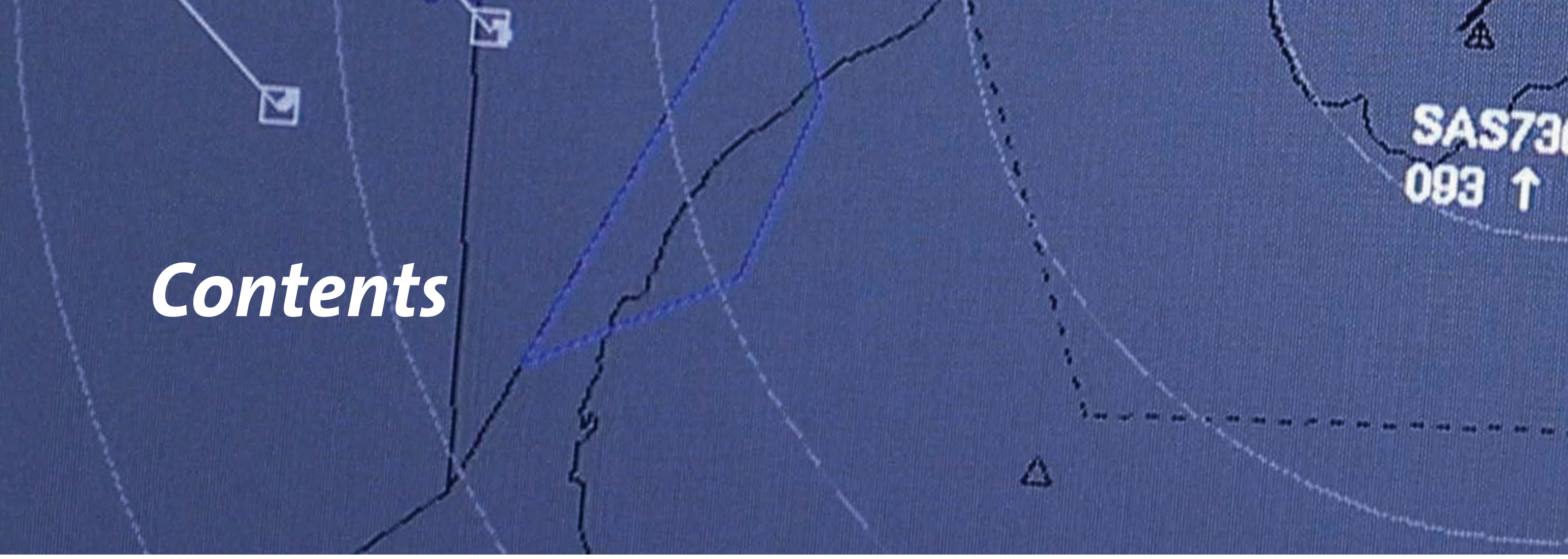
Annual Report 2013

Annual Report 2013

NAVIAIR

Air Navigation Services



Contents

About Naviair

Naviair is a company owned by the Danish state represented by the Ministry of Transport.

Mission

Naviair contributes to the creation of value and welfare for society by developing and providing safe and efficient Air Traffic Management (ATM), fulfilling our role as a vital part of the aviation value chain.

Vision

We will always be among the best Air Navigation Service Providers (ANSPs) in Europe.

We will continually develop our company and secure a strong position with customers and partners by participating in international alliances.

We will achieve our ambitions through talented, committed and motivated employees, who thrive on working in a demanding environment in which targeted employee development and involvement form the basis for maintaining an attractive workplace.

Areas of activity

We provide aviation infrastructure.

We have activities in the following areas:

- En route – Denmark, comprising area control services in Danish airspace and ATM over Danish airports, including approach control service to Copenhagen Airport. Our activities in this area also include briefing service and Flight Information Services (FIS) from the Air Traffic Control Centre (ATCC) in Copenhagen. This area also comprises technical support and maintenance of radar installations and CNS equipment in Denmark.
  In 2013, this area accounted for 69 per cent of our revenue.

