL entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. Under the terms of this swap, NERL receives fixed interest at 5.25% and pays interest at a rate of 3.43% adjusted for the movement in RPI. The index-linked swap cannot be designated as a cash flow hedge under IFRS, although it provides an economic hedge of NERL's inflation-linked revenues.

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

Inflation rate sensitivity analysis

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

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

	2013 Impact	2012 Impact
	£m	£m
Change in swap interest and mark to market value	(29.3)	(30.0)

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 £14.1m (2012: £13.3m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

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18. Financial instruments (continued)

Credit risk management

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

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

Currently, the group's investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch and A3 and A1 respectively from Moody's. However, dependant on market conditions, tighter restrictions on rating requirements and lower limits maybe placed on the duration of deposits. Hence, since the 2008 financial crisis, the group has restricted deposits with banks rated below AA /Aa2 to a maximum of 1 week.

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

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

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

Rating (Standard & Poor's)	Number of institutions	2013 £m	By credit rating %	Limit utilised %	Number of institutions	2012 £m	By credit rating %	Limit utilised %
AAA	4	60.6	26.6	30.3%	1	5.0	2.3	10.0%
AA-	3	45.5	20.0	75.8%	3	41.2	18.9	68.6%
A+	7	78.1	34.2	74.4%	8	116.1	53.2	96.7%
A	4	31.5	13.8	78.8%	7	50.8	23.3	72.5%
A-	3	12.4	5.4	55.1%	1	5.1	2.3	68.0%
		228.1	100.0			218.2	100.0	

18. Financial instruments (continued)

Liquidity risk management

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

With regard to NERL, the group's policy is to:

- maintain free cash equal to between one and two months of UK en route services revenues (see below). Free cash is defined as cash and cash equivalents and short-term investments, excluding a debt service reserve account of £30.1m used to fund interest, fees and bond amortisation payments scheduled in the next six months and a liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;
- ensure access to bank facilities sufficient to meet 110% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. At 31 March 2013 NERL had access to bank facilities totalling £275m available until 21 December 2016. The new facilities comprise a £245m revolving term loan facility and a £30m revolving credit facility;
- ensure access to long-term funding to finance its long-term assets. This is achieved in the form of a £600m amortising sterling bond with a final maturity date of 2026;
- ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and
- maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of a £600m sterling bond that started to amortise in 2012 and has a final maturity date of 2026 and by having available shorter dated committed bank facilities.

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

	2013 £m	2012 £m
Average monthly UK en route services income	49.3	47.9
Free cash at 31 March	50.8	50.4
Ratio of free cash to UK en route services income	1.0	1.1

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

	2013 £m	2012 £m
Bank borrowings	136.0	148.3
Gross borrowings	691.7	732.2
Bank borrowings as a percentage of gross borrowings	19.7%	20.3%

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

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18. Financial instruments (continued)

Maturity of borrowings

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

	2013			2012		
	Secured loans £m	Other liabilities £m	Total £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	60.2	23.2	83.4	210.5	26.4	236.9
Between one and two years	60.4	-	60.4	58.2	-	58.2
Due between two and five years	333.6	-	333.6	179.7	-	179.7
Due in more than five years	478.0	-	478.0	547.8	-	547.8
	932.2	23.2	955.4	996.2	26.4	1,022.6
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(247.0)	-	(247.0)	(268.9)	-	(268.9)
	685.2	23.2	708.4	727.3	26.4	753.7

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

18. Financial instruments (continued)

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

	Due within one year or less £m	Due between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2013					
Net settled:					
Index-linked swap receivable/(payable)	2.3	2.1	(8.4)	(144.1)	(148.1)
Gross settled:					
Foreign exchange forward contract receivables	137.7	-	-	-	137.7
Foreign exchange forward contract payables	(136.3)	-	-	-	(136.3)
	3.7	2.1	(8.4)	(144.1)	(146.7)
2012					
Net settled:					
Index-linked swap receivable/(payable)	2.5	2.3	1.2	(138.8)	(132.8)
Gross settled:					
Foreign exchange forward contract receivables	131.6	4.7	-	-	136.3
Foreign exchange forward contract payables	(131.7)	(4.6)	-	-	(136.3)
	2.4	2.4	1.2	(138.8)	(132.8)

