NATS (En Route) plc
Financial statements
Year ended 31 March 2018

Company Number: 04129273

NATS (En Route) plc (NERL)

NERL provides air traffic control (ATC) services to aircraft flying in airspace over the UK and the eastern part of the North Atlantic. It is economically regulated by the Civil Aviation Authority (CAA) within the framework of the European Commission's (EC) Single European Sky (SES) and operates under licence from the Secretary of State for Transport. Further information is provided in the description of our business model.

Our purpose

Advancing aviation, keeping the skies safe.

Our objectives

- Deliver a safe, efficient and reliable service every day.
- Deliver SESAR[1] and transform the business for the future.
- Win and retain commercial business.

Our values

- We are safe in everything we do.
- We rise to the challenge.
- We work together.

1 A number of explanatory notes are provided on page 66 of this report.

Financial highlights

Financial year ended 31 March (£m unless otherwise specified)	2018	2017	Change %
Revenue	744.5	737.1	+1.0
Operating profit before goodwill impairment	159.0	160.3	-0.8
Profit before tax and goodwill impairment	134.2	115.8	+15.9
Profit before tax	134.2	104.8	+28.1
Capital expenditure	180.8	149.9	+20.6
Net debt[a]	207.3	301.0	-31.1
Gearing[b] (%)	27.5%	35.9%	-23.4
Dividends	56.0	23.0	+143.5

[a] Excludes derivative financial instruments
[b] Ratio of the net debt to regulatory assets

- Revenue was £7.4m higher than last year, at £744.5m (2017: £737.1m). While Airspace customers benefited from real price reductions under the RP2 Performance Plan, these were more than offset by additional revenue from the increase in flights handled and service performance bonus (see below).
- Operating profit before goodwill impairment, at £159.0m (2017: £160.3m) was slightly lower than last year. After taking into account a reduced charge for goodwill impairment, profit before tax at £134.2m (2017: £104.8m) was £29.4m better.

Deliver a safe, efficient and reliable service every day

- We handled 2.52 million flights (2017: 2.45 million), 2.7% more than last year, and maintained our safety record with no risk-bearing Airprox[2] attributable to NERL (2017: nil).
- En route delay per flight improved to 7.2 seconds (2017: 10.9 seconds). Also, we made technical changes to our operations which enable additional annual savings for airlines of 228,073 tonnes of CO_2 emissions (2017: 59,768t), based on projections of the volume of flights likely to take advantage of these changes.
- We are consulting with customers on a safety and service-led initial business plan for reference period 3 (RP3: 2020 – 2024).

Deliver SESAR and transform the business for the future

- We consulted customers and the CAA on our capital investment plan, which accelerates the deployment of new technology. We will invest £750m-£780m over the reference period (RP2: 2015 – 2019) in sustaining and modernising our infrastructure, which will be completed in RP3.
- Electronic flight strips[3] were introduced into the Terminal Control (TC) operation in a phased transition which completed in June 2018.
- We recently presented a feasibility study for the modernisation of airspace over the London area to the Secretary of State for Transport.

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Company Secretary

Richard Churchill-Coleman

Registered office

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

Registered in England and Wales

Company Number 04129273

Auditor

BDO LLP

Chief Executive's review

Our initial business plan for RP3

We took time this year to understand from customers their priorities for RP3 and we are now consulting with them on an initial business plan which reflects these. Our core plan is designed to meet the two key challenges of safely maintaining service quality, despite rising traffic, while transforming the business and making us fit for RP4 and beyond. It is safety and performance-led, and delivers value for money for our customers. Overall we propose to maintain safety, delay and environmental performance in our UK en route operation at similar levels to today in spite of the growth in traffic we expect. At the same time, we will invest up to £800m in RP3 to complete the changes to our technology and airspace change programme. Our prices in real terms will be 12% lower on average over RP3 compared to RP2, and 23% lower compared to RP1. We will also complete the transition of our North Atlantic service from a procedural to a satellite-based surveillance operation.

The UK aviation industry is united behind the need for a fundamental modernisation of our airspace, both at lower levels around airports and in upper airspace. Our airspace structures have not changed significantly over the past 50 years and will not accommodate the forecast growth in traffic and airport infrastructure, including a new runway at Heathrow without causing unacceptable air traffic delays to the travelling public.

We are proposing to take a leading role in modernising airspace in south east England, coordinating the design work and managing the programme at a network and airport level.

Currently, we are coordinating the industry's response to this requirement and I recently presented a feasibility study on the modernisation of future airspace for the London area to the Secretary of State for Transport. It is clear that for the modernisation to be successful it will require commitment and engagement across industry, government and the CAA and understanding from the communities that will be affected.

Having an operationally and technically resilient service, which is predictable and consistent, is a high priority for our customers. We are enhancing the resilience of our service by recruiting operational staff, collaborating more closely with our customers on their daily operational plans and enhancing our network flow management resources to support ATC planning and tactical decision making. We are also investing in our essential technical services to further minimise the risk and impact of a service failure and to facilitate successful transitions to new technology. Finally, we are continuing to enhance our cyber security capability and have achieved the accreditation necessary to provide additional assurance to the government that our services are secure.

Deliver a safe, efficient and reliable service every day

This year we safely handled 2.7% more flights and provided an excellent service with average delay per flight of 7.2 seconds (2017: 10.9 seconds). We anticipated that air traffic volumes would continue to grow rapidly and worked with airlines, the CAA and airports to meet demand, particularly through the summer peaks. Also, we carefully planned and consulted customers on the sequence for deploying electronic flight strips (an important initial step in our modernisation programme) into airspace sectors managed by our Terminal Control (TC) centre (which deals with the approach into

London's airports). The deployment went very well and we received positive feedback from customers.

Deliver SESAR and transform the business for the future

We consulted customers during the previous financial year on our Service and Investment Plan 2017 (SIP17), which presented revised technology and airspace capital investment plans for the remainder of RP2. This followed changes that we had seen in the external aviation environment (such as higher than expected traffic growth) and progress made by the industry in developing SESAR technologies, enabling us to move away from legacy technology more quickly. After scrutiny, and with reference to the assessment of an independent reviewer, the CAA approved SIP17 last summer enabling us to progress with our plans to modernise and transform the business. Continued investment is needed in RP3 to complete the deployment of SESAR, and this is reflected in our initial business plan.

Through this year's consultation on SIP18, we have updated customers on the progress we are making. This included: the phased implementation of electronic flight strips into TC which completed in June 2018; completing the fit-out of the Combined Operations room at Swanwick[4] with the platform and early versions of the new controller tools that we will be deploying in future; development of the new voice communications system; and the fit-out of new data centres to host our operational systems.

Also, we are currently consulting airline customers on the deployment of Automatic Dependent Surveillance-Broadcast (ADS-B) for use over the North Atlantic to deliver the safety and capacity benefits that the airspace requires to keep pace with demand. In May 2018 the NATS group invested in Aireon, which is developing a space-based air traffic surveillance service that provides a solution to this while also delivering fuel savings and CO_2 reductions for airlines. This investment ensures NATS will play a leading role in the development and deployment of this technology.

Our people

A priority for 2018 was a focus on our people and it remains a focus for the coming year. The first three years of RP2 have been challenging as we have faced much higher volumes of air traffic which we expect will continue to grow. Also, a large part of our strategy over the next three years is to replace much of our technical infrastructure. Both factors drive changes which affect our employees and this priority recognises that people are central to any successful transformation. In support of this we are investing in our change management capability to ensure that we systematically consider how change will impact our people and that the right support for them is in place.

Martin Rolfe

Chief Executive

Financial review

Profit before tax at £134.2m (2017: £104.8m) improved by £29.4m on last year's result, which included a goodwill impairment charge of £11.0m. Before goodwill impairment, operating profit was £1.3m lower as an increase in revenue and lower depreciation charges were offset by higher staff and non-staff costs. Net finance costs including derivatives were £19.7m lower this year.

		Profit before tax
	£m	£m
2017 profit before tax		**104.8**
Revenue changes		
Airspace		
UK en route revenue	8.1	
Service performance incentive	3.0	
European organisations	(4.9)	
Other revenue changes (net)	(0.5)	
	5.7	
Other service lines	1.7	
		7.4
Operating cost changes		
Staff costs	(13.4)	
Non-staff costs (net of other income)	(8.1)	
Depreciation and amortisation, net of grants	12.9	
Disposal of assets	(0.1)	
		(8.7)
Goodwill impairment		11.0
Finance cost changes		
Fair value movement on derivative contract	18.9	
Other net finance costs	0.8	
		19.7
2018 profit before tax		**134.2**

Regulatory return

In the third calendar year of RP2, NERL achieved a pre-tax real return of 10.9% compared with the regulatory return of 5.8% assumed in the RP2 Performance Plan. This mainly reflected additional revenue from faster growth in air traffic volumes than the Plan assumed.

In response to this traffic growth, and to meet expected further demand in RP3, we have been recruiting operational staff and accelerating capital investment. Therefore, in the remaining two calendar years of RP2, we will face higher costs for staff and from dual running of legacy and new systems than was assumed in the RP2 Plan. Taking into account higher revenue, but also higher costs, we expect to achieve the regulatory rate of return over the five year period.

Comparison of reported profit and regulatory return

Profit reported in these financial statements is prepared in accordance with IFRS and policies described in note 2 to these accounts. As described below, the CAA applies an economic regulatory building block model which is mainly cash-based. This can give rise to some significant differences between reported operating profit and regulatory return, mainly due to:

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

The difference in basis mainly explains why NERL's reported operating profit before goodwill impairment is some £69m higher than its regulatory profit.

Revenue

Revenue at £744.5m (2017: £737.1m) was £7.4m better than last year. The improvement in UK en route revenue, mainly from better volumes and a service bonus, was partly offset by real price reductions to en route customers and lower income from European organisations for ad hoc services.

Operating costs

	2018	2017
	£m	£m
Staff costs	**(317.6)**	(304.2)
Non-staff costs	**(133.8)**	(125.7)
Depreciation, amortisation and impairment	**(134.1)**	(146.9)
Operating costs before exceptional items	**(585.5)**	(576.8)
Exceptional goodwill impairment charge	-	(11.0)
Total operating costs	**(585.5)**	**(587.8)**

Operating costs before goodwill impairment at £585.5m (2017: £576.8m) increased by 1.5%.

Staff costs of £317.6m (2017: £304.2m) were 4.4% higher. This mainly reflected increases for: pension related costs, the apprenticeship levy and national insurance charges, and pay awards. These increases were partially offset by an increase in the capitalisation of internal labour supporting our investment programme.

The average number of employees during the year was 3,237 (2017: 3,159) and there were 3,287 (2017: 3,182) employees in post at 31 March 2018.

Non-staff costs at £133.8m (2017: £125.7m) were £8.1m higher than the previous year and included the greater use of contract labour and costs to support NERL's capital programme.

Depreciation and amortisation decreased to £134.1m (2017: £146.9m) reflecting the deployment milestone dates for new technology and the remaining service lives of existing assets. The charge included asset impairments of £4.6m (2017: £0.5m).

Goodwill

The annual assessment of the carrying value of goodwill confirmed it was not impaired and was supported by fair value, less costs of disposal (2017: £11.0m impairment).

The carrying value of NERL's goodwill is intrinsically linked to its regulatory settlements and its regulatory asset base (RAB) in particular. In assessing its carrying value, consideration is also given to opportunities to outperform regulatory settlements and any premium a purchaser would be willing to pay for a controlling interest, by reference to the projected financial return indicated by the company's business plan and recent UK and European market transactions in utilities and airport operators.

Net finance costs

Net finance costs of £24.8m were £19.7m lower than last year (2017: £44.5m), mainly because the change in market value of the index-linked swap resulted in a credit of £1.3m (2017: £17.6m charge). This swap was taken out in 2003 as an economic hedge for NERL's revenue allowance for financing charges, which is linked to inflation. It does not qualify for hedge accounting under IFRS, and changes in its fair value are recognised in the income statement. Fair value can be volatile and is sensitive to market expectations of inflation and swap discount rates over the time to expiry of the contract in 2026.

Taxation

The tax charge of £19.8m (2017: £18.1m) includes current tax of £5.4m (2017: £18.2m) and deferred tax of £14.4m (2017: £0.1m credit). Overall, the charge was at an effective rate of 14.8% (2017: 17.3%). This is lower than the headline rate of 19%, mainly reflecting the deferred tax impact of the reduction in the corporation tax rate to 17% from April 2020 and the lower tax rate on patent box income.

The company's taxes generally arise in the UK, though it undertakes business in other countries. Wherever we operate we organise our operations to pay the correct and appropriate amount of tax at the right time, according to relevant national laws, and ensure compliance with the company's tax policies and guidelines. During the year the company paid UK corporation tax of £5.4m (2017: £14.2m). The company also pays other taxes such as employer's national insurance contributions, business rates and the apprenticeship levy, which are significant costs. The group's tax strategy can be viewed at www.nats.aero.

Balance sheet

	2018 £m	2017 £m
Goodwill	**198.3**	198.3
Tangible and intangible fixed assets	**1,032.3**	986.0
Other non-current assets	**17.8**	15.9
Cash and short term deposits	**194.6**	147.8
Derivatives (net)	**(127.0)**	(135.4)
Borrowings	**(401.9)**	(448.8)
Pension scheme surplus/(deficit)	**83.5**	(265.3)
Deferred tax liability	**(111.4)**	(36.0)
Other net liabilities	**(223.3)**	(135.5)
Net assets	**662.9**	327.0

The increase in net assets in the year mainly reflects an improvement in the funding position of the defined benefit pension scheme, which reported a surplus (see below), as well as retained earnings.

Capital investment

	2018 £m	2017 £m
SESAR deployment	135.9	107.2
Airspace	7.4	5.9
Infrastructure	16.1	14.3
Operational systems	10.8	12.5
Other	8.5	7.5
Regulatory capex	178.7	147.4
Military systems	1.3	1.1
Other non-regulatory capex	0.8	1.4
Capital investment	180.8	149.9

We spent £180.8m (2017: £149.9m), mainly in Airspace, including £28.7m more on SESAR deployment projects.