- En route – Greenland, comprising briefing service and FIS from the Flight Information Centre (FIC) in Kangerlussuaq. These activities also comprise technical support and maintenance of radar installations in the Faroe Islands and navigation and communications systems in Greenland and the Faroe Islands.
  In 2013, this area accounted for 5 per cent of our revenue.

- Local Air Traffic Services (ATS), comprising aerodrome control service and approach control service at a number of airports and Aerodrome Flight Information Service (AFIS) in the Faroe Islands.
  In 2013, this area accounted for 24 per cent of our revenue.

- Other areas of activity, comprising technical support and maintenance of ATM and CNS equipment in Denmark and sale of technical-operational knowhow.
  In 2013, this area accounted for 2 per cent of our revenue.

Key figures and key performance indicators

Naviair's financial performance since 1 January 2010 can be described using the key figures and key performance indicators below:

Key figures and key performance indicators *(DKK million)*	**2013**	**2012**	**2011**	**2010**
Income statement				
Revenue	1,036.3	958.7	937.6	917.2
Profit before net financials	102.0	101.5	88.7	70.9
Net financials	-42.6	-44.5	-34.5	-43.3
Profit for the year	51.4	42.7	38.2	23.0
Balance sheet				
Fixed assets	1,178.1	1,192.3	1,193.9	1,178.0
Current assets	538.7	531.7	490.6	547.9
Balance sheet total	1,716.9	1,724.0	1,684.5	1,726.0
Interest-bearing debt	536.6	636.6	686.6	795.3
- of which subordinated loan capital	536.6	536.6	536.6	545.3
Equity	843.6	792.2	749.5	711.3
Cash flow statement				
Cash flows from:				
- operating activities	291.0	215.7	131.5	746.5
- investing activities	-92.0	-95.1	-93.5	-119.3
- financing activities	-100.0	-50.0	-50.0	-589.0
Net increase (decrease) in cash and cash equivalents	99.0	70.6	-12.0	38.3
Cash and cash equivalents at 31 December	196.4	97.3	26.7	38.8
Average number of employees	667	688	706	710
Financial ratios (%)				
Operating margin	9.8	10.6	9.5	7.7
Return on capital employed	5.9	5.9	5.3	4.1
Solvency ratio excl. subordinated loan capital	49.1	46.0	44.5	41.2
Solvency ratio incl. subordinated loan capital	80.4	77.1	76.4	72.8
Return on equity	6.3	5.5	5.2	3.3

The financial ratios have been prepared in accordance with the Danish Society of Financial Analysts' recommendations and guidelines. Reference is made to definitions in the section on accounting policies.

Key performance indicators for first reference period/Operational performance indicators	2014	2013	2012	2011	2010
Danish-Swedish FAB					
Safety					
Separation minima infringements per 100,000 flight hours with severity A and B with direct ATM involvement (LFV/Naviair/NUAC).	Target: 1.42	0.18	0.36	-	-
Capacity					
Average minutes of delay – En route	Target: 0.08	0.02	0.03	-	-
Naviair and Denmark					
Cost efficiency					
Naviair – Unit rate (DKK)	445.00	463.06	447.71	427.47	426.44
Denmark – Unit rate (DKK)	531.33	547.51	532.36	509.47	521.44
User unit rate (EUR)	71.41	73.62	71.66	67.94	64.38

Highlights in 2013

- **April: The relocation of our Flight Information Centre (FIC) in Greenland from Kangerlussuaq to Nuuk commences. In future, Naviair will be sharing a building with the Arctic Command in Nuuk. The new FIC in Nuuk is expected to be operational in autumn 2014.**

- **December: Naviair enters into an agreement to join an international joint venture to set up the world's first satellite-based global aviation surveillance system through co-ownership of Aireon LLC. Satellite-based surveillance is expected to be fully in place in 2020, marking a major leap forward in ATM as the new system will enable air navigation service providers (ANSPs) to deploy airspace far more efficiently than is possible today.**

- **December: The group of owners of Entry Point North is expanded to include IAA. In future, IAA will place all activities related to ATCO training in the newly established subsidiary Entry Point North – Ireland, resulting in a substantial increase in Entry Point North's activities.**

Management's review

Financial performance

In 2013, Naviair's profit before tax was DKK 59.5 million compared with DKK 57.0 million in 2012. Profit after tax was DKK 51.4 million compared with DKK 42.7 million in 2012.