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18. Financial instruments (continued)

Fair value of financial instruments

The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realised within one year. The fair value of the index-linked swap is determined independently by reference to contractual cash flows, forecast RPI inflation and is then discounted to present value. The fair value of the £600m bond has been derived from its externally quoted price. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount		Fair value	
	2013 £m	2012 £m	2013 £m	2012 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	64.3	66.0	64.3	66.0
Cash and short-term investments	228.1	218.2	228.1	218.2
Derivative financial instruments				
– Forward foreign exchange contracts	1.6	0.3	1.6	0.3
	294.0	284.5	294.0	284.5
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	(23.2)	(26.4)	(23.2)	(26.4)
£600m 5.25% Guaranteed Secured Amortising Bond	(555.7)	(583.9)	(661.0)	(666.5)
Bank loans and overdraft	(136.0)	(148.3)	(136.0)	(148.3)
Derivative financial instruments				
– Forward foreign exchange contracts	(0.8)	(0.4)	(0.8)	(0.4)
– Index-linked swap	(146.6)	(126.1)	(146.6)	(126.1)
	(862.3)	(885.1)	(967.6)	(967.7)

19. Financial and other liabilities

Trade and other payables

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

	2013 £m	2012 £m
Current		
Trade payables	11.8	13.1
Other payables	1.4	3.4
Tax and social security	10.0	9.9
Accruals and deferred income		
- Deferred grants	0.8	0.8
- Other	103.4	96.3
	127.4	123.5
Non-current		
Accruals and deferred income		
- Deferred grants	7.0	8.7
- Other	16.6	7.4
	23.6	16.1
	151.0	139.6

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 32 days (2012: 38 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

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20. Provisions

	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2012	4.2	1.7	0.3	6.2
Additional provision in the year	2.2	0.2	6.4	8.8
Release of provision in the year	(0.1)	(0.3)	(0.1)	(0.5)
Utilisation of provision	(4.7)	(1.0)	-	(5.7)
At 31 March 2013	1.6	0.6	6.6	8.8

	Total £m
Amounts due for settlement within 12 months	2.4
Amounts due for settlement after 12 months	6.4
	8.8

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the group's redundancy programme at 31 March 2013. The ageing of the provision reflects the expected timing of employees leaving the group.

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

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

21. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Financial instruments £m	Other £m	Total £m
At 1 April 2011	128.0	12.5	(15.2)	(3.3)	122.0
(Credit)/charge to income	(7.4)	15.3	0.1	0.9	8.9
(Credit)/charge to equity	-	(36.9)	0.1	-	(36.8)
At 31 March 2012	120.6	(9.1)	(15.0)	(2.4)	94.1
At 1 April 2012	120.6	(9.1)	(15.0)	(2.4)	94.1
(Credit)/charge to income	(0.4)	12.0	(2.3)	0.8	10.1
Charge to equity	-	0.3	0.1	-	0.4
At 31 March 2013	120.2	3.2	(17.2)	(1.6)	104.6

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.