Defined benefit pensions

The company operates a final salary defined benefit pension scheme. The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on our pension arrangements is provided in note 28 to the financial statements.

a. IAS 19 charge and funding position

IAS19 pension surplus	£m
At 1 April 2017	(265.3)
Charge to income statement*	(69.5)
Actuarial gains/(losses):	
- on scheme assets	28.4
- on scheme liabilities	311.9
Employer contributions*	78.0
At 31 March 2018	83.5
Represented by:	
Scheme assets	3,389.1
Scheme liabilities	(3,305.6)
Surplus	83.5

* including salary sacrifice

The cost (including salary sacrifice) of defined benefit pensions at £69.5m (2017: £75.2m) was lower this year even though the company's accrual rate increased to 48.6% (2017: 36.0%) of pensionable pay. The scheme's pensionable payroll reduced significantly as many employees deferred or withdrew from the scheme, for tax reasons or for attractive transfer values, to take up a less costly cash alternative in lieu of a defined benefit pension. The volume of withdrawals (of c£0.8bn; 2017: c£0.4bn) also reduces the cost and risk of the scheme in future.

At 31 March 2018, the company's share of the NATS defined benefit scheme was in surplus by £83.5m (2017: £265.3m deficit) as measured under international accounting standards (IAS 19) using best estimate assumptions. The size of the scheme relative to the company means changes in financial market conditions can have relatively large impacts on the results and financial position. The real yield on AA corporate bonds used to value pension obligations increased by 20 basis points during the year, which reduced liabilities. Also, the company applied tables of shorter expected life expectancy, based on those that Trustees adopted in their formal valuation at 31 December 2017 (see below), which also reduced liabilities. The actual return on assets of the scheme was £122.5m.

b. Trustee valuation and funding obligations

The funding of the defined benefit scheme is subject to agreement between the company's parent (as the employer) and the scheme's Trustees based on the outcome of their formal valuation. This valuation uses a wide range of financial and demographic assumptions for measuring pension liabilities and legislation requires a margin for prudence. As a result, the Trustees' valuation gives a different outcome to the valuation under IAS 19 for the company's financial statements.

The Trustees completed a formal valuation at 31 December 2017 which reported a funding deficit of £270.4m (NERL's economic share of this deficit is c£204m), a reduction of £188.3m from their 2015 valuation: investment returns, deficit contributions and changes in life expectancy offset the impact of lower gilt yields. The scheme's actuary also determined that the cost of employee benefits accruing in future was 41.8% of pensionable earnings (excluding salary sacrifice), up from 31.8% in 2015, and contributions will reflect this from January 2020.

Trustees have agreed to maintain the recovery plan to repair the deficit by December 2026. This means the company's parent will make deficit contributions of £40.8m and £41.8m in the 2018 and 2019 calendar years and £25.4m from 2020, increasing by 2.37% in each of the following three years. These contributions, with assumed investment outperformance, are expected to restore the funding position by December 2026. NERL's economic share of these contributions is c75%.

NERL's contributions are higher than the regulator assumed for RP2. To the extent that this was caused by changes in financial market conditions, we expect to recover these through higher prices in RP3 and in subsequent reference periods.

Net debt and cash flow

	Cash and short-term investments £m	Borrowings £m	Net debt £m
Balance at 31 March 2017	147.8	(448.8)	(301.0)
Cash flow	47.9	48.1	96.0
Short-term investments	(1.1)	-	(1.1)
Non-cash movements	-	(1.2)	(1.2)
Balance at 31 March 2018	**194.6**	**(401.9)**	**(207.3)**

At 31 March 2018, the company had borrowings of £401.9m (2017: £448.8m) and cash and short-term investments of £194.6m (2017: £147.8m). Net debt decreased by £93.7m to £207.3m (2017: £301.0m). At 31 March 2018, the balance outstanding on NERL's bond was £381.3m (2017: £428.4m). NERL had no outstanding bank loans (2017: £nil) but has available bank facilities of £400m, which expire in July 2022. More information is provided in note 17 to the financial statements.

The company generated £356.3m (2017: £380.3m) from its operating activities. This mainly reflected lower cash receipts than the previous year, which included the true-up of regulatory timing differences from RP1, partly offset by lower tax payments than last year. The cash from operations financed the company's capital investment and its debt service obligations.

Outlook for 2019

2019 revenue will reflect further price reductions required by the RP2 performance plan. Overall, we expect a reduction in profit before tax as we incur additional costs to recruit and train operational staff to handle expected traffic growth and to support the dual running of legacy and new systems during a transition period.

Going concern

The company's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report.

In addition, note 20 to the financial statements describes the company's objectives, policies and processes for managing its capital and its financial risks; and details its financial instruments and hedging activities.

At 31 March 2018, the company had cash of £194.6m and access to undrawn committed bank facilities of £400m that are available until July 2022. The company's forecasts and projections, which reflect its expectations for RP2 and taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its existing facilities for the foreseeable future. NERL also benefits from some protections against traffic volume risk afforded by its price control conditions. As a result, the directors believe that the company is well placed to manage its business risks.

The directors have formed a judgement that, taking into account the financial resources available, the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Nigel Fotherby

Finance Director

Safety

Safety performance

Safety is embedded in everything we do throughout our organisation and our purpose and our values reflect our commitment to safety. We continue to meet the three safety performance targets set for the end of RP2 by the UK and European regulators in the SES performance scheme, which are based on: the effectiveness of safety management; the use of the Risk Analysis Tool (RAT[5]) to assess the severity of safety events; and the extent of Just Culture training.

Additional to the EU safety targets NERL uses internal targets and the RAT to monitor its internal safety performance and further analyse the severity and risk of air traffic events.

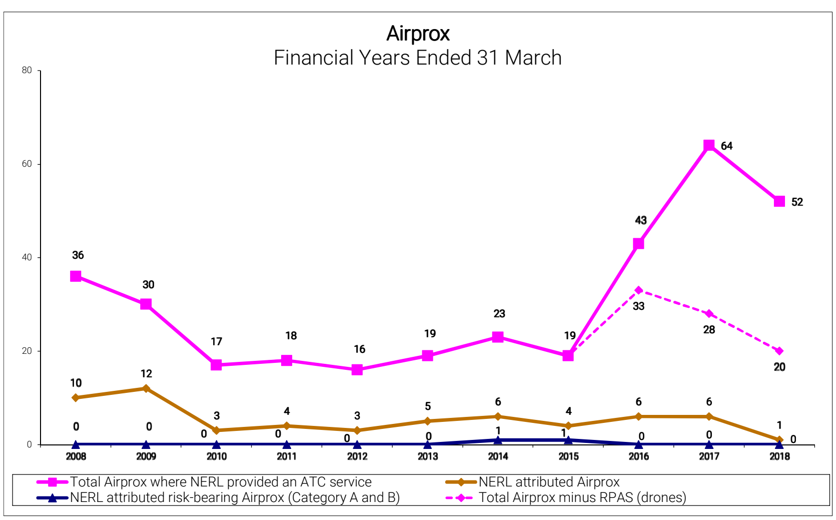
The number of high severity events reduced and the rate of losses of separation per 100,000 traffic movements improved compared to previous years. There was no category A or B Airprox event attributable to NERL (2017: nil). This safety performance was achieved while we continued to make significant change to our operation and managed traffic growth.

Our performance for the 2017 calendar year achieved a RAT score of 43.5 RAT points per 100,000 flights relative to a stretching internal calendar year target of 29.9. The internal targets were set against a lower forecast of traffic than we continue to experience, resulting in their achievement being very challenging. However, these targets have continued to drive the right safety culture, behaviours and continuous improvement that would be expected from an organisation such as ours.

The number of Airprox events that have been classified as involving drones (or Remotely Piloted Airborne Systems) have more than doubled since 2014, and they now constitute more than 50% of all Airprox reported in the financial year.

With the number of drone incidents on the rise NERL, with the CAA, continued to engage with drone pilots to educate them in their safety responsibilities and to provide information sources to assist them to actively fulfil these when flying.

The Dronesafe website is now the home for all drone pilot focused materials and by using the Drone Assist App drone pilots have an application to help them identify and avoid areas of controlled and restricted airspace. We have also partnered with a world leader in commercial drone-based inspection services and training, which will enhance our ability to deliver expert training to the growing commercial drone sector and the emergency services.



This is an increasing risk to our operations and therefore our overriding objective continues to be ensuring that both commercial and drone pilots can engage in their activities safely while ensuring the safety of other airspace users. NERL recognises the need for a clear regulatory framework for drones and welcomes the recent update to UK drone laws announced by the Department of Transport (DfT).

Managing safety & change

This was another year of significant change for NERL. We introduced electronic flight strips into London Terminal Control for the first time. This technology change was subject to human factors safety assurance to ensure the safe deployment into service and, on an ongoing basis, our controllers' performance with the tool is monitored during operational use. Changes in technology are key enablers to future safety improvements, including airspace modernisation.

Safety improvements

Over the last two years, our Think Act Be SAFE promotion has engaged with employees to promote behaviours consistent with "safe in everything we do".

The introduction of new technology changes the nature of the operation and it is vital that we learn from the experience of interacting with new tools, managing risks before they lead to incidents. Therefore, during 2018 we have appropriately evolved our lesson learning processes to ensure our risks are efficiently, effectively and proactively identified, reported and shared throughout our operation. We have seen the benefit of focused lesson learning in reducing the number of events arising from some specific causal factors. Our safety improvement activities also included supporting the trials of ADS-B surveillance as a safety net at general aviation airfields, including subsidising equipage of aircraft operating from those airfields.

The threat to cyber security is an increasing concern for many organisations, including those with critical infrastructure. Our response is to ensure that our ATC systems are certified against recognised standards of good practice, such as ISO27001. We also ensure our ATC systems are constantly evaluated for vulnerabilities, and enhanced in response to changes in the threat landscape. We work with peers across the industry, with our regulator and with the UK National Cyber Security Centre to ensure that we remain informed and aligned with the current challenges and solutions.

We partner with external experts and government bodies to ensure that our next generation of ATC systems move cyber security even further forward, ensuring that systems are designed with security and resilience built-in. These technical innovations are supported by our strong safety and resilience culture and award-winning security training and education programme.

In order to meet the needs of the Board and Executive team, we have established a Cyber Security Governance Group to provide effective governance and oversight of the actions being taken on cyber issues by different business areas.

Regulatory environment

NERL is subject to economic regulation under the EC's SES Performance Scheme for Air Navigation Services. The impact of Brexit on these arrangements is not yet clear but we are working on the assumption that they will at least extend into any transitional period. In any case, the UK's Transport Act 2000 also sets a national regulatory framework. From 2012 the SES performance scheme set targets for safety, environment, airspace capacity and cost efficiency for Functional Airspace Blocks (FAB). NERL's Performance Plan for RP2 contributed towards meeting the targets set for the UK-Ireland FAB.

The EC is now preparing for RP3 and is considering changes to the performance scheme and targets for Member States. We will reflect the impact of these in our revised Business Plan for RP3, as far as possible, highlighting any impact to customers during the current consultation on our initial Business Plan.

After CAA scrutiny, NERL's revised business plan will form the major part of the UK's Performance Plan, which the DfT will submit to the EU for assessment in June 2019. The EC will complete that assessment by November 2019, ahead of the start of RP3 in January 2020.

On the technology side, we are committed to implementing the operational concepts which are being developed to modernise and optimise the future European ATM network under the EC's SES initiative such as time-based separation, extended arrival manager and free route airspace. Our RP3 plan includes the necessary work to meet these legally-binding state obligations.

Outlook for air traffic volumes

We are managing significantly more flights in RP2 than was assumed when the RP2 plan was developed. Traffic volumes have returned to around peak 2007 levels and this year we handled around 8% more traffic than assumed at the start of RP2. Over the five years of RP2 we estimate that traffic will have grown by 15%, and will be 7% higher than the RP2 assumption by calendar year 2019.

We are forecasting that flight volumes will rise by an additional 6% during RP3 to 2.74 million. This forecast reflects a slowing in the rate of annual growth, mainly as a result of airport capacity constraints within the UK.

The most significant uncertainty affecting our traffic forecast for RP3 is the economic forecast. This is particularly the case given Brexit, including whether or not the UK remains part of the fully liberalised EU aviation market, and the effect this may have on the UK economy generally and the aviation market specifically over the coming years. Given the current timetable for Brexit negotiations it is unlikely that its full effects will be understood prior to the start of RP3.

People

Our People and Organisation Strategy is designed to ensure that our employees have the skills required to deliver today's operational service as well as the talent and capability mix required for the future. This is particularly important as new technology and methods of operation are implemented. We will need to develop and train our existing employees and ensure that we attract, and retain, the range of skills, talent and diversity we need for this new environment.

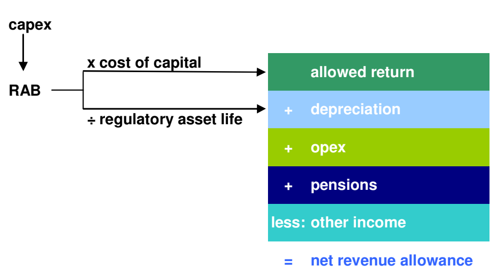
For the last couple of years we have recruited new air traffic controllers (c150 each year) at a faster rate than previously to keep pace with traffic growth and we are training our existing controllers on new technologies as these are being developed. For our technical services team, we introduced Directing our Future, an initiative which enables employees to engage with the changes facing NERL and equips them with new ways of working. We also created a series of one-day workshops for managers to help them better communicate with their teams and to improve their understanding of the business and the challenges we face.

Equally important for a high performing business is the wellbeing of every one of our employees. We were delighted to be recognised externally with a best new entrant award in Britain's Healthiest Workplace Award and, for the sixth consecutive year, we received a gold medal award for health and safety from the Royal Society for the Prevention of Accidents.

Our business model

NERL is the sole provider of air traffic control services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It is economically regulated by the CAA within the framework of the EC's SES and operates under a licence granted under the Transport Act 2000. En route, London Approach and North Sea helicopter advisory services are regulated by this licence. NERL also provides the MOD with engineering, surveillance and communications services. All of these activities are reported within Airspace.

The CAA establishes revenue allowances for NERL's economically regulated activities for a reference period which 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 represents the value ascribed to the capital employed in the regulated businesses. NERL's income from other activities is deducted under a 'single till', leaving a net revenue allowance. A price per service unit is set to recover this based on forecast traffic for the reference period. This model is illustrated below.