Naviair's outlook for 2013 was announced most recently in our report for the first half. In this report, we reaffirmed the full-year earnings outlook announced at the beginning of the year. However, the increase in en route traffic, in particular, contributed to higher earnings than anticipated after the first half. At the same time, our ongoing efforts to cut operating and payroll costs had a positive effect on profit, with costs being DKK 17.0 million below the 2012 level. Against this background, we reported profit of DKK 191.8 million before tax and adjustments for over-/under-recovery. Profit was satisfactory, despite the fact that it was partly a direct result of the increase in traffic.

Naviair delivered revenue of DKK 1,036.3 million in 2013 compared with DKK 958.7 million in 2012. The increase was evenly distributed across Naviair's areas of activity.

In the first reference period for Single European Sky, Naviair's unit rate for En route has been set for the period up to and including 2014. The unit rate was set on the basis of the air traffic outlook in 2011 and binding expectations concerning Naviair's annual costs. In 2013, the en route user unit rate for Danish airspace was DKK 549.

It goes without saying that we want our customers to benefit from our profit for the year and we have therefore decided to reduce our en route unit rate for 2014. The cuts we have achieved in both operating and payroll costs have contributed to profit for 2013 being ahead of the level set in the EU performance scheme for Naviair, despite a decline in traffic. As the Danish Transport Authority's (TS) share of the Danish rate has also been reduced, the rate has thus been reduced by 2.9 per cent compared with the rate set for 2013. For 2014, this means that the en route unit rate for Danish airspace has been set at DKK 531, of which Naviair's share will amount to just under 85 per cent, while the balance will go to TS and the Danish Meteorological Institute (DMI).

The amount due to Naviair – under-recovery of charges – from the users from before the first reference period of the performance plan was DKK 224 million at the beginning of 2012. According to the reported rate, Naviair recovered DKK 125 million in 2012 and 2013. The unit rate for 2014 includes DKK 39 million, equivalent to a total of DKK 164 million of the DKK 224 million. We have decided not to recover the balance, DKK 60 million, as we have realised substantial savings and efficiency improvements compared with the cost base on which the reported unit rate is based. This decision thus means a saving of DKK 60 million for the users. This amount has been charged against operating income with DKK 45 million in 2013 and DKK 15 million in 2012.

The unit rate for aerodrome control service at Copenhagen Airport will also be reduced for 2014 – by 4.1 per cent – bringing it down to DKK 1,305 compared with DKK 1,361 in 2012 and 2013.

Traffic 2013

With regard to traffic, too, 2013 turned out more positively than expected at the beginning of the year. Our en route operations in Danish airspace in 2013 increased by 2.7 per cent compared with 2012. In 2013, we handled 624,762 en route operations in Danish airspace compared with 608,249 in 2012.

Domestic aviation in Denmark is still below the level before Cimber Sterling's bankruptcy in 2012, and there are no signs that domestic aviation will recover to previous times' traffic figures again. Despite the weak development

in domestic aviation, the major Danish airports nevertheless saw a small increase in traffic and earnings.
At Copenhagen Airport, the number of departures and arrivals in 2013 increased by 0.8 per cent to 244,924 operations compared with 242,992 in 2012.

The number of departures and arrivals at Billund Airport in 2013 increased by 1.8 per cent to 43,451 operations compared with 42,697 in 2012.