	2013 £m	2012 £m
Deferred tax liabilities	(123.4)	(120.6)
Deferred tax assets	18.8	26.5
	(104.6)	(94.1)

22. Share capital

	Authorised Number of shares	Authorised £m	Called up, allotted and fully paid Number of shares	Called up, allotted and fully paid £m
Ordinary shares of £1 each				
At 31 March 2013 and 31 March 2012	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2013 and 31 March 2012	54,272,594	43.4	12,048,193	9.6
		187.5		140.6

Special share

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

- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

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

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Notes forming part of the consolidated accounts

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23. Share premium account

	£m
Balance as at 31 March 2013 and 31 March 2012	0.4

24. Notes to the cash flow statement

	2013 £m	2012 £m
Operating profit from continuing operations	245.0	239.5
Adjustments for:		
Depreciation of property, plant and equipment	79.1	74.6
Amortisation of intangible assets	25.2	18.4
Impairment losses	0.8	4.0
Deferred grants released	(0.8)	(1.0)
Loss on disposal of property, plant and equipment	-	1.0
Non-cash element of charge for pension costs	(50.4)	(58.9)
Operating cash flows before movements in working capital	298.9	277.6
Increase in trade and other receivables	(27.8)	(6.6)
Increase/(decrease) in trade and other payables	12.1	(23.3)
Cash generated from operations	283.2	247.7
Tax paid	(27.6)	(23.6)
Net cash from operating activities	255.6	224.1

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

	2013 £m	2012 £m
Amounts contracted but not provided for in the accounts	52.5	69.2
Minimum lease payments under operating leases recognised in the income statement	22.7	20.7

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

	2013 £m	2012 £m
Within one year	23.8	22.7
In the second to fifth years inclusive	70.8	43.1
After five years	35.8	41.3
	130.4	107.1

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

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its contract with the MoD. NATSNav Limited has provided two joint and several shareholder's guarantees up to €20m in favour of the European Commission. The terms of the first guarantee relates to ESSP's performance under the EGNOS Service Provision Contract. This guarantee expires on discharge of ESSP's obligations under the contract or following its termination. The second guarantee relates to ESSP's repayment of the pre-financing amount (€10m) received from the Commission. Both guarantees are expected to expire on 31 December 2013.

As part of the tendering process for new contracts, the NATS group may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2013 was £6.4m (2012: £6.5m).

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Notes forming part of the consolidated accounts

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26. Share based payments

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

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

Share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2013	No. employee shares outstanding at 31 March 2012
Free share awards			
21 September 2001	3,353,742	490,211	534,153
20 October 2003	2,459,000	454,534	493,840
10 September 2004	1,966,000	748,977	841,130
11 January 2008	1,071,840	636,520	807,840
18 September 2009	963,200	777,400	807,200
Partnership shares			
01 March 2011	694,783	639,335	661,631
01 September 2012	714,959	703,452	-
Matching shares			
01 March 2011	694,783	639,335	661,631
01 September 2012	714,959	703,452	-
		5,793,216	4,807,425
Dividend shares issued on 28 June 2005	247,017	57,812	62,945
Total employee shares in issue at 31 March		5,851,028	4,870,370

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

	Movement in the no. of shares during the year ended 31 March 2013	Movement in the no. of shares during the year ended 31 March 2012
Balance at 1 April	4,870,370	5,161,887
Granted during the year	1,429,918	-
Forfeited during the year	(10,811)	(20,850)
Exercised during the year	(438,449)	(270,667)
Balance at 31 March	5,851,028	4,870,370

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2013 the price of an employee share was valued at £3.95 (2012: £3.95). A valuation at 30 June 2012 valued the shares at £3.95. The liability on the balance sheet for the employee shares at 31 March 2013 was £17.4m (2012: £16.1m) included in other accruals and deferred income. The payments made to employees for the shares they exercised during the year was £1.7m (2012: £1.0m).

27. Retirement benefit scheme

NATS Limited, the company's wholly-owned subsidiary, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme whereby the company was admitted to participate in the Civil Aviation Authority Pension Scheme from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non-associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the Pension Scheme. The Pension Scheme was divided into two sections to accommodate this and a series of common investment funds established in which both sections will participate for investment purposes.

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

During 2009 the group introduced a number of reforms to manage the cost and risk of pensions. The defined benefit pension scheme was closed to new joiners with effect from 31 March 2009. In addition, from 1 January 2009, annual increases in pensionable pay were limited to a maximum increase in the retail price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners. NATS has agreed to match employee contributions to this scheme at a ratio of 2:1, up to a total employer cost of 18%. Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

During the year the 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.