The price control for RP2 was based on revenue allowances of £2.7bn (expressed by the CAA in 2012 prices) and provides for a real pre-tax cost of capital of 5.9%. The CAA also sets targets, and provides incentives, for service and environmental performance. It sets a gearing target of 60% of net debt to RAB and cap of 65%. If regulatory and other assumptions are borne out in practice, then NERL would earn a return of 5.9% p.a. It can earn additional returns if it outperforms the CAA's assumptions by being more cost efficient, by financing its business at lower cost, if traffic volumes (after risk sharing - see below) are higher than forecast or if it outperforms service targets. NERL would earn lower returns if the opposite applied.

The EC legislation provides mechanisms which mitigate the impact of certain variations in traffic volumes, inflation and cash contributions to the defined benefit pension scheme from the level assumed. Charges are adjusted on a year 'n+2' basis or in subsequent reference periods, depending on the cause of variation.

We are uniquely placed to help airline customers to realise value by making airspace services more efficient. We understand the complex interactions at each stage of a flight between airlines, airport operators and ANSPs, including in some of the busiest airspace in the world and involving, in our en route operation, a seamless transition between the North Atlantic and UK en route services. We understand the benefit we can provide from fuel-efficient flight profiles, approaches and departures, minimising delay, and through arrival and departure management.

Our business priorities

We set a number of priorities which focus our employees on the year ahead. For 2017/18 these were:

Priorities for 2018	How we did
Provide safe and resilient air traffic services from our centres	✓
Focus on our people and employee relations as we transform our infrastructure	✓
Deliver key Deploying SESAR milestones:	
• expanding electronic flight strips in Terminal Control	✓
• fit out Combined Operations room at Swanwick	✓
Enhance the Oceanic technical platform and operations at Prestwick	✓

Our priorities for financial year 2018/19 are:

- Provide safe and resilient air traffic services from our centres;
- Continue to focus on our people and employee relations as we transform our infrastructure;
- Deliver electronic flight strips into full operational service in Terminal Control;
- Develop a plan for RP3 that delivers a balanced outcome for all of our stakeholders; and
- Deploy the next phase of airspace modernisation changes (sectors in the North Sea and lower Scottish airspace around Edinburgh and Glasgow airports).

Principal risks and uncertainties

The operational complexities inherent in the business leave NERL exposed to a number of significant risks and uncertainties. Our risk management process has identified the key risks that the Board believes are likely to have the most significant impact on our business, financial position, results and reputation based on the severity and likelihood of risk exposure. Risks are reviewed and 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 company focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

Safety: the risk of an aircraft accident

A loss of separation attributable to NERL that results in an accident in the air or on the ground would significantly impact NERL and its reputation. The reputational damage could result in the loss of future contracts and a reduction in revenue. If notice was given by the Secretary of State requiring NERL to take action as a result of the accident and NERL was unable or failed to comply then ultimately this could result in revocation of NERL's licence.

As a provider of a safety critical service, safety is the company's highest priority. To further embed our existing safety culture across the organisation and to mitigate safety risk, NERL has developed a Strategy for the Future Safety of ATM and supports this with a three year rolling Safety Plan. The company also maintains an explicit Safety Management System. The latter includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk.

Maintaining continuous operations

a. Loss of service from ATC centre

A loss of service would result in a loss of revenue as flow management procedures would be introduced to maintain safe separation. The extent of financial loss would depend on the time necessary to resume a safe service and the resultant level of air traffic delay. NERL has contingency arrangements which enable the recovery of its service capacity.

b. Operational systems resilience

Operational service provision is increasingly dependent on the performance and resilience of engineering systems, including communications, surveillance and flight data infrastructure. A number of mechanisms exist to identify systems resilience risks through an ISO55001 compliant Asset Management system. These include regular reviews of system health through structured questions with evidence-based outcomes. In addition, tactical issues are assessed following engineering updates to NATS' Safety Tracking and Reporting System to determine whether immediate escalation is required and to identify any emerging trends requiring investigation.

Political environment and economic regulation

Policy decisions by the regulator, the UK Government and the EC directly affect our businesses. Changes in policy may impact on the company's ability to meet the requirements of the UK and EC's aviation policies. We seek to mitigate this risk by providing independent input to policy studies (such as that conducted by the Airports Commission), lobbying for policy guidance and taking a leadership role where we believe this is required (such as UK airspace policy and airspace modernisation) and responding to industry consultation. We outlined earlier in this report, the importance of proceeding with airspace modernisation and we have indicated our willingness to take on a broader project management and coordination role for modernising flight paths both in airspace above 7,000 ft and airspace below this level which remains the responsibility of others to design and deliver. We will need the engagement and full support of Government, the CAA and industry to ensure this is achieved. If this does not proceed in a timely manner, supported by clear government policy, then UK airspace will reach capacity limits causing increasing delay and constraining aviation growth.

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

NERL's current environment and capacity targets were based on an RP2 investment plan that included the implementation of lower airspace change in the London area. Industry consensus was that this is not possible during RP2 due to factors beyond NERL's control. The company is seeking to mitigate regulatory risk by aiming to achieve its RP2 targets through equivalent environmental and fuel saving benefits via a package of other airspace changes that have industry support.

Defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits.

The scheme was closed to new entrants in 2009, pensionable pay rises are capped and future service benefits are linked to the Consumer Prices Index. NERL regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction strategies. Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions.

The Trustees have completed a formal valuation as at 31 December 2017. This reported a reduction in the funding deficit but with an increase in the cost of future service benefits. Deficit repair contributions will reduce from 1 January 2020. NERL's revenue allowances will be re-assessed for RP3 to reflect the outcome of the 2017 valuation.

The directors monitor the funding position of the scheme. The group's financing arrangements and cash reserves, its projected operating cash flows and mechanisms within the economic regulatory model enable the company to meet the contributions required.

Industry outlook and the impact of Brexit

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

In the short term the continuing uncertainty over the UK's decision to leave the EU could affect the demand for air travel and the volumes NERL handles, though traffic volume risk-sharing mitigates the impact.

Over the longer term, the impact depends significantly on the type of relationship that is forged between the UK and the EU. An important consideration for NERL is the extent of participation in the SES and the legislation governing the economic regulation of NERL. Under the UK Transport Act 2000 the CAA has a duty to ensure that NERL does not find it unduly difficult to finance its activities. Such a duty is not provided for in SES legislation. After leaving the EU, we expect that the UK will no longer be able to participate, with a vote, in the process of drafting and approving SES legislation. This could mean NERL, uniquely in the UK, being economically regulated by a body in which the UK does not vote. We will therefore be keeping the implications of Brexit developments under review with the relevant Government departments and the CAA.

Security: electronic and other external and internal threats

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

The company has enhanced the physical security of its principal sites and is continuing to enhance its cyber security processes and controls. The company maintains a close liaison with the relevant Home Office Constabularies as well as Government security agencies and departments including security advice from the Centre for the Protection of National Infrastructure (CPNI).

Employee relations

The deployment of SESAR technology and the company's response to the challenging competitive environment in the UK and overseas will require changes across our organisation. These factors could lead to deterioration in employee relations. Industrial action could result in reduced air traffic service provision which adversely impacts on service performance and revenues. Every effort is made to maintain good employee relations, including joint working groups with union representatives as part of an employee relations improvement project. A people and organisation strategy has been developed to ensure the right mix of skills to meet our strategic objectives.

Technology

The deployment of new SESAR technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment. We maintain programme governance and risk management processes overseen by the Executive and Board, including the Technical Review Committee.

Financial risks

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 20.

Non-financial risks

A number of other non-financial and non-operational risks are described in the non-financial reporting statement presented in the annual report of NATS Holdings Limited.

Service line performance

We organise our activities according to service lines, which reflect the customer groups to which we provide our products and services. The principal financial performance measures are revenue, including intra-group revenue, and contribution, which reflects the operating costs which managers are able to influence directly. A reconciliation of service line contribution to operating profit is provided in the notes to the financial statements.

Airspace

	2018	2017
Financial performance:		
Revenue (£m)	739.2	733.5
Service line contribution (£m)	344.5	358.5
Capital expenditure (£m)	180.0	149.7
Operational performance:		
Flights handled ('000s)	2,515	2,450
Risk-bearing airprox (no.)	nil	nil
Average delay per flight (seconds)	7.2	10.9
Environmental efficiency (3Di score)*	29.6	30.3

* for the calendar year to 31 December.

Airspace (see Our business model on page 13 for an explanation) generated revenue of £739.2m, a 0.8% increase on the previous year. This reflected the growth in volume of flights handled this year, mainly from transatlantic arrivals and departures and overflights, which offset the real price reductions required by the RP2 Performance Plan that benefited customers.

	2018 ('000s)	2017 ('000s)	Year on year change %
Chargeable Service Units	**11,674**	10,935	6.8%
Total UK traffic (flights):			
Domestic	389	394	(1.3%)
North Atlantic	383	361	6.1%
Other	1,743	1,695	2.8%
Total	**2,515**	2,450	2.7%
Oceanic traffic (flights):			
Chargeable flights	**494**	479	3.1%

Airspace also earned a service bonus of £2.6m (2017: £0.4m penalty) for exceeding its calendar year regulatory targets for delay. Flight efficiency (the environmental performance of our network) was within the economic regulator's service performance range, with no bonus or penalty. In addition, Airspace enabled CO_2 savings of 228,073 tonnes (2017: 59,768 tonnes - restated), which is equivalent to fuel savings of 71,721 tonnes (2017: 18,795 tonnes – restated).

Service performance: calendar years	2017		2016	
	Target	Actual	Target	Actual
C1: avg. En route delay at FAB level (seconds)	15.6	9.7	15.6	17.8
C2: avg. delay per flight (seconds)	10.8	6.2	10.8	12.8
C3: delay impact (score) [6]	27.0	12.7	24.8	25.0
C4: delay variability (score) [7]	2,000.0	0.6	2,000.0	176.7
C3Di: 3Di metric (score) [8]	28.9	29.6	29.3	30.3

The C1 metric is a Functional Airspace Block (FAB) level target introduced for RP2.

Last year's Airspace revenue also included income from European organisations of £4.6m for ad hoc services.

Overall, Airspace contribution of £344.5m (2017: £358.5m) was 3.9% lower reflecting higher staff and non-staff costs.

Other Service lines

	2018	2017
Financial performance:		
Revenue (£m)	5.3	3.6
Service line contribution (£m)	4.2	2.8
Capital expenditure (£m)	0.8	0.2

Other Service lines include defence, consultancy and information services.

Revenue at £5.3m (2017: £3.6m) was £1.7m higher than previously. Service line contribution increased by £1.4m to £4.2m (2017: £2.8m).

The Strategic report was approved by the Board of directors on 5 July 2018 and signed on its behalf by:

Richard Churchill-Coleman

Secretary

Report of the directors

The directors present their annual report on the affairs of the company, together with the financial statements and the auditor's report for the year ended 31 March 2018.

A review of the company's key business developments in the year and an indication of likely future developments is included within the Strategic report.

Information about the use of financial instruments by the company is given in note 20 to the financial statements.

Dividends

The company paid dividends of £27.5m (£2.75 per share) and £28.5m (£2.85 per share) in the year (2017: £23.0m). The Board recommends a final dividend for the year of £nil (2017: £nil).

In May 2018, the Board approved an interim dividend of £28.5m (£2.85 per share) for the year ending 31 March 2019, which was paid in June 2018.

Directors and their interests

The directors of the company at the date of this report, and details of changes made to the Board during the year and to the date of this report are set out below:

Maria Antoniou

Andrew Barker (resigned 29 September 2017)

Dr Harry Bush

Michael Campbell (appointed 26 May 2017)

William Facey (resigned 30 June 2017)

Nigel Fotherby

Dr Paul Golby

Christopher Hope (appointed 27 July 2017)

Richard Keys

Kathryn Leahy (appointed 31 May 2018)

Andrew Lord

Iain McNicoll

Gavin Merchant

Derek Provan (resigned 28 February 2018)

Peter Read (resigned 25 May 2017)

Martin Rolfe

None of the directors have any interests in the share capital of the company. Interests of the directors in the ordinary shares of the company's parent undertaking NATS Holdings Limited are explained in those accounts.

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

Directors' indemnities

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

Employees

Contracts of employment with employees are held by the company's parent company, NATS Limited. The company continues its commitment to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee 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 employees 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 with the Trades Unions. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

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

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

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

Going concern and subsequent events

The directors' assessment of going concern is explained in the Financial review section of this report. Subsequent events are disclosed in note 31 to the financial statements.

Directors' responsibilities

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

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

In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

Auditor

A resolution to re-appoint BDO LLP as statutory auditor 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

5 July 2018

Registered office

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

Registered in England and Wales

Company Number: 04129273

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

Opinion	We have audited the financial statements of NATS (En Route) plc (the 'company') for the year ended 31 March 2018 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes to the financial statements, including a summary of significant accounting policies. 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. **In our opinion the financial statements:** • **give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;** • **have been properly prepared in accordance with IFRSs as adopted by the European Union; and** • **have been prepared in accordance with the requirements of the Companies Act 2006.**
Separate opinion in relation to IFRSs as issued by the IASB	As explained in note 2 to the financial statements, the company, in addition to preparing financial statements in accordance with 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 give a true and fair view of the financial position of the company as at 31 March 2018 and of its financial performance and cash flows for the year then ended in accordance with IFRSs as issued by the IASB.
Basis for opinion	We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Conclusions relating to principal risks and going concern	We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: • **the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or** • **the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.**
Key audit matters	Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	How we addressed the matter
Recoverability of the regulatory assets As detailed on pages 32 and 40, in determining airspace revenues recognised, management makes key judgements about material revenue allowances that are recoverable or payable in subsequent accounting periods.	We have reviewed each significant revenue stream to ensure that we concur with the accounting policies applied. We have reviewed and tested each of the revenue streams to ensure that the revenue is being recognised in line with the company policy and, in the case of Airspace, to ensure that it is in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the RP2 settlement. We have specifically considered and challenged management over the amounts recoverable or payable as revenue allowances under the EC Charging Regulation.
Pension scheme actuarial valuation	**How we addressed the matter**
The company operates a defined benefit pension scheme, which is accounted for in accordance with IAS 19 'Employee Benefits' which requires complex calculations and disclosures. As detailed on page 40 and in note 28 management makes a number of judgements and actuarial assumptions, with assistance from their actuaries, which have a significant impact on the valuation of pension scheme assets and liabilities shown in the balance sheet and hence on the amounts shown in the consolidated income statement and the consolidated statement of comprehensive income.	We have reviewed the pension scheme data and accounting treatment and disclosures and considered them in light of the pension assumptions made. We have worked with our pension specialists to assess the validity of assumptions applied, in particular discount and inflation rates and mortality assumptions and performed a detailed review of the scheme actuary's annual valuation report. In addition, we have performed audit procedures in order to substantiate the value of the scheme assets. This included selecting a sample of investments held at the balance sheet date and comparing their value to third party asset confirmations and statements.