In general, airlines are using larger, heavier aircraft than previously in Danish airspace. This means that even a slight increase in the number of operations results in proportionately slightly higher earnings for Naviair.

Safety
Flight safety in the Danish-Swedish FAB is calculated as the number of separation minima infringements compared with the total number of hours flown.

A distinction is made between the severity of the separation minima infringements (A, B or C) and whether there has been direct or indirect ATM involvement. The severity of accidents or incidents is classified using the EU Risk Analysis Tool (RAT).

In 2013, the flight safety target set for the Danish-Swedish FAB was 1.49 separation minima infringements of severity A or B per 100,000 flight hours, with direct ATM involvement. The actual figure was 0.18.

Naviair analyses and classifies all infringements, and we use the experience gained to adjust and improve our flight safety performance as appropriate.
We do this by improving our procedures, supplementary training for employees and our technical equipment.

Efficiency
We maintained our efficient ATM. In the Danish-Swedish FAB, the average delay per operation in 2013 was 0.02 minute (1.2 seconds), i.e. far below the maximum average delay of 0.15 minute per operation (9 seconds) set in the EU performance scheme.

Again in 2013, we handled both en route traffic in Denmark and traffic at Copenhagen Airport without any delays for which Naviair was jointly responsible. At Copenhagen Airport, the maximum acceptable delay is an average of 0.2 minute. With ATM without any delays, our ATM can thus be characterised as efficient again this year.

Our capacity utilisation is satisfactory. As always, we will continue to make targeted efforts to minimise average delays.

Traffic development outlook
We expect a small increase in air traffic in Danish airspace in 2014. Eurocontrol's low forecast from February 2014 is for growth of 1 per cent.

We also expect moderate growth in air traffic at Copenhagen Airport in 2014 compared with 2013.

Performance requirements

Since 2012, Naviair has been complying with the European performance schemes, which set individual targets for each of the European ANSPs. Under these schemes, the airlines bear part of the financial risk of fluctuations in en route traffic themselves unlike the – pre-2012 situation – when they were guaranteed full recovery of their costs.

Targets have been set for each national airspace (nationwide performance targets) and/or for the Functional Airspace Block (FAB) of which the national airspace is a part (FAB-wide performance targets). Targets are set by local

authorities based on overall performance targets adopted by the European Commission. Targets are set for Capacity, Cost efficiency and Safety.

The first reference period covers the years 2012 to 2014. Naviair has met all the targets set in the performance plan for Naviair, despite the traffic volume again in 2013 being below the level expected when the targets for the first reference period were set in 2011. In several areas, our performance even exceeded the requirements in the performance scheme.

Customers

Naviair's largest en route customers in 2013 were SAS (17.2 per cent), Norwegian Airshuttle (11.0 per cent), Ryanair (8.9 per cent), KLM (8.4 per cent) and Lufthansa (5.5 per cent). En route activities accounted for 69 per cent of our revenue in 2013.

The largest customers in the Local Air Traffic Services area at Copenhagen Airport in 2013 were SAS (43.3 per cent), Norwegian Airshuttle (13.9 per cent), Easyjet Airline (3.8 per cent), Lufthansa (2.1 per cent) and British Airways BA (1.9 per cent). Local Air Traffic Services at Copenhagen Airport accounted for 19 per cent of our revenue in 2013.

Local Air Traffic Services in Billund Airport accounted for 2 per cent of our revenue in 2013.

We always pay particular attention to providing our customers with the best possible service. We therefore monitor customer expectations and requirements closely through ongoing contact with our customers. We also keep our customers informed about what is going on at Naviair. At annual customer meetings, we record customer satisfaction with our services and products.

We held our latest customer meetings in November and December 2013. During this period, we met with seven airlines and airports. The general conclusion from these meetings was that our customers are very satisfied both with their cooperation with Naviair and the services we provide.