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.

For the purpose of accounting for the scheme in these financial statements, the company obtains an updated valuation from a qualified independent actuary that is prepared in accordance with international accounting standards.

The two valuations differ in a number of critical respects, including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2012, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

Trustees' funding assessment

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

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

Contributions to the pension scheme

During the year the group paid cash contributions to the scheme of £142.3m (2012: £143.5m). This amount included £15.3m (2012: £15.5m) 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 45.9% (2012: 45.5%) of pensionable pay. The group increased contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost and in response to the 2009 triennial valuation, NATS made further contributions of £2.0m per month from January 2011, increasing these by 3.5% each January thereafter, under a deficit recovery plan agreed with Trustees. This plan will continue until 31 December 2014 before a revised schedule reflecting the 2012 valuation is implemented. NATS will contribute £2.4m per month from January 2015.

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Notes forming part of the consolidated accounts

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27. Retirement benefit scheme (continued)

Company's accounting valuation under international accounting standards

The pension cost under IAS 19: *Employee Benefits*, relating to the scheme is assessed in accordance with the advice of independent qualified actuaries.

On transition to IFRS, NATS elected to adopt a 'clean start' approach which recognised all actuarial gains and losses at 1 April 2004, and NATS has reported under an immediate recognition approach in subsequent periods.

A Trustees' funding assessment was carried out as at 31 December 2012 and updated to 31 March 2013 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2013	2012	2011
RPI Inflation	3.35%	3.25%	3.45%
CPI Inflation	2.45%	n/a	n/a
Increase in:			
- salaries	2.70%	3.25%	3.95%
- deferred pensions	3.35%	3.25%	3.45%
- pensions in payment	3.35%	3.25%	3.45%
Expected return on:			
- equities	n/a	7.10%	7.35%
- property and other assets	n/a	6.60%	7.35%
- bonds	n/a	3.45%	4.70%
Discount rate for scheme liabilities	4.45%	5.05%	5.45%

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. (2012: 82% S1PMA and 101% S1PFA with future improvements in line with 80%/60% long cohort for male/female members, subject to a minimum improvement of 1.25%). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.3 years and a female pensioner is 30.8 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 31.1 years and for females to 32.6 years.

The assumptions for expected return on investments are not applicable for 2013 following the introduction of IAS 19: *Employee Benefits* (revised June 2011) which applies for the year ending 31 March 2014.

The 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 11.6%/increase by 13.7%
Rate of inflation	Increase/decrease by 0.5%	Increase by 13.7%/decrease by 11.8%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.2%/decrease by 3.9%
Rate of mortality	1 year increase in life expectancy	Increase by 2.3%

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

	2013 £m	2012 £m
Current service cost	(116.0)	(119.1)
Past service cost	(1.4)	(2.4)
Expected return on scheme assets	198.8	210.7
Interest cost on scheme liabilities	(173.3)	(173.8)
Total defined benefit charge recognised in arriving at operating profit	(91.9)	(84.6)

27. Retirement benefit scheme (continued)

Amounts taken to the statement of comprehensive income are as follows:

	2013 £m	2012 £m
Actual return less expected return on scheme assets	240.0	(111.8)
Experience gains and losses arising on scheme liabilities	152.9	27.4
Changes in assumptions underlying the present value of the scheme liabilities	(391.5)	(60.3)
	1.4	(144.7)

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

	2013 £m	2012 £m
Fair value of scheme assets	3,873.1	3,377.3
Present value of defined benefit obligations	(3,859.1)	(3,415.1)
Surplus/(deficit) in scheme	14.0	(37.8)