Carrying value of goodwill	How we addressed the matter
In accordance with the group's accounting policies, management has undertaken an impairment review of the carrying value of goodwill by comparison with the recoverable amount. This has resulted in no impairment in the year. In calculating an appropriate valuation for the recoverable amount of the regulatory business, the premium applied to the regulatory asset base (RAB) continues to be a key judgement.	We have reviewed and tested management's current assessment of the carrying amount of goodwill. We have reviewed, with the assistance of our own specialists, the overall methodology, which in accordance with IAS 36 this year is based on fair value less costs of disposal, as it is higher than value in use. We have also reviewed benchmarking available to support the RAB premium applied in determining the fair value less costs of disposal.
Capital investment programme	**How we addressed the matter**
As detailed on page 40 and notes 14 and 15 the company invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the company which are capitalised to specific projects. A key judgement is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated. In addition management makes judgements around the useful economic lives of currently deployed systems, assesses indicators of impairment and considers feasibility.	We have worked with the project managers outside of the company finance team in order to gain an understanding of the capital projects, and assessed them for impairment factors. We have tested a sample of capitalised projects which included reviewing the appropriateness of the labour rates being used and the amount of labour time being capitalised per project. By reviewing useful economic lives to prior years and working with project managers to assess performance to date and expected out turn we have assessed management's judgement of the useful economic lives of currently deployed systems to ensure that the position taken is reasonable. We have considered management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets. In addition we have tested a sample of externally generated assets to test existence and that costs are materially accurate.

Our application of materiality

The materiality we applied to the company equates to 5% of profit before tax (2017: 1% of revenue). We consider profit before tax to be the most significant determinant of the company's financial performance.

Materiality for the financial statements as a whole was £5.7 million (2017: £7.25 million).

Performance materiality is set at a level lower than materiality, which was 75% of materiality totalling £4.28m (2017: £5.44m). In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

We agreed with the directors that we would report to them all individual audit differences identified during the course of our audit above clearly trivial, which was in excess of £285,000 (2017: £217,500). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, Including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including the company's system of internal control, and assessing the risks of material misstatement in the financial statements.

The audit was principally performed in the UK at both the Scottish Accounting Unit, Edinburgh, and Corporate Technical Centre, Whiteley.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters

Following the recommendation of the audit committee of the ultimate parent in 2014, we were appointed to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ending 31 March 2015 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee of the ultimate parent.

Use of our report

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.

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
5 July 2018

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

Income statement
for the year ended 31 March

	Notes	2018 Result for the year £m	2017 Result before goodwill impairment £m	2017 Goodwill impairment £m	2017 Result for the year £m
Revenue	4	744.5	737.1	-	737.1
Staff costs	7	(317.6)	(304.2)	-	(304.2)
Services and materials		(41.3)	(44.9)	-	(44.9)
Repairs and maintenance		(37.0)	(33.1)	-	(33.1)
Depreciation, amortisation and impairment	6	(134.5)	(147.4)	(11.0)	(158.4)
Profit on disposal of non-current assets		-	0.1	-	0.1
Other operating charges		(60.9)	(51.8)	-	(51.8)
Other operating income		5.4	4.1	-	4.1
Deferred grants released	6	0.4	0.4	-	0.4
Net operating costs		(585.5)	(576.8)	(11.0)	(587.8)
Operating profit	6	159.0	160.3	(11.0)	149.3
Investment revenue	8	0.7	0.8	-	0.8
Fair value movement on derivative contract	9	1.3	(17.6)	-	(17.6)
Finance costs	10	(26.8)	(27.7)	-	(27.7)
Profit before tax		134.2	115.8	(11.0)	104.8
Tax	11	(19.8)	(18.1)	-	(18.1)
Profit for the year attributable to equity shareholders		114.4	97.7	(11.0)	86.7

Statement of comprehensive income
for the year ended 31 March

	Notes	2018 £m	2017 £m
Profit for the year after tax		114.4	86.7
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	28	340.3	(220.0)
Deferred tax relating to items that will not be reclassified	23	(61.3)	39.9
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(1.0)	6.5
Transfer to income statement on cash flow hedges		(0.8)	(3.5)
Deferred tax relating to items that may be reclassified	23	0.3	(0.6)
Other comprehensive income/(loss) for the year, net of tax		277.5	(177.7)
Total comprehensive income/(loss) for the year attributable to equity shareholders		391.9	(91.0)

Balance sheet
at 31 March

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	13	198.3	198.3
Other intangible assets	14	567.6	508.6
Property, plant and equipment	15	464.7	477.4
Retirement benefit asset	28	83.5	-
Trade and other receivables	16	17.8	15.9
Derivative financial instruments	18	1.2	1.9
		1,333.1	1,202.1
Current assets			
Trade and other receivables	16	121.5	120.3
Current tax assets		1.7	-
Short term investments	20	38.3	39.4
Cash and cash equivalents	20	156.3	108.4
Derivative financial instruments	18	1.9	2.1
		319.7	270.2
Total assets		1,652.8	1,472.3
Current liabilities			
Trade and other payables	21	(185.3)	(126.3)
Current tax liabilities		-	(5.4)
Borrowings	17	(67.1)	(46.6)
Provisions	22	(0.2)	(1.0)
Derivative financial instruments	18	(10.6)	(8.3)
		(263.2)	(187.6)
Net current assets		56.5	82.6
Non-current liabilities			
Trade and other payables	21	(155.3)	(117.4)
Borrowings	17	(334.8)	(402.2)
Retirement benefit obligations	28	-	(265.3)
Deferred tax liability	23	(111.4)	(36.0)
Provisions	22	(5.7)	(5.7)
Derivative financial instruments	18	(119.5)	(131.1)
		(726.7)	(957.7)
Total liabilities		(989.9)	(1,145.3)
Net assets		662.9	327.0
Equity			
Called up share capital	24	10.0	10.0
Hedge reserve		1.0	2.5
Special reserve		34.9	34.9
Other reserves		10.5	11.7
Retained earnings		606.5	267.9
Total equity		662.9	327.0

The financial statements (Company No. 04129273) were approved by the Board of directors and authorised for issue on 5 July 2018 and signed on its behalf by:

Martin Rolfe
Chief Executive

Nigel Fotherby
Finance Director

Statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the company					
	Share capital £m	Hedge reserve £m	Special reserve[1] £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2016	10.0	0.1	34.9	12.9	383.1	441.0
Profit for the year	-	-	-	-	86.7	86.7
Other comprehensive income/(loss) for the year	-	2.4	-	(1.2)	(178.9)	(177.7)
Total comprehensive income/(loss) for the year	-	2.4	-	(1.2)	(92.2)	(91.0)
Dividends paid	-	-	-	-	(23.0)	(23.0)
At 31 March 2017	10.0	2.5	34.9	11.7	267.9	327.0
At 1 April 2017	10.0	2.5	34.9	11.7	267.9	327.0
Profit for the year	-	-	-	-	114.4	114.4
Other comprehensive (loss)/income for the year	-	(1.5)	-	(1.2)	280.2	277.5
Total comprehensive (loss)/income for the year	-	(1.5)	-	(1.2)	394.6	391.9
Dividends paid	-	-	-	-	(56.0)	(56.0)
At 31 March 2018	10.0	1.0	34.9	10.5	606.5	662.9

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

Cash flow statement
for the year ended 31 March

	Notes	2018 £m	2017 £m
Net cash from operating activities	25	356.3	380.3
Cash flows from investing activities			
Interest received on short term investments		0.7	0.7
Purchase of property, plant and equipment and other intangible assets		(174.8)	(142.3)
Proceeds of disposal of property, plant and equipment		-	0.1
Changes in short term investments		1.1	(10.5)
Net cash outflow from investing activities		(173.0)	(152.0)
Cash flows from financing activities			
Interest paid		(23.7)	(31.3)
Interest received on derivative financial instruments		0.2	0.5
Repayment of bond principal		(47.2)	(39.2)
Repayments of obligations under finance leases		(0.2)	(0.2)
Index linked swap repayments		(8.1)	(3.8)
Bank loan repayments		-	(95.0)
Bank facility arrangement fees		(0.4)	(0.4)
Dividends paid		(56.0)	(23.0)
Net cash outflow from financing activities		(135.4)	(192.4)
Increase in cash and cash equivalents during the year		47.9	35.9
Cash and cash equivalents at 1 April		108.4	72.5
Cash and cash equivalents at 31 March		156.3	108.4
Net debt (representing borrowings net of cash and short term investments)		(207.3)	(301.0)

1. General information

NATS (En Route) plc (NERL) is a company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 22. The nature of the company's operations and its principal activities are set out in the Report of the directors and Strategic report.

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

2. Accounting policies

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

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 9. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and therefore the company financial statements comply with Article 4 of the EU IAS Regulation. The financial information has also been prepared in accordance with IFRSs.

In the current year, the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are effective for accounting periods beginning on or after 1 January 2017.

IAS 7 (amendments): *Disclosure Initiative*

IAS 12 (amendments): *Recognition of Deferred Tax Assets for Unrealised Losses*

The application of these amendments has not resulted in any material impact on the financial statements of the company.

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

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

IFRS 16: *Leases*

IAS 19 (amendments): *Plan Amendment, Curtailment or Settlement*

IAS 28 (amendments): *Long-term Interests in Associates and Joint Ventures*

IFRIC 22: *Foreign Currency Transactions and Advance Consideration*

IFRIC 23: *Uncertainty over Income Tax Treatments*

IFRS 9: *Financial Instruments* deals with classification, measurement and derecognition of financial assets and financial liabilities, hedge accounting and introduces a new expected loss impairment model. The standard is effective for reporting periods beginning on or after 1 January 2018. The standard is expected to have one main impact on the company being the adoption of the expected loss impairment model in assessing the level of impairment provision required for trade and contract receivables.

The company expects to recognise lifetime expected credit losses (i.e. losses arising from default over the life of a financial instrument) for its trade and contract receivables. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses. Based on initial reviews, the adoption of this standard is unlikely to have a material impact and therefore at the date of initial application, any adjustments will be reflected in retained earnings at 1 April 2018.

IFRS 15: *Revenue from Contracts with Customers* will replace IAS 18: *Revenue* and IAS 11: *Construction Contracts*, and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements.

The standard is effective for annual periods beginning on or after 1 January 2018. The directors will adopt the standard in the financial statements for the year ending 31 March 2019 and expect to apply the standard retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 April 2018.

The company is undertaking a detailed assessment of the impact of the standard by reviewing major contracts from each source of revenue. This assessment is subject to change. The assessment has identified one material change to revenue recognition under IFRS 15 being the recognition of the recovery or rebate of the difference in pension contributions paid and those assumed by the economic regulator (pension pass through costs).

The major part of the company's revenue is derived from service contracts which include performance obligations which are satisfied over time, as customers simultaneously receive and consume the benefits provided by the company's performance as the company performs, or which include enforceable rights to payment for performance completed to date. These revenues mainly relate to NERL's economically regulated Airspace services, provided to the licence customer base.

Airspace services include variable consideration for traffic volume risk sharing, inflation adjustments, service performance incentives, financing components and pension pass through costs. Under existing accounting standards, with the exception of pension pass through costs, variable consideration is recognised as services are provided.

Pension pass through costs are subject to regulatory scrutiny and are approved by the CAA and the EC after the end of a regulatory reference period. Amounts are then recovered over a 15 year period as an adjustment to the unit charge and this is the basis of recognition under IAS 18. For this reason pension pass through costs give rise to variable consideration.

A pension pass through amount of £14.2m was approved in 2015 relating to Reference Period 1 (RP1: 2011-2014). The company expects pension pass through for RP2 (2015-2019) to be scrutinised and assessed by CAA and the EC in the early part of RP3 (2020-2024).

IFRS 15 requires variable consideration for a performance obligation which has been fulfilled to be recognised to the extent that it is not subject to a significant risk of reversal. The directors consider that there is a significant risk pension pass through costs may be restricted by either CAA or the EC. For this reason, the company expects to recognise pension pass through in the financial year in which it is approved, rather than when it is received through the unit rate. This means that as at 1 April 2018, a residual balance of pension pass through of £11.7m relating to RP1 will be recognised in retained earnings and any pension pass through costs relating to RP2 will be recognised in the early part of RP3. We expect this to result in earlier recognition of revenue.

IFRS 16: *Leases* specifies how a company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

As at 31 March 2018, the company has non-cancellable operating lease commitments of £67.6m as disclosed in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the company will recognise an increase to total property, plant and equipment and a corresponding liability in respect of these leases, unless they qualify for exemption as low value or short-term leases upon the application of IFRS 16.

The company's preliminary assessment is that as at 31 March 2020, property, plant and equipment is likely to increase by c.£50m, lease liabilities by c.£60m and accruals are likely to decrease by c.£10m (relating to the balance of rent free period incentives not recognised on transition).

Over the life of leased assets, there will be no profit impact from adopting IFRS 16 but profit will vary between financial years as interest charges on finance leases are higher at the beginning of the lease term and reduce as the lease principal is repaid. Profit before tax for the year ending 31 March 2020 is expected to be c.£0.4m lower following adoption of this standard.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the company's financial statements. The estimated impact assumes we adopt the modified retrospective approach, with the right of use asset equal to the lease liability. The company will continue to assess the impact and as a result the above preliminary assessment is subject to change. The standard is effective for annual periods beginning on or after 1 January 2019. The directors do not intend to apply the standard earlier and have not yet assessed the transition accounting method to be used upon adoption.