International partnerships and alliances

At Naviair, we give high priority to development, efficiency improvement and harmonisation in all areas of ATM. This covers initiatives to drive international progress in the operational area, the training area and the technical area. International partnerships and alliances are important tools for achieving the best possible results. Our goal is always to be among the best ANSPs in Europe and meet the requirements of the EU Single European Sky programme.

NUAC

In order to ensure development, efficiency improvement and harmonisation of the operational area, we established NUAC together with LFV in 2009. NUAC has been in charge of the operation of the three ATCCs in Copenhagen, Malmö and Stockholm since 2012 – on behalf of Naviair and LFV. NUAC is thus responsible for the day-to-day management of en route traffic in the joint Danish-Swedish airspace and, today, is the only integrated operating company in Europe that manages all en route traffic in a FAB.

The operating company acts as supplier to Naviair and LFV and has a total of approximately 750 employees on secondment from Naviair and LFV. The ATCCs and all other equipment have been made available to NUAC but remain Naviair's and LFV's property.

Through NUAC, the aim is both to optimise utilisation of airspace and ATM in the Danish-Swedish FAB and to continuously improve the efficiency of and harmonise ATM operation.

Among NUAC's results to date is the implementation of Free Route Airspace, allowing airlines to fly the shortest possible and most direct route through Danish-Swedish airspace. This provides opportunities for substantial fuel reductions and consequent savings and environmental improvements for the airlines using this option.

Entry Point North

The ATS training academy, Entry Point North, is our initiative to ensure development, efficiency improvement and harmonisation in the training area. The academy was established by Naviair, Avinor and LFV in 2006 as the first transnationally owned academy offering ATM training. In 2013, IAA became co-owner of the academy, and IAA will hold its future training courses at the academy's newly established subsidiary in Ireland, Entry Point North – Ireland.

In line with the ambition in the Single European Sky programme, the primary aim of Entry Point North is to provide standardised and harmonised training for ATCO trainees and ATCOs. The academy also offers an extensive range of training courses for technical personnel.

Besides providing ATS training to its four owners, Entry Point North services ANSPs worldwide on commercial terms by selling training courses tailored to customer requirements that are held either at Entry Point North in Sturup or on-site at the customer. Entry Point North has more than 40 customers in 20 countries.

COOPANS

In the technical area, we participate in an international partnership concerning development and harmonisation of the ATM systems in the COOPANS alliance. The partners in this alliance are Naviair, Austro Control, Croatia Control, IAA and LFV, with Thales as supplier.

The purpose of the alliance is to jointly upgrade the partners' ATM systems into a single unified system based on common software and harmonised maintenance processes and operational concepts.

Many major benefits have already filtered through from our cooperation on the introduction of uniform, harmonised technical ATM systems. In financial terms, we and our partners have cut our development costs for system upgrades by more than 30 per cent compared with the costs each partner would have incurred if we had had to develop the systems individually. To this should be added savings in operating expenses from the use of joint operating concepts. A further advantage of the alliance is that it enables the partners to share experience and knowledge and to draw on each other's skills by making personnel available to each other.