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

	2013 £m	2012 £m
At 1 April	3,377.3	3,219.8
Expected return on scheme assets	198.8	210.7
Actuarial gains and losses	240.0	(111.8)
Contributions from scheme members	0.1	0.1
Contributions from sponsoring company	142.3	143.5
Benefits paid	(85.4)	(85.0)
At 31 March	3,873.1	3,377.3

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

	2013 £m	2012 £m
At 1 April	(3,415.1)	(3,171.8)
Current service cost	(116.0)	(119.1)
Past service cost	(1.4)	(2.4)
Interest cost	(173.3)	(173.8)
Actuarial gains and losses	(238.6)	(32.9)
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	85.4	85.0
At 31 March	(3,859.1)	(3,415.1)

3 Notes forming part of the consolidated accounts
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27. Retirement benefit scheme (continued)

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Fair value of assets		Expected return	
	2013	2012	2013	2012
	£m	£m	%	%
Equity instruments	2,061.5	1,797.5	n/a	7.10
Property and other assets	516.9	475.6	n/a	6.60
Bonds	1,164.7	1,012.3	n/a	3.45
Cash and non-current assets	130.0	91.9	n/a	3.45
	3,873.1	3,377.3	n/a	5.84

Where applicable, the overall expected rate of return on assets represents a weighting based on the expected return for each asset class and the value of investments in each asset class.

The scheme assets do not include any investments in the equity of group companies or debt instruments or any property occupied by, or other assets used by the group.

The five year history of experience adjustments is as follows:

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	(3,859.1)	(3,415.1)	(3,171.8)	(2,843.4)	(2,258.3)
Fair value of scheme assets	3,873.1	3,377.3	3,219.8	2,923.3	2,188.9
Surplus/(deficit) in the scheme	14.0	(37.8)	48.0	79.9	(69.4)
Experience adjustments in scheme liabilities					
Amount (£m)	152.9	27.4	16.1	211.3	43.4
Percentage of scheme liabilities	(4.0%)	(0.8%)	(0.5%)	(7.4%)	(1.9%)
Experience adjustments in scheme assets					
Amount (£m)	240.0	(111.8)	60.8	578.0	(868.0)
Percentage of scheme assets	6.2%	(3.3%)	1.9%	19.8%	(39.7%)

The actual return on scheme assets for the year ended 31 March 2013 was £438.8m (2012: £98.9m).

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2014 is £144.4m, including salary sacrifice contributions estimated at £15.8m.

28. Related party transactions

The NATS group has four shareholders – the Crown, The Airline Group Limited (AG), Heathrow Airport Holdings Limited and the NATS Employee Sharetrust Limited. During the year transactions with the Crown have taken place with the Meteorological Office, the Department for Transport (DfT) and the Ministry of Defence (MoD). In addition there have been transactions with Heathrow Airport Holdings Limited and AG.

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

Contractual arrangements existed during the year between Heathrow Airport Holdings Limited and NATS Services in relation to air navigation services provided at Aberdeen, Edinburgh (up until its sale to Global Infrastructure Partners in June 2012), Glasgow, Heathrow, Southampton and Stansted (up until its sale to Manchester Airport Group plc in February 2013) airports.

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2013	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2012
	£m	£m	£m	£m	£m	£m	£m	£m
Heathrow Airport Holdings Limited	95.2	102.6	6.3	9.5	7.7	9.6	6.0	4.9
Ministry of Defence (MoD)	51.8	53.8	5.0	5.0	5.7	5.4	13.2	7.8
The Airline Group	-	-	0.1	0.2	-	-	-	-
Department for Transport (DfT)	1.8	3.1	-	-	-	-	-	-
Meteorological Office	-	-	0.6	0.6	-	0.4	0.1	-

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions (2012: nil) have been made for doubtful debts in respect of amounts owed by related parties.

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28. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures*. Key management includes the Board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee report.