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

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

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

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

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

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

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

- North Sea helicopter advisory services;
- air traffic services in certain sectors;
- services to the London Approach service (engineering services and use of communications facilities); and
- miscellaneous other services.

The company commenced trading from 26 July 2001.

Revenue recognition

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

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with NERL's air traffic services licence (including volume risk sharing, service performance incentives, costs exempt from risk sharing and inflation adjustments) and other contracts. Amounts receivable (and payable) include revenue allowed under the charge control conditions of the air traffic services licence and EC Charging Regulations.

- Sales of goods are recognised when they are delivered and title has passed.
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income is recognised when the shareholder's rights to receive payment have been established.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the group's Executive team, which is considered to be the chief operating decision maker. An operating segment represents a service line organised by customers who receive common products or services. Operating segment 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. Further information is provided in note 5.

Exceptional items and goodwill impairment charges

Exceptional items deemed as such by the directors by virtue of their nature or size, and goodwill impairment charges which may recur, are included under the statutory classification appropriate to their nature but are separately disclosed on the face of the income statement to assist in understanding the company's financial performance.

Operating profit

Operating profit is stated before investment income, the fair value movement in the index-linked swap contracts, finance costs and taxation.

Goodwill

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal is assessed by reference to the Regulatory Asset Base (RAB) of the economically regulated activities and costs of disposal. In assessing value in use, the estimated future cash flows (with a RAB terminal value, as a proxy for future cash flows) are discounted to their present value using the pre-tax nominal regulated rate of return. A premium is applied to the RAB (see note 3), as market precedent transactions indicate economically regulated businesses attract valuations in excess of RAB.

Leases

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment 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:

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

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

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

Borrowing costs

IAS 23: *Borrowing Costs* requires 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. Qualifying assets are those which take a substantial time to get ready for intended use. These do not include assets which are ready for use when acquired. For NERL qualifying assets relate to any additions to new projects that began from 1 April 2009, included in assets under construction.

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

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

Government grants and other grants

Government grants relating to property, plant and equipment are treated as deferred income and released 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 (and are reported on the face of the income statement).

Funding received from the Innovation and Network Agency (INEA) for SESAR deployment projects is deferred on the balance sheet. Under EC rules, this funding represents a contribution towards future revenue allowances. For this reason, the relevant amounts of INEA funding will be recognised as revenue in the period when customer charges are adjusted and discounted for INEA funding received.

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs of disposal 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 (with a RAB terminal value as a proxy for future cash flows).

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.

Share-based payments

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

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

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

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

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

Taxation

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

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

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

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

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

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

Under the Finance (No.2) Act 2015 which was enacted on 18 November 2015, the corporation tax rate was reduced to 19% with effect from 1 April 2017. Under the Finance Act 2016, the corporation tax rate will be reduced to 17% with effect from 1 April 2020. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate.

Foreign currency translation

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

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

Retirement benefit costs

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

Past service cost is recognised immediately to the extent that the benefits are already vested.

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

- current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurement.

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

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

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 16 to 21.

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.

The company has financial assets in the categories of other loans and receivables and financial assets at fair value through the profit and loss. The company does not have financial assets in other categories.

Loans and receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit and loss

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

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

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

Equity

Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Reserves

The statement of changes in equity includes the following reserves not otherwise explained in this note:

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

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The company uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 18 and 20 to the accounts.

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

The use of financial derivatives is governed by the company's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The company documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an 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 (in the Hedge reserve) 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 fair values less costs of disposal. These include air traffic growth, future cash flows, the value of the regulated asset bases, market premia for regulated businesses, the company's licence period and the outcome of the regulatory price control determinations. The market premium, which is applied to the RAB when determining the carrying value of goodwill, was assessed at the balance sheet date to be 5%-6% (2017: 5%-6%). The market premium is assessed by reference to both market precedent transactions and internal quantitative models. If the actual outcome should differ or changes in expectations arise, impairment charges may be required which would materially impact operating results. A reduction in market premium by less than 1% would result in the recoverable amount being equal to the carrying amount of goodwill. See notes 13, 14 and 15.

Retirement benefits

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

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

Recoverability of/obligation for revenue allowances

The economic regulatory price controls for UK en route services established annual revenue allowances that are 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 requires an adjustment to be made to the price two years later to reflect any over or under-recovery. At the balance sheet date there were £3.3m of net payable allowances relating to previous regulatory reference periods (2017: £3.5m net payable allowances) and £100.4m of payable allowances relating to the current regulatory reference period (2017: £47.4m of net payable allowances). The legal right to recover or the obligation to rebate the revenue adjustments discussed above is provided by the EC Charging Regulation and NERL's air traffic services licence.

Capital investment programme

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

4. Revenue

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

	2018 £m	2017 £m
Airspace	739.2	733.5
Other Service lines	5.3	3.6
	744.5	737.1
Other operating income	5.4	4.1
Investment revenue (see note 8)	0.7	0.8
	750.6	742.0

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

A portion of the company's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is a gain of £0.8m (2017: £3.5m gain).

5. Operating segments

The NATS Executive team is considered to be the chief operating decision maker as defined by IFRS 8. The segmental analysis is based on the information that the Executive team uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The business is organised into service lines, aligned with our customers: Airspace, Defence and Other UK Business, and the products and services provided to each. Reports to the Executive aggregate the performance of Defence and Other UK Business and report these as a single service line, Other Service lines.

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), impairment of goodwill, profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy costs and above the line tax credits. A reconciliation of service line contribution to operating profit is set out below.

Principal activities

The following table describes the activities of each reporting segment:

Airspace	This includes all of the company's economically regulated activities and encompasses services to en route, oceanic and terminal customers provided from our Prestwick and Swanwick centres, together with all 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, infrastructure services to the Ministry of Defence (MOD) for their en route operations and European projects in conjunction with other air traffic organisations.
Other Service lines	Other services provided to UK customers including: Defence, providing air traffic control, engineering support and other services to the MOD and support to the Aquila joint venture for its Marshall contract; Consultancy, offering airspace development, capacity improvement and training; and Information, providing data to enable future efficiency and flight optimisation.

Segment information about these activities is presented below.

Revenue

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

	2018			2017		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Airspace	712.8	26.4	739.2	707.6	25.9	733.5
Other Service lines	5.3	-	5.3	3.6	-	3.6
	718.1	26.4	744.5	711.2	25.9	737.1

Intercompany revenue includes revenue for services to NATS (Services) Limited of £26.3m (2017: £25.8m) and to NATSNav Limited of £0.1m (2017: £0.1m).

5. Operating 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:

	2018 £m	2017 £m
Airspace	344.5	358.5
Other Service lines	4.2	2.8
Service line contribution	348.7	361.3
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(134.1)	(147.0)
Impairment of goodwill	-	(11.0)
Profit on disposal of non-current assets	-	0.1
Employee share scheme credits	2.2	0.1
Redundancy costs	(0.7)	(1.4)
Other costs not directly attributed to service lines	(58.9)	(54.4)
R&D expenditure above the line tax credits	1.8	1.6
Operating profit	159.0	149.3

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

Supplementary information

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

	2018			2017		
	UK air traffic services £m	North Atlantic air traffic services £m	Total £m	UK air traffic services £m	North Atlantic air traffic services £m	Total £m
Revenue	715.0	29.5	744.5	707.3	29.8	737.1
Operating costs	(563.0)	(22.5)	(585.5)	(565.1)	(22.7)	(587.8)
Operating profit	152.0	7.0	159.0	142.2	7.1	149.3

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

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

Non-current asset additions

Additions to non-current assets presented by service line are: Airspace £180.0m (2017: £149.7m) and Other Service lines £0.8m (2017: £0.2m).

Geographical segments

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

	Revenue		Non-current assets	
	2018 £m	2017 £m	2018 £m	2017 £m
United Kingdom	308.6	313.4	1,234.1	1,183.8
Other European Countries	136.0	131.2	0.8	1.3
Republic of Ireland	88.0	88.0	-	-
United States of America	85.7	82.9	-	-
Germany	48.9	48.2	-	-
Countries in Asia	48.3	47.0	-	-
Other North American countries	21.6	20.5	0.7	0.8
Countries in Africa	5.4	3.6	-	-
Countries in Oceania	1.3	1.3	-	-
Countries in South America	0.7	1.0	-	-
	744.5	737.1	1,235.6	1,185.9

Revenue is attributed to countries on the basis of the customer's country of domicile. Individual countries have not been shown where revenue from these countries of domicile are less than 5% of total revenue.

Information about major customers

Included in revenues arising from NATS Airspace are revenues of £78.3m (2017: £86.5m) which arose from the company's largest customer.

6. Operating profit for the year

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

	2018 £m	2017 £m
CAA regulatory charges	4.9	4.9
Impairment of goodwill	-	11.0
Depreciation of property, plant and equipment	79.0	102.2
Impairment of property, plant and equipment	0.9	0.5
Amortisation of intangible assets	50.9	44.7
Impairment of intangible assets	3.7	-
Deferred grants released	(0.4)	(0.4)
Research and development costs	8.6	7.0
Redundancy costs	0.7	1.4
R&D expenditure above the line tax credits	(1.8)	(1.6)
Auditors remuneration for audit services (see below)	-	-

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

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

Government grants relating to the purchase of property, plant and equipment are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful lives of the related assets.

Transactions with group companies

	2018 £m	2017 £m
Net charges for services provided by parent undertaking	9.0	8.4
Charges for services provided by other group companies	17.1	16.4

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NERL. In addition to the staff costs referred to in note 7a below, NERL is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NERL (including all taxes and social security, redundancy and pension costs) together with appropriate staff related costs and expenses and disbursements. Under the Inter Company Services Agreement (ICSA) NATS Services provides certain services to NERL. The MSA and ICSA are explained in more detail in note 2.

7. Staff costs

a) Staff costs

	2018 £m	2017 £m
Salaries and staff costs were as follows:		
Wages and salaries	252.8	233.3
Social security costs	31.0	28.5
Pension costs (note 7b)	78.6	82.4
	362.4	344.2
Less: amounts capitalised	(44.8)	(40.0)
	317.6	304.2

Wages and salaries includes redundancy costs of £0.7m (2017: £1.4m), share-based payment charges, other allowances and holiday pay.

b) Pension costs

	2018 £m	2017 £m
Defined benefit pension scheme costs (note 28)	69.5	75.2
Defined contribution pension scheme costs	9.1	7.2
	78.6	82.4

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

c) Staff numbers

	2018 No.	2017 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	1,212	1,169
Air traffic service assistants	498	488
Engineers	769	791
Others	758	711
	3,237	3,159

8. Investment revenue

	2018 £m	2017 £m
Interest on bank deposits	0.6	0.5
Other loans and receivables	0.1	0.3
	0.7	0.8

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

9. Fair value movement on derivative contract

	2018 £m	2017 £m
Credit/(charge) arising from change in the fair value of derivatives not qualifying for hedge accounting (before credit value adjustment)	1.3	(17.6)

10. Finance costs

	2018 £m	2017 £m
Interest on bank overdrafts, loans and hedging instruments	0.6	0.1
Bond and related costs including financing expenses	23.6	25.7
Other finance costs	2.4	1.7
Interest payable on intercompany loans	0.2	0.2
	26.8	27.7

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

11. Tax

	2018 £m	2017 £m
Corporation tax		
Current tax	10.7	22.8
Adjustments in respect of prior year	(5.3)	(4.6)
	5.4	18.2
Deferred tax (see note 23)		
Origination and reversal of temporary timing differences	11.6	(0.3)
Adjustments in respect of prior year	5.2	4.8
Effects of tax rate change on opening balance	(2.4)	(4.6)
	14.4	(0.1)
	19.8	18.1

Corporation tax is calculated at 19% (2017: 20%) 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:	2018 £m	2018 %	2017 £m	2017 %
Profit on ordinary activities before tax	134.2		104.8	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2017: 20%)	25.5	19.0%	21.0	20.0%
Tax effect of change in corporation tax rate from 19% to 17% (2017: 20% to 17%)	(3.4)	(2.5%)	(4.6)	(4.3%)
Patent box	(1.5)	(1.1%)	(1.4)	(1.3%)
Goodwill impairment	-	-	2.2	2.1%
Tax effect of prior year adjustments - current tax	(5.3)	(4.0%)	(4.6)	(4.3%)
Tax effect of prior year adjustments - deferred tax	5.2	3.9%	4.8	4.5%
Employee share scheme award of partnership and matching shares	-	-	(0.3)	(0.3%)
R&D expenditure increased deductions	0.6	0.5%	1.1	1.0%
Other permanent differences	(1.3)	(1.0%)	(0.1)	(0.1%)
Tax charge for year at an effective tax rate of 14.8% (2017: 17.3%)	19.8	14.8%	18.1	17.3%
Deferred tax charge/(credit) taken directly to equity (see note 23)	61.0		(39.3)	

12. Dividends

	2018 £m	2017 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of £2.75 per share (2017: £2.30 per share)	27.5	23.0
Second interim dividend of £2.85 per share (2017: £nil per share)	28.5	-
	56.0	23.0

In May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of £2.85 per share (totalling £28.5m), which was paid to the company's parent in June 2018.

13. Goodwill

	£m
Cost	
At 31 March 2017 and 31 March 2018	351.0
Accumulated impairment losses	
At 1 April 2016	141.7
Impairment provision recognised in income statement	11.0
At 31 March 2017	152.7
Impairment provision recognised in income statement	-
At 31 March 2018	152.7
Carrying amount	
At 31 March 2018	198.3
At 31 March 2017	198.3
At 1 April 2016	209.3

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

The recoverable amount of goodwill is determined by reference to the higher of its fair value less costs of disposal and value in use. Fair value less costs of disposal is determined by reference to the value of the regulatory asset bases of UK Air Traffic Services and North Atlantic Air Traffic Services, representing the cash generating units, including opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses (assumed at 5%-6%, 2017: 5%-6%) and estimated costs of disposal. The key assumptions for value in use calculations are the discount rate, future cash flows to the end of Reference Period 2 (31 December 2019) for both cash generating units as assumed in the group's business plans, and a terminal value at that date, reflecting the projected regulatory asset bases and a market premium, which is assessed annually. The group's business plans reflect the outcome of the Reference Period 2 price control review and include forecasts of traffic volumes, inflation and pension costs reflecting the current economic environment. The discount rate is a pre-tax nominal rate of 9.05% (2017: 9.10%) for cash flows arising in Reference Period 2. The value of the regulatory asset bases at the balance sheet date were £1,006.4m (2017: £1,037.8m). Goodwill is allocated to the Airspace service line. The carrying value at 31 March 2018 is supported by fair value less costs of disposal using the valuation methodology consistent with the IFRS 13 Level 3 hierarchy. The prior year impairment charge arose following a reduction in value in use. Further details are provided in the Strategic Report. See also note 3.

14. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2016	217.6	75.8	46.4	294.7	634.5
Additions internally generated	5.3	0.4	-	28.6	34.3
Additions externally acquired	6.1	5.2	-	70.2	81.5
Transfers during the year	217.8	3.5	0.6	(225.0)	(3.1)
At 31 March 2017	446.8	84.9	47.0	168.5	747.2
Additions internally generated	6.8	0.1	1.5	26.3	34.7
Additions externally acquired	8.1	4.5	-	68.6	81.2
Transfers during the year	20.1	1.3	1.0	(24.7)	(2.3)
At 31 March 2018	481.8	90.8	49.5	238.7	860.8
Accumulated amortisation					
At 1 April 2016	110.3	52.1	19.3	15.9	197.6
Charge for the year	31.2	9.3	4.2	-	44.7
Transfer of impairment provision	11.9	-	-	(15.6)	(3.7)
At 31 March 2017	153.4	61.4	23.5	0.3	238.6
Charge for the year	38.6	8.1	4.2	-	50.9
Impairment provision recognised in income statement	-	-	-	3.7	3.7
Transfer of impairment provision	3.1	0.1	-	(3.2)	-
At 31 March 2018	195.1	69.6	27.7	0.8	293.2
Carrying amount					
At 31 March 2018	286.7	21.2	21.8	237.9	567.6
At 31 March 2017	293.4	23.5	23.5	168.2	508.6
At 1 April 2016	107.3	23.7	27.1	278.8	436.9

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

15. Property, plant and equipment

	Freehold land 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 2016	243.8	41.2	1,320.0	21.4	49.6	1,676.0
Additions during the year	0.8	-	13.2	0.3	19.8	34.1
Other transfers during the year	1.1	-	28.5	0.1	(26.6)	3.1
At 31 March 2017	245.7	41.2	1,361.7	21.8	42.8	1,713.2
Additions during the year	0.4	0.1	6.6	0.4	57.4	64.9
Disposals during the year	-	(0.2)	(1.0)	-	-	(1.2)
Other transfers during the year	-	0.1	11.0	0.4	(9.2)	2.3
At 31 March 2018	246.1	41.2	1,378.3	22.6	91.0	1,779.2
Accumulated depreciation and impairment						
At 1 April 2016	121.7	31.1	962.2	13.4	1.0	1,129.4
Provided during the year	7.6	1.4	91.7	1.5	-	102.2
Impairment provision recognised in income statement	-	-	-	-	0.5	0.5
Transfer of impairment provision	-	-	4.6	-	(0.9)	3.7
At 31 March 2017	129.3	32.5	1,058.5	14.9	0.6	1,235.8
Provided during the year	7.8	1.3	68.7	1.2	-	79.0
Impairment provision recognised in income statement	-	-	0.8	-	0.1	0.9
Transfer of impairment provision	-	-	0.2	-	(0.2)	-
Disposals during the year	-	(0.2)	(1.0)	-	-	(1.2)
At 31 March 2018	137.1	33.6	1,127.2	16.1	0.5	1,314.5
Carrying amount						
At 31 March 2018	109.0	7.6	251.1	6.5	90.5	464.7
At 31 March 2017	116.4	8.7	303.2	6.9	42.2	477.4
At 1 April 2016	122.1	10.1	357.8	8.0	48.6	546.6

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £4.6m (2017: £0.5m) were made in respect of operational assets and assets in the course of construction reflecting a reassessment of certain projects and assets and the likelihood of benefits being realised in full.

During the year the company capitalised £nil (2017: £1.1m) of general borrowing costs at a capitalisation rate of 0.0% (2017: 1.9%), in accordance with IAS 23: *Borrowing Costs*, relating to both property, plant and equipment and other intangible assets.

The company has a finance lease for certain network related assets. The fair value of the assets held under finance lease are £1.6m (2017: £1.8m) and are included within the cost for air traffic control systems, plant and equipment above.

16. Financial and other assets

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

Trade and other receivables

	2018 £m	2017 £m
Non-current		
Prepayments	5.0	1.6
Accrued income	12.8	14.3
	17.8	15.9
Current		
Receivable from customers (gross)	52.3	54.3
Allowance for doubtful debts	(4.8)	(4.0)
	47.5	50.3
Other debtors	3.2	2.5
Prepayments	9.9	9.0
Accrued income	60.9	58.5
	121.5	120.3

The average credit period taken on sales of services is 29 days (2017: 29 days). Interest is charged by Eurocontrol to UK en route customers at 9.74% (2017: 9.88%) on balances outstanding after more than 30 days. All other balances are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from sales to customers of £4.8m (2017: £4.0m). Full provision is made for receivables from UK en route customers that are overdue as, based on past experience, this is an indicator of impairment. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically. Receivables in respect of other customers are provided for where there is an identified loss event, such as administration, receivership or liquidation or where there is evidence of a reduction in the recoverability of the cash flows.

Accrued income which is non-current represents regulatory revenue adjustments for the previous control period, which will be recovered after 31 March 2019. Accrued income which is current includes unbilled revenue for services provided in March 2018. Prior year accrued income included unbilled revenue for services provided in March 2017 and regulatory adjustments for the previous control period which were recovered by 31 March 2018.

Ageing of past due but not impaired trade receivables

	2018 £m	2017 £m
31-90 days	-	0.1

Movement in the allowance for doubtful debts

	2018 £m	2017 £m
Balance at the beginning of the year	4.0	4.3
Increase in allowance recognised in the income statement	0.8	0.1
Foreign exchange movement in the year	0.1	0.2
Amounts recovered during the year	0.1	0.1
Amounts written off as irrecoverable	(0.2)	(0.7)
Balance at the end of the year	4.8	4.0

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £3.6m (2017: £2.4m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The company does not hold any collateral over these balances.

Ageing of impaired receivables

	2018 £m	2017 £m
31-90 days	0.2	0.4
91-365 days	1.6	0.7
> 365 days	3.0	2.9
	4.8	4.0

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

16. Financial and other assets (continued)

Cash and cash equivalents

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

Overall, the maximum credit risk for the items discussed above (excluding prepayments and VAT) would be £315.8m (2017: £271.0m).

17. Borrowings

	2018	2017
	£m	£m
Unsecured loans		
Intercompany loan from fellow subsidiary	22.5	22.5
Obligations under finance leases (see note 19)	1.6	1.8
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	381.3	428.4
Gross borrowings	405.4	452.7
Unamortised bond issue costs	(1.8)	(2.2)
Unamortised bank facility arrangement fees	(1.7)	(1.7)
	401.9	448.8
Amounts due for settlement within 12 months	67.1	46.6
Amounts due for settlement after 12 months	334.8	402.2

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 made by NERL under its £400.0m committed bank facilities are similarly secured. Total assets of NERL as at 31 March 2018 were £1,652.8m (2017: £1,472.3m), including goodwill of £198.3m (2017: £198.3m). Further security provisions are also provided by NATS Holdings Limited and by NATS Limited.

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. Costs not fully amortised at the date of subsequent refinancing are written off.

Undrawn committed facilities	2018	2017
	£m	£m
Undrawn committed facilities expire as follows:		
Expiring in more than two years	400.0	400.0

At 31 March 2018, NERL had no outstanding drawings on its committed bank facilities. These facilities expire in July 2022, after the company opted to extend the bank facility in May 2017 from July 2021 to July 2022.

In May 2018, NERL repaid the intercompany loan of £22.5m.

18. Derivative financial instruments

Fair value of derivative financial instruments

	2018 £m	2017 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.2	1.9
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	1.9	2.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.4)	(0.4)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(10.2)	(7.9)
	(10.6)	(8.3)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.5)	(0.4)
Derivative financial instruments classified as held for trading		
Index-linked swaps	(119.0)	(130.7)
	(119.5)	(131.1)

Further details on derivative financial instruments are provided in note 20. 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 company's adoption of international accounting standards.

19. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	0.2	0.2	0.2	0.2
In the second to fifth years inclusive	0.9	0.9	0.8	0.8
After five years	0.7	0.9	0.6	0.8
	1.8	2.0	1.6	1.8
Less: future finance charges	(0.2)	(0.2)	-	-
Present value of minimum lease payments	1.6	1.8	1.6	1.8

	2018 £m	2017 £m
Current	0.2	0.2
Non-current	1.4	1.6
	1.6	1.8

The company has a finance lease arrangement for certain network equipment. The term of this lease is 10 years. For the year ended 31 March 2018, the effective borrowing rate was 3.1%. All leases are on a fixed repayment basis.

The fair value of the company's lease obligation is approximately equal to its carrying amount.

20. Financial instruments

Capital risk management

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

External capital requirements

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

As at 31 March 2018, the company had a corporate rating of A+ from Standard & Poor's (2017: A+) and A2 from Moody's (2017: A2).

Gearing ratio

Consistent with seeking to maintain an investment grade credit rating, the company sets a gearing target measured as the ratio of net debt to the regulatory asset base (RAB). In addition, the CAA has set NERL a gearing target of 60% and a cap of 65% of net debt to RAB with a requirement to remedy the position if this cap is exceeded. NERL's gearing ratio at 31 March 2018 was 27.5% (2017: 35.9%).

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:

	2018 £m	2017 £m
Financial assets		
Trade and other receivables, excluding prepayments and VAT	121.2	123.2
Cash and cash equivalents and short term investments	194.6	147.8
Derivative financial instruments in designated hedge accounting relationships	3.1	4.0
	318.9	275.0
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.9)	(0.8)
Derivative financial instruments classified as held for trading	(129.2)	(138.6)
Other financial liabilities at amortised cost	(655.3)	(621.4)
	(785.4)	(760.8)

Trade and other receivables excludes prepayments, and VAT of £3.2m (2017: £2.4m). Other financial liabilities at amortised cost include balances for trade and other payables (excluding deferred income of £90.7m (2017: £75.0m)), the bond and bank borrowings (excluding unamortised bond issue costs and bank facility arrangement fees).

The index-linked swap is categorised as held for trading. During the year, £8.1m (2017: £3.8m) was repaid in semi-annual amortisation payments. The credit arising from the change in fair value of £1.3m has been recorded in the income statement in the year (2017: £17.6m charge).

Financial risk management objectives

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

Market risk

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

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

Foreign currency risk management

The company's principal exposure to foreign currency transaction risk is in relation to UK en route services revenues, accounting for 81% of turnover (2017: 81%). Charges for this service are set in sterling, but are billed and collected in euro by applying a conversion rate determined monthly by Eurocontrol, who administer the UK en route revenue collection. The conversion factor used is the average of the daily closing rates for the month prior to the billing period. To mitigate the risk that exchange rates move between the date of billing and the date on which the funds are remitted to the company, forward foreign currency contracts are entered into. The company seeks to hedge 95% of the UK en route income that is forecast to arise by entering into forward foreign exchange contracts on a monthly basis.

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

	Assets		Liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Euro	101.6	106.2	(12.9)	(13.3)
US dollar	0.3	0.2	(1.4)	(2.7)
Danish krone	0.1	-	-	-
Canadian dollar	-	0.1	(0.5)	(1.8)
	102.0	106.5	(14.8)	(17.8)

20. Financial instruments (continued)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £2.2m at 31 March 2018 (2017: £8.0m) in euro, US dollars and Danish krone. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

The following table details the company'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	2018 Impact £m	2017 Impact £m
Euro	0.9	(1.1)
US dollar	(1.9)	(2.5)
Canadian dollar	(0.1)	(0.1)
Danish Krone	(0.1)	-
	(1.2)	(3.7)

The company's sensitivity to the euro reversed during the year reflecting a net decrease in euro denominated monetary assets and a net decrease in euro denominated forward contracts taken out to hedge future purchases. The company's sensitivity to the US dollar decreased during the year reflecting a net decrease in US dollar denominated monetary liabilities and a net decrease in US dollar denominated forward contracts. Exposure to other currencies has remained fairly constant. NERL believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Forward foreign exchange contracts

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

	2018				2017		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-90 days	148.8	168.2	0.8847	0-90 days	149.2	173.4	0.8604
91-365 days	9.0	10.0	0.9007	91-365 days	-	-	-
> 365 days	24.3	26.6	0.9136	Over 3 months	-	-	-
	182.1	204.8	0.8892		149.2	173.4	0.8604
Euro bought	€m	£m		Euro bought	€m	£m	
0-90 days	12.0	10.7	0.8937	0-90 days	5.4	4.6	0.8582
91-365 days	21.2	18.6	0.8732	91-365 days	8.8	7.6	0.8595
> 365 days	61.7	55.3	0.8956	> 365 days	62.2	54.9	0.8822
	94.9	84.6	0.8904		76.4	67.1	0.8779
US dollar sold	£m	US$ m		US dollar sold	£m	US$ m	
0-90 days	-	-	-	0-90 days	3.8	4.7	1.2443
US dollar bought	US$ m	£m		US dollar bought	US$ m	£m	
0-90 days	8.8	6.3	1.4069	0-90 days	10.9	8.7	1.2480
91-365 days	4.1	2.8	1.4554	91-365 days	13.3	9.4	1.4159
> 365 days	16.7	11.3	1.4730	> 365 days	19.8	13.4	1.4765
	29.6	20.4	1.4503		44.0	31.5	1.3951
Canadian dollar bought	CAD m	£m		Canadian dollar bought	CAD m	£m	
0-90 days	1.3	0.8	1.6836	0-90 days	3.2	1.9	1.6882
> 365 days	0.9	0.5	1.7197	> 365 days	1.4	0.8	1.7136
	2.2	1.3	1.6981		4.6	2.7	1.6959
Danish krone bought	DKK m	£m		Danish krone bought	£m	DKK m	
0-90 days	1.4	0.2	8.5309	0-90 days	-	-	-
> 365 days	4.4	0.5	8.3410	> 365 days	-	-	-
	5.8	0.7	8.3866		-	-	-

At 31 March 2018, 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 £1.3m (2017: £3.1m unrealised gain). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2018 to sell euro anticipated to be received in July 2018 in respect of UK en route revenues, for this reason they are not included in the table above. The value of these cash flows is £56.4m (2017: £60.0m). These contracts are also designated as cash flow hedges.