	2013 £m	2012 £m
Short-term employee benefits	6.4	5.8
Post-employment benefits	1.1	0.8
Other long-term benefits	0.5	0.3
Termination benefits	-	1.0
Share scheme costs	-	0.1
	8.0	8.0

29. Subsidiaries, joint ventures and associates

The group's principal subsidiaries at 31 March 2013, all of which have been consolidated in these accounts were:

Name of company	Principal activity	Proportion of ordinary shares held	Proportion of voting rights held	Country of registration	Country of operation
NATS Limited*	Corporate services	100%	100%	England and Wales	United Kingdom
NATS (En Route) plc	En route air traffic services	100%	100%	England and Wales	United Kingdom
NATS (Services) Limited	Airport air traffic services	100%	100%	England and Wales	United Kingdom
NATSNav Limited	Satellite based navigation	100%	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited	Corporate trustee of employee share plan	100%	100%	England and Wales	United Kingdom
NATS (USA) Inc	Engineering and ATM consultancy	100%	100%	USA	USA
NATS Sverige AB	Airport air traffic services	100%	100%	Sweden	Sweden

* NATS Limited is held directly by NATS Holdings Limited. Other investments are held by subsidiaries.

The group had one associate and one joint venture as at 31 March 2013, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
ESSP SAS	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA	Airport air traffic services	28 January 2011	50.0%	Spain

3 Notes forming part of the consolidated accounts

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29. Subsidiaries, joint ventures and associates (continued)

Summarised financial information relating to the associate and joint venture

ESSP SAS	At 31 December 2012 £m	At 31 December 2011 £m
Total assets	16.4	13.7
Total liabilities	(11.5)	(10.1)
Net assets	4.9	3.6
Group share of net assets of the associate	0.9	0.7
Revenue	33.4	35.8
Profit after tax	1.2	1.3
Group share of profit of the associate	0.2	0.2

On 1 September 2008, the group acquired 16.67% of the issued share capital of ESSP SAS for cash consideration of €0.2m (£0.1m).

Although the group holds less than 20% of the ordinary shares of ESSP SAS, NATS management has concluded that significant influence can be demonstrated as a result of:

a. representation on the Board of directors;
b. participation in policy making processes; and
c. provision of essential technical information.

As the reporting date of ESSP SAS is 31 December 2012 the results have not been restated as the reporting date is within three months of the reporting date of the group. There have been no significant events within the last three months that should be included in these results.

FerroNATS Air Traffic Services SA	2013 £m	2012 £m
Total assets	3.0	1.0
Total liabilities	(2.3)	(0.5)
Net assets	0.7	0.5
Group share of net assets of the joint venture	0.3	0.3
Revenue	1.1	-
Loss after tax	(2.7)	(0.1)
Group share of loss of the joint venture	(1.4)	(0.1)

FerroNATS draws up its accounts as at 31 December. For the purpose of these financial statements management accounts have been used to derive its performance as at 31 March.

On 28 January 2011, the group acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA for a cash consideration of €0.1m (£0.1m). In June 2011 the group purchased an additional €0.4m (£0.3m) of share capital, maintaining a 50% holding of the issued share capital.

The group provided loan finance of €0.6m (£0.5m) in August 2012 and a further €1.1m (£0.9m) in October 2012 in FerroNATS. These loans were subsequently converted to equity. A further loan of €0.9m (£0.7m) was provided to the joint venture in April 2013.

30. Events after the reporting period

In May 2013, the Board declared and the company paid an interim dividend for the year ending 31 March 2014 of 32.51 pence per share, totalling £46.5m.