20. Financial instruments (continued)

Interest rate risk management

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

The company seeks to minimise exposure to movements in interest rates by ensuring that it holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts.

The company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The company held no interest rate swaps at 31 March 2018 (2017: none).

Economic interest rate exposure

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

	2018						
	Cash			Short term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	154.1	0.4	5	38.3	0.8	181	192.4
Euro	2.0	-	3	-	-	-	2.0
US dollar	0.1	-	3	-	-	-	0.1
Danish Krone	0.1	-	3	-	-	-	0.1
	156.3			38.3			194.6

	2017						
	Cash			Short term deposits			
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Total £m
Sterling	100.4	0.2	5	39.4	0.4	182	139.8
Euro	7.8	(0.4)	3	-	-	-	7.8
US dollar	0.1	-	3	-	-	-	0.1
Canadian dollar	0.1	-	3	-	-	-	0.1
	108.4			39.4			147.8

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

The economic interest rate exposure of the company'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 for which rate is fixed years
At 31 March 2018						
Sterling:						
5.25% guaranteed secured bonds	381.3	-	-	381.3	5.26%	4.6
Obligations under finance leases	1.6	-	-	1.6	3.10%	3.9
Intercompany loans	22.5	22.5	-	-	1.20%	0.5
Total	405.4	22.5	-	382.9		
At 31 March 2017						
Sterling:						
5.25% guaranteed secured bonds	428.4	-	-	428.4	5.26%	5.1
Obligations under finance leases	1.8	-	-	1.8	3.10%	4.4
Intercompany loans	22.5	22.5	-	-	0.87%	0.5
Total	452.7	22.5	-	430.2		

20. Financial instruments (continued)

Economic interest rate exposure (continued)

Including derivatives

	Total £m	Variable rate £m	Inflation rate £m	Fixed rate £m	Economic interest rate %	Weighted average time for which rate is fixed years
At 31 March 2018						
Sterling:						
5.25% guaranteed secured bonds	205.3	-	-	205.3	5.27%	4.6
5.25% guaranteed secured bonds	176.0	-	176.0	-	5.25%	0.5
Obligations under finance leases	1.6	-	-	1.6	3.10%	3.9
Intercompany loans	22.5	22.5	-	-	1.20%	0.5
Total	405.4	22.5	176.0	206.9		
At 31 March 2017						
Sterling:						
5.25% guaranteed secured bonds	236.4	-	-	236.4	5.27%	5.1
5.25% guaranteed secured bonds	192.0	-	192.0	-	5.10%	0.5
Obligations under finance leases	1.8	-	-	1.8	3.10%	4.4
Intercompany loans	22.5	22.5	-	-	0.87%	0.5
Total	452.7	22.5	192.0	238.2		

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

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

	2018 £m		2017 £m	
Net debt	207.3		301.0	
	£m	%	£m	%
Fixed (net of bond discount and issue costs)	205.1	98.9	236.0	78.4
Index-linked	176.0	84.9	192.0	63.8
Floating (net of cash, short term investments and facility costs)	(173.8)	(83.8)	(127.0)	(42.2)
	207.3	100.0	301.0	100.0

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 were 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 company'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.

	2018 Impact £m	2017 Impact £m
Cash at bank and short term deposits (2018: £194.6m, 2017: £147.8m)	1.9	1.5
Borrowings (2018: £22.5m, 2017: £22.5m)	(0.2)	(0.2)
	1.7	1.3

Overall the company's sensitivity to interest rates is higher than prior year, reflecting the change in cash.

Inflation rate risk

The regulatory charge control conditions that apply to the company's UK en route and North Atlantic services determines a revenue allowance for financing charges that is linked to inflation (now CPI but previously RPI). To achieve an economic hedge of part of this income, in August 2003 coincident with the issue of its £600m 5.25% fixed rate bond, the company entered into an amortising index-linked swap with a notional principal of £200m for the period up to March 2017 reducing semi-annually thereafter and expiring in March 2026. As at 31 March 2018 the notional principal had reduced to £176m. Under the terms of this swap, NERL receives fixed interest at 5.25% and pays interest at a rate of 3.43% adjusted for the movement in RPI. The index-linked swap cannot be designated as a cash flow hedge under IFRS, although it provides an economic hedge of certain of NERL's inflation-linked revenues.

The value of the notional principal of the index-linked swap is also linked to movements in RPI.

20. Financial instruments (continued)

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to inflation arising from the index-linked swap. 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 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 the company is required to make under the swap contract and so impacts its mark to market value.

The following table shows the effect of a 1% increase in 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%.

	2018 Impact £m	2017 Impact £m
Change in swap interest and mark to market value	(12.1)	(12.7)

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 £6.1m (2017: £7.5m). There would be an equal and opposite impact on profit and equity if discount rates decreased by 1%.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 16. With regard to funds or contracts held with financial institutions, the company'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 NATS group policy is to allocate limits to the value of investments, foreign exchange transactions and interest rate hedging transactions that may be entered into with a bank or financial institution and to allocate an aggregate credit risk limit. The limits are based upon the institution's credit rating with Standard & Poor's and Moody's; the Fitch rating is only used if one of these agencies does not provide a rating. Where there is a difference in the rating then the lowest of the ratings is applied.

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

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

Rating (Standard & Poor's)	Limit per Institution £m
AAA & AAAm	70.0
AA+	56.0
AA	42.0
AA-	28.0
A+	21.0
A	14.0
A-	10.5

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

	2018			2017		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA & AAAm	5	133.2	68.4	5	89.8	60.7
AA-	1	20.0	10.3	1	20.0	13.5
A+	-	-	-	1	9.4	6.4
A	5	41.4	21.3	3	27.6	18.7
A-	-	-	-	1	1.0	0.7
		194.6	100.0		147.8	100.0

Liquidity risk management

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

The policy is to:

a. maintain free cash equal to between 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 £38.3m used to fund interest, fees and bond amortisation payments scheduled in the next six months and a required liquidity reserve account of £21.3m held to provide liquidity in the event of certain pre-defined circumstances, particularly to ensure compliance with financial covenants;

b. ensure access to bank facilities sufficient to meet 110% of forecast requirements that are not otherwise covered by operating cash flows or other sources of finance through the period of the business plan. At 31 March 2018 NERL had access to bank facilities totalling £400m available until 31 July 2022. The facilities comprise a £350m revolving term loan facility, a £45m revolving credit facility and a £5m overdraft facility;

c. ensure access to long term funding to finance its long term assets. This is achieved in the form of the fixed rate amortising sterling bonds with a final maturity date of 2026;

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

e. maintain a portfolio of debt diversified by source and maturity. This is achieved through the issuance of the fixed rate amortising bonds and by having available shorter dated committed bank facilities.

20. Financial instruments (continued)

Liquidity risk management (continued)

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

	2018 £m	2017 £m
Average monthly UK en route services income	50.5	49.4
Free cash at 31 March	135.0	87.1
Ratio of free cash to UK en route services income	2.7	1.8

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

	2018 £m	2017 £m
Bank borrowings	-	-
Gross borrowings	405.4	452.7
Bank borrowings as a percentage of gross borrowings	0.0%	0.0%

Maturity of borrowings

The following table sets out the remaining contractual maturity of the company'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 company can be required to repay. The table includes both interest and principal cash flows.

	2018				2017			
	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m	Unsecured loans £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	22.8	65.3	164.4	252.5	0.4	69.8	114.4	184.6
Between one and two years	0.2	60.8	55.7	116.7	0.5	65.3	33.7	99.5
Due between two and five years	0.7	164.8	24.9	190.4	1.9	172.8	17.3	192.0
Due in more than five years	0.7	187.0	4.9	192.6	25.3	239.9	3.3	268.5
	24.4	477.9	249.9	752.2	28.1	547.8	168.7	744.6
Effect of interest, discount and unamortised bond issue and bank facility arrangement fees	(0.3)	(100.1)	-	(100.4)	(3.8)	(123.3)	-	(127.1)
	24.1	377.8	249.9	651.8	24.3	424.5	168.7	617.5

Other liabilities above include trade and other payables excluding deferred income of £90.7m (2017: £75.0m).

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

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

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
2018					
Net settled:					
Index-linked swap payable	(10.2)	(12.6)	(49.7)	(67.5)	(140.0)
Gross settled:					
Foreign exchange forward contract receivables	253.5	40.0	51.4	-	344.9
Foreign exchange forward contract payables	(252.0)	(40.4)	(50.7)	-	(343.1)
	(8.7)	(13.0)	(49.0)	(67.5)	(138.2)
2017					
Net settled:					
Index-linked swap payable	(7.9)	(10.0)	(43.6)	(84.6)	(146.1)
Gross settled:					
Foreign exchange forward contract receivables	246.3	22.2	47.2	-	315.7
Foreign exchange forward contract payables	(243.1)	(22.3)	(46.8)	-	(312.2)
	(4.7)	(10.1)	(43.2)	(84.6)	(142.6)

Forward exchange forward contract payables due within one year or less include estimates of the payables associated with average rate forward agreements that have fixing rates after 31 March 2018. At 31 March 2018, NERL had entered into such agreements to sell euro in July 2018 in exchange for £56.4m (2017: £60.0m).

20. Financial instruments (continued)

Fair value measurements

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

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	3.1	-	3.1	-	4.0	-	4.0
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.9)	-	(0.9)	-	(0.8)	-	(0.8)
Derivative financial instruments classified as held for trading	-	(129.2)	-	(129.2)	-	(138.6)	-	(138.6)
	-	(130.1)	-	(130.1)	-	(139.4)	-	(139.4)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

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

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

- the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling;

- the fair value of the index-linked swap is provided by bank counterparties using proprietary financial models. This is validated using discounted cash flow modelling and observable forward inflation indices at the reporting date and contracted inflation rates, discounted with reference to the interest rate swap curve at the reporting date; and

- the fair value of the fixed rate bond has been derived from its externally quoted price.

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

	Carrying amount		Fair value	
	2018	2017	2018	2017
	£m	£m	£m	£m
Financial liabilities				
£600m 5.25% Guaranteed Secured Amortising Bond	(381.3)	(428.4)	(440.6)	(510.3)

21. Financial and other liabilities

Trade and other payables

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

	2018 £m	2017 £m
Current		
Trade payables	15.5	18.6
Other payables	42.8	13.0
Amounts due to parent company	44.5	44.4
Amounts due to fellow undertaking	9.9	1.2
Accruals and deferred income		
- Deferred grants	0.3	0.4
- Other	72.3	48.7
	185.3	126.3
Non-current		
Other payables	60.5	38.9
Accruals and deferred income		
- Deferred grants	1.8	2.1
- Other	93.0	76.4
	155.3	117.4
	340.6	243.7

Other payables that are non-current represent regulatory adjustments for calendar year 2017, the period January to March 2018 and previous regulatory control periods, which will be repaid after 31 March 2019 through 2019 and 2020 charges. Other payables that are current represent regulatory adjustments for calendar years 2016 and 2017 and previous regulatory control periods, which will be recovered by 31 March 2019 through 2018 and 2019 charges.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 38 days (2017: 46 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

22. Provisions

	Total £m
At 1 April 2017	6.7
Additional provision in the year	0.5
Release of provision in the year	(1.3)
At 31 March 2018	5.9

	2018 £m	2017 £m
Amounts due for settlement within 12 months	0.2	1.0
Amounts due for settlement after 12 months	5.7	5.7
	5.9	6.7

Provisions represent the best estimate of liabilities, including property related costs. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

23. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Other £m	Total £m
At 1 April 2016	95.9	(11.5)	(6.4)	(2.6)	75.4
(Credit)/charge to income	(0.4)	2.7	(2.0)	(0.4)	(0.1)
(Credit)/charge to equity	-	(39.9)	0.6	-	(39.3)
At 31 March 2017	95.5	(48.7)	(7.8)	(3.0)	36.0
At 1 April 2017	95.5	(48.7)	(7.8)	(3.0)	36.0
Charge to income	10.8	1.6	1.9	0.1	14.4
Charge/(credit) to equity	-	61.3	(0.3)	-	61.0
At 31 March 2018	106.3	14.2	(6.2)	(2.9)	111.4

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:

	2018 £m	2017 £m
Deferred tax liabilities	(120.5)	(95.5)
Deferred tax assets	9.1	59.5
	(111.4)	(36.0)

24. 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 2017 and 31 March 2018	10,000,000	10.0	10,000,000	10.0

25. Notes to the cash flow statement

	2018 £m	2017 £m
Operating profit from continuing operations	159.0	149.3
Adjustments for:		
Impairment of goodwill	-	11.0
Depreciation of property, plant and equipment	79.0	102.2
Amortisation of intangible assets	50.9	44.7
Impairment losses	4.6	0.5
Deferred grants released	(0.4)	(0.4)
Profit on disposal of property, plant and equipment	-	(0.1)
R&D expenditure above the line tax credits	(1.8)	(1.6)
Adjustment for pension funding	(8.5)	(13.6)
Operating cash flows before movements in working capital	282.8	292.0
(Increase)/decrease in trade and other receivables	(2.2)	80.4
Increase in trade, other payables and provisions	81.1	22.1
Cash generated from operations	361.7	394.5
Tax paid	(5.4)	(14.2)
Net cash from operating activities	356.3	380.3

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.

Reconciliation of net financial liabilities

The table below analyses those net financial liabilities for which cash flows arise from financing activities in each of the periods presented.

	2018 £m	2017 £m
Cash and cash equivalents	156.3	108.4
Short term investments	38.3	39.4
Cash and liquid investments	194.6	147.8
Gross debt - fixed interest rates	(381.1)	(428.0)
Gross debt - variable interest rates	(20.8)	(20.8)
Net debt	(207.3)	(301.0)
Index-linked swaps	(129.2)	(138.6)
Net financial liabilities	(336.5)	(439.6)

25. Notes to the cash flow statement (continued)

Reconciliation of net financial liabilities (continued)

The table below reconciles the movements in financial assets and financial liabilities arising from financing activities in the period.