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Company accounts

Balance sheet
at 31 March

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Investments	4	141.0	141.0
Net assets		141.0	141.0
Equity			
Share capital	5	140.6	140.6
Share premium account	5	0.4	0.4
Retained earnings		-	-
Total equity		141.0	141.0

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 27 June 2013 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Statement of changes in equity
at 31 March

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 April 2011	140.6	0.4	-	141.0
Profit for the year	-	-	50.7	50.7
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	50.7	50.7
Dividends paid	-	-	(50.7)	(50.7)
At 31 March 2012	140.6	0.4	-	141.0
At 1 April 2012	140.6	0.4	-	141.0
Profit for the year	-	-	40.0	40.0
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	40.0	40.0
Dividends paid	-	-	(40.0)	(40.0)
At 31 March 2013	140.6	0.4	-	141.0

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Notes forming part of the Company accounts

Notes to the financial statements

1. Cash flow statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are designated as held to maturity and stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year.

Profit for the year has been arrived at after charging:

	2013 £m	2012 £m
Staff costs	-	-
Auditor's remuneration	-	-

The company incurred no charge to current or deferred taxes in the year (2012: £nil).

Dividends	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the period:		
First interim dividend of 20.97 pence per share (2012: 29.71 pence per share) paid in May 2012	30.0	42.5
Second interim dividend of 6.99 pence per share (2012: 5.73 pence per share) paid in November 2012	10.0	8.2
	40.0	50.7

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2013 and 1 April 2012	141.0

The company's investments in subsidiary undertakings are part of the group's principal subsidiaries as set out in note 29 to the consolidated financial statements.

Pursuant to a loan agreement entered into by NATS (En Route) plc, the company has granted a legal mortgage and fixed charge over its shares in NATS Limited, NERL's parent company, and a floating charge over all other assets.

5. Share capital and share premium accounts

The movements on these items are disclosed in the consolidated statement of changes in equity and notes 22 and 23 of the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2013 (2012: nil).

7. Ultimate controlling party

The ultimate controlling party of NATS Holdings Limited is The Airline Group Limited, a company incorporated in Great Britain and registered in England and Wales.

8. Events after the reporting period

In May 2013, the Board declared and the company paid an interim dividend for the year ending 31 March 2014 of 32.51 pence per share, totalling £46.5m.

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Abbreviations and definitions

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4 Abbreviations and definitions

2012	Financial year ended 31 March 2012
2013	Financial year ended 31 March 2013
3Di	3 Dimensional Inefficiency Score
AG	The Airline Group Limited
ANSP	Air Navigation Service Provider
ATC	Air Traffic Control
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
BAT	Barometric Pressure Setting Advisory Tool
CAA	Civil Aviation Authority
CAAPS	Civil Aviation Authority Pension Scheme
CANSO	Civil Aviation Navigation Services Organisation
CDA	Continuous Descent Approaches
CEO	Chief Executive Officer
CP3	Control Period 3 (2011-2014)
CPD	Continuous Professional Development
CPI	Consumer Prices Index
DCIS	Data Communication Integrated Services
DfT	Department for Transport
EC	European Commission
EFD	Electronic Flight Data
EMS	Environmental Management System
EU	European Union
FAA	Federal Aviation Administration
FAB	Functional Airspace Block
FAS	Future Airspace Strategy
HAHL	Heathrow Airport Holdings Limited
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IATA	International Air Transport Association
iFACTS	Interim Future Area Control Tools Support
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ISO	International Organisation for Standardisation
KPA	Key Performance Areas
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MoD	Ministry of Defence
NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
NATS (Services)	NATS (Services) Limited
NATSNav	NATSNav Limited
NERL	NATS (En Route) plc
NESL	NATS Employee Sharetrust Limited
NHL	NATS Holdings Limited
OPA	Operational Partnership Agreement
PCS	Public and Commercial Services Union
PPP	Public Private Partnership
PRB	Performance Review Body
RAB	Regulatory Asset Base
RP1	Reference Period 1 (2012-2014)
RP2	Reference Period 2 (2015-2019)
RPI	Retail Prices Index
SES	Single European Sky
SESAR	SES ATM Research
SJU	SESAR Joint Undertaking
SPA	Strategic Partnership Agreement
SSE	Safety Significant Event
STATFOR	Eurocontrol Statistics and Forecast Service