	Assets		Liabilities from financing activities (excluding derivatives)				Net debt	Derivatives	Net financial liabilities
	Cash and cash equivalents £m	Short term investments £m	Intercompany loan £m	Finance leases £m	£600m 5.25% Guaranteed Secured Amortising Bonds £m	Bank loans (i) £m	Sub-total £m	Index-linked swaps £m	Total net financial liabilities £m
Net financial liabilities as at 1 April 2016	72.5	28.9	(22.5)	(2.0)	(464.7)	(93.3)	(481.1)	(124.8)	(605.9)
Cash flows	35.9	10.5	0.2	0.2	39.2	95.0	181.0	3.8	184.8
Bank facility arrangement fees	-	-	-	-	-	0.4	0.4	-	0.4
Fair value movements	-	-	-	-	-	-	-	(17.6)	(17.6)
Other non-cash movements (ii)	-	-	(0.2)	-	(0.7)	(0.4)	(1.3)	-	(1.3)
Net financial liabilities as at 31 March 2017	108.4	39.4	(22.5)	(1.8)	(426.2)	1.7	(301.0)	(138.6)	(439.6)
Cash flows	47.9	(1.1)	0.2	0.3	47.2	-	94.5	8.1	102.6
Bank facility arrangement fees	-	-	-	-	-	0.4	0.4	-	0.4
Fair value movements	-	-	-	-	-	-	-	1.3	1.3
Other non-cash movements (ii)	-	-	(0.2)	(0.1)	(0.5)	(0.4)	(1.2)	-	(1.2)
Net financial liabilities as at 31 March 2018	156.3	38.3	(22.5)	(1.6)	(379.5)	1.7	(207.3)	(129.2)	(336.5)

(i) The company has no outstanding drawings on its bank facilities. The amount reported under bank loans represents unamortised bank facility arrangement fees.
(ii) Other non-cash flow movements include interest charges, amortisation of bond issue costs and bank facility arrangement fees.

26. Financial commitments

	2018 £m	2017 £m
Amounts contracted but not provided for in the accounts	103.3	61.0
Minimum lease payments under operating leases recognised in the income statement	5.8	5.8

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:

	2018 £m	2017 £m
Within one year	3.6	3.2
In the second to fifth years inclusive	21.5	18.6
After five years	42.5	46.2
	67.6	68.0

Operating lease payments represent rentals payable by the company 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 the company's performance under its Future Military Area Radar Services contract with the MOD.

27. Share based payments

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

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

	No. employee shares outstanding at 31 March 2018	No. employee shares outstanding at 31 March 2017
Date of share awards		
Free share awards		
21 September 2001	231,935	251,804
20 October 2003	217,680	239,813
10 September 2004	318,920	355,972
11 January 2008	255,870	283,849
18 September 2009	282,657	320,155
Partnership shares		
1 March 2011	264,460	304,585
26 September 2012	339,174	450,623
30 May 2014	319,681	334,613
31 October 2016	392,586	409,905
Matching shares		
1 March 2011	264,351	305,853
26 September 2012	338,437	450,973
30 May 2014	319,681	334,613
31 October 2016	392,586	409,905
	3,938,018	4,452,663
Dividend shares issued on 28 June 2005	27,489	30,100
Total employee shares in issue at 31 March	3,965,507	4,482,763

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

	Movement in the no. of shares during the year ended 31 March 2018	Movement in the no. of shares during the year ended 31 March 2017
Balance at 1 April	4,482,763	4,031,753
Granted during the year	-	831,736
Forfeited during the year	(5,172)	(3,801)
Exercised during the year	(517,888)	(361,426)
Staff transfers between group companies	5,804	(15,499)
Balance at 31 March	3,965,507	4,482,763

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2018 the price of an employee share was valued at £3.40 (2017: £3.95). A valuation at 30 June 2017 valued the shares at £3.30. The liability for the employee shares at 31 March 2018 was £12.9m (2017: £16.4m) included in amounts due to parent company. The income statement includes a credit of £2.2m (2017: £0.1m). The payments made to employees for the shares they exercised during the year was £1.8m (2017: £1.4m).

28. Retirement benefit schemes

Defined contribution scheme

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

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2018 employer contributions of £6.0m (2017: £4.8m), excluding salary sacrifice contributions of £3.1m (2017: £2.4m), represented 15.0% of pensionable salaries (2017: 15.0%).

The defined contribution scheme had 961 members at 31 March 2018 (2017: 722).

28. Retirement benefit schemes (continued)

Defined benefit scheme

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

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

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

Trustees' funding assessment

A Trustees' funding assessment of the NATS section is prepared at least every three years by the pension scheme actuary at the request of the Trustees in order to establish the financial position of the NATS section and to determine the level of contributions to be paid by NATS in the future.

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2017 and used the projected unit credit method. The assumptions which have the most significant effect on the liabilities assessed at the valuation and hence the contribution requirement are those relating to the rate of return on investments, the rate of increase in salaries, the rate of increase in pensions and life expectancy.

The market value of the NATS' section's assets as at 31 December 2017 was £4,540.4m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £270.4m, corresponding to a funding ratio of 94.4%.

The 2017 valuation showed that, based on long term financial assumptions, the contribution rate required to meet the future benefit accrual was 47.6% of pensionable salaries (41.8% employers and 5.8% employees). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

Following the 2017 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2026. Under the schedule of contributions, normal contributions will continue to be paid at 31.8% until 31 December 2019 and paid at 41.7% from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £39.9m in the 2017 calendar year, and will pay £40.8m in 2018 and £41.8m in 2019. From 1 January 2020 to 31 December 2023, deficit recovery contributions will be paid at £25.4m in 2020 and increase annually by 2.37% for 2021 to 2023. No contributions will be paid in 2024. Further deficit recovery contributions will be paid in 2025 and 2026 of £2.3m per year. NERL's share of deficit recovery contributions is c. 75%.

NATS Limited, the immediate parent of the company, is the employer of, and seconds to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in the Civil Aviation Authority Pension Scheme and bears the employment (including pension) costs of those personnel.

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

During the year the company paid cash contributions to the scheme of £78.0m (2017: £88.8m). This amount included £7.4m (2017: £10.4m) 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 55.3% (2017: 43.6%) of pensionable salaries.

Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2019 is £75.0m, including salary sacrifice contributions estimated at £6.7m.

Company's accounting valuation under international accounting standards

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2017, 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.

If an accounting valuation reveals a surplus at the balance sheet date, this is recognised to the extent that it can be realised in full by the company.

The Trustees' funding assessment carried out as at 31 December 2017 was updated to 31 March 2018 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:

	2018	2017	2016
RPI Inflation	3.00%	3.10%	2.90%
CPI Inflation	1.90%	2.00%	1.80%
Increase in:			
- salaries	1.90%	2.00%	1.80%
- deferred pensions	3.00%	3.10%	2.90%
- pensions in payment	3.00%	3.10%	2.90%
Discount rate for net interest expense	2.65%	2.55%	3.65%

28. Retirement benefit schemes (continued)

The mortality assumptions have been drawn from actuarial tables 97% S2PMA light and 102% S2PFA light (2017: 95% S2PMA light and 93% S2PFA light) with future improvements in line with CMI 2016 (2017: CMI 2014) projections for male/female members, subject to a long term improvement of 1.5% p.a. (2017: 1.5% p.a.) These tables assume that the life expectancy, from age 60, for a male pensioner is 28.9 years and a female pensioner is 29.5 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 30.2 years and for females to 30.9 years.

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

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

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

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

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

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 10.2%/increase by 11.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.7%/decrease by 10.2%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 3.0%/decrease by 2.8%
Rate of mortality	1 year increase in life expectancy	Increase by 3.2%

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

The directors consider that the criteria for recognition of the pension surplus under IFRIC 14 are met.

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

	2018 £m	2017 £m
Current service cost	(61.3)	(72.8)
Net interest expense	(5.8)	(0.6)
Administrative expenses	(2.4)	(1.8)
Components of defined benefit costs recognised within operating profit	(69.5)	(75.2)

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

	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest expense)	28.4	819.6
Actuarial gains and losses arising from changes in financial assumptions	161.6	(1,136.6)
Actuarial gains and losses arising from changes in demographic assumptions	122.5	89.3
Actuarial gains and losses arising from experience adjustments	27.8	7.7
	340.3	(220.0)

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

	2018 £m	2017 £m
Present value of defined benefit obligations	(3,305.6)	(4,371.9)
Fair value of scheme assets	3,389.1	4,106.6
Surplus/(deficit) in scheme	83.5	(265.3)

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

	2018 £m	2017 £m
At 1 April	(4,371.9)	(3,622.3)
Current service cost	(61.3)	(72.8)
Interest expense on defined benefit scheme obligations	(99.9)	(123.4)
Actuarial gains and losses arising from changes in financial assumptions	161.6	(1,136.6)
Actuarial gains and losses arising from changes in demographic assumptions	122.5	89.3
Actuarial gains and losses arising from experience adjustments	27.8	7.7
Benefits paid	915.6	486.2
At 31 March	(3,305.6)	(4,371.9)

28. Retirement benefit schemes (continued)

The average duration of the scheme's liabilities at the end of the year is 22.1 years (2017: 24.9 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2018 £m	2017 £m
Active members	(1,327.7)	(2,202.6)
Deferred members	(295.9)	(392.0)
Pensioners	(1,682.0)	(1,777.3)
	(3,305.6)	(4,371.9)

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

	2018 £m	2017 £m
At 1 April	4,106.6	3,563.4
Interest income on scheme assets	94.1	122.8
Return on plan assets (excluding amounts included in net interest expense)	28.4	819.6
Contributions from company	78.0	88.8
Benefits paid	(915.6)	(486.2)
Administrative expenses	(2.4)	(1.8)
At 31 March	3,389.1	4,106.6

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

	2018 £m	2017 £m
Cash and cash equivalents	116.7	49.1
Equity instruments		
- UK	99.8	316.8
- Europe	27.2	90.4
- North America	80.2	258.2
- Japan	11.2	36.3
- Pacific (excluding Japan)	30.9	102.1
- Emerging markets	98.7	323.7
- Global	672.2	607.5
	1,020.2	1,735.0
Bonds		
- Corporate bonds	723.5	712.1
- Index-linked gilts over 5 years	1,053.8	1,101.4
	1,777.3	1,813.5
Other investments		
- Property	185.4	182.6
- Hedge funds	168.9	163.1
- Global tactical asset allocation	102.0	98.8
- Private equity funds	94.9	105.8
	551.2	550.3
Derivatives		
- Futures contracts	(76.3)	(41.3)
	3,389.1	4,106.6

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

Virtually all equity and debt instruments have quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consist of equities and bonds, although the scheme also invests in property, cash and investment (private equity and hedge) funds.

NATS and Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. In addition, and as an acceleration of the existing strategy, NATS and the Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2018 was £122.5m (2017: £942.4m).

29. Related party transactions

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

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, The Pension Protection Fund, Thomas Cook Airlines Limited, TUI Airways Limited, Virgin Atlantic Airways Limited and USS Sherwood Limited. AG has a 42% stake in NATS Holdings Limited. The directors of NATS Holdings Limited are satisfied that the eight members of the AG have not exercised undue influence on the group or the company either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

Aquila Air Traffic Management Services Limited is a joint venture entity of NERL's fellow subsidiary, NATS (Services) Limited.

Trading transactions

	Sales		Purchases	
	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m	£m	£m
Ministry of Defence (MOD)	46.8	48.9	4.7	4.1
Department for Transport (DfT)	0.8	0.7	-	-
Meteorological Office	-	0.3	0.7	0.5
Aquila Air Traffic Management Services Limited	1.2	0.5	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m	£m	£m
Ministry of Defence (MOD)	5.5	5.4	19.5	11.6
Department for Transport (DfT)	-	-	-	-
Meteorological Office	-	-	-	0.1
Aquila Air Traffic Management Services Limited	-	0.2	-	-

The company also entered into transactions with its parent and fellow subsidiary undertakings. Sales and purchases to these related parties are disclosed in note 5 and 6 respectively. Amounts owed to these related parties are shown in note 21.

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions (2017: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

Directors' remuneration

The total remuneration payable to the directors of the company in the year was £1,840,000 (2017: £1,539,000). The number of directors paid by the company during the year was two (2017: two). Both directors had left their respective pension salary sacrifice arrangements prior to 31 March 2017.

Remuneration payable to the highest paid director of the company in the year was £1,110,000 (2017: £914,000). Contributions paid to a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure. Voluntary contributions to the defined contribution pension scheme, salary sacrificed by the director were £10,000.

Remuneration of key management personnel

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

	2018	2017
	£m	£m
Short term employee benefits	6.0	4.0
Post-employment benefits	-	0.7
Other long term benefits	0.6	0.8
Termination benefits	-	0.4
	6.6	5.9

30. Parent undertaking

The company's immediate parent undertaking is NATS Limited and the ultimate parent undertaking is NATS Holdings Limited. Both are private companies incorporated in Great Britain and registered in England and Wales.

There is no ultimate controlling party of NATS Holdings Limited. Under the shareholders' agreement, The Airline Group Limited and the Crown have similar reserve rights in respect of material decisions affecting the company.

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

31. Events after the reporting period

In May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of £2.85 per share (totalling £28.5m), which was paid to the company's parent in June 2018.

In May 2018, NERL repaid the intercompany loan of £22.5m.

1 Single European Sky ATM Research: a programme to modernise Europe's airspace structure and air traffic management technologies.
References in this document to Deploying SESAR relate to NERL's investment programme which implements a number of SESAR compliant technologies and methodologies, rather than the European Sky ATM Research programmes that are defining and driving the deployment of technologies and methodologies at the European-wide level.

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.

3 Electronic flight strips replace the paper strips for recording aircraft movements previously used in Terminal Control. This represents a stepping stone towards the use of controller electronic tool interfaces as part of the Deploying SESAR programme.

4 Swanwick Combined Operation shall establish the common operational environment to ensure that NATS can provide one ATC operation across two Centres.

5 The severity of ground and airborne incidents is scored against six criteria: minimum separation achieved; rate of closure; detection of potential conflict; plan to achieve required separation; execution of the plan; and recovery when separation is lost.

6 Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks.

7 Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.

8 3Di score measures airspace efficiency with reference to the deviation from the preferred profile to the actual radar track of each flight in UK airspace.