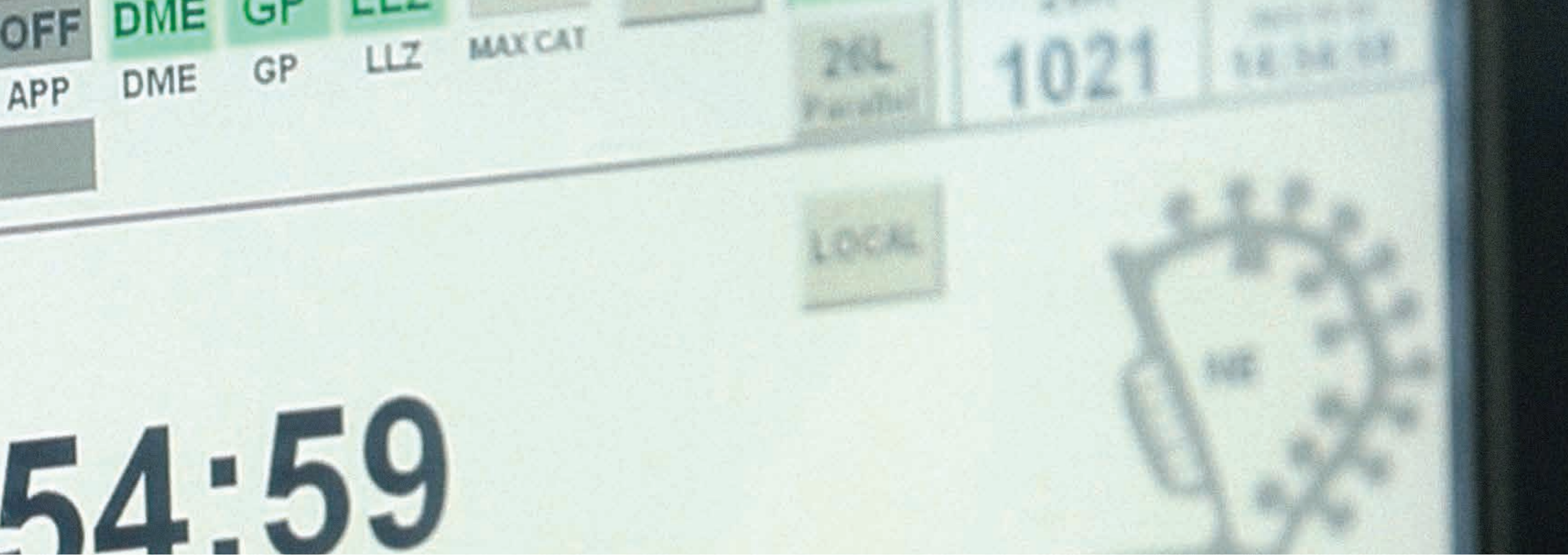
Besides the many advantages, the COOPANS alliance meets the EU objective of harmonising ATM systems in Europe. The partnership therefore helps Naviair to meet a number of current and future EU regulatory requirements in due time, including the performance requirements that the ANSPs are required to meet. At the same time, Naviair is in line with – and makes its mark on – the development of the EU SESAR programme.

The COOPANS alliance is developed on an ongoing basis and is open to new partners joining.

Aireon

In December 2013, Naviair entered into an agreement to join a joint venture that will set up the world's first satellite-based global aviation surveillance system over the coming years.

The joint venture is led by Aireon LLC in the USA. Besides Naviair, the other joint venture partners are the US telecommunications company Iridium Communications Inc. and the ANSPs Nav Canada, IAA and ENAV.



The new system will be based on 66 operational satellites and a number of back-up satellites that Iridium will be launching in the period 2015-2017. When fully operational, the system will be able to provide 100 per cent global aviation surveillance. Current radar-based aviation surveillance systems only cover approximately 10 per cent of the planet. The remaining – often remote – areas are currently without surveillance coverage.

Satellite-based surveillance will mark a major leap forward in ATM as the new system will make it possible to deploy airspace over remote regions far more efficiently than is possible today.

One of the advantages of satellite-based surveillance is the ability to increase opportunities for aircraft to climb to more optimal altitudes in relation to aircraft type and the engines' fuel consumption. At the same time, capacity on key flight paths can be increased, maximising jet stream use, for example. Over the North Atlantic alone, it is expected that airlines will save approximately DKK 1.0 billion in fuel annually by using the new system. Fuel consumption optimisation will also have significant environmental advantages, reducing greenhouse gas emissions from aircraft by approximately 400 tonnes of CO_2 annually.

Naviair will acquire a total of equity interest of 6 per cent gradually in the period up to 2017, corresponding to a total investment of approximately DKK 160 million. Liability is limited to the capital contributed. From 2018, the respective equity interests in Aireon will be: Nav Canada 51 per cent, Iridium Communications Inc. 24.5 per cent, ENAV 12.5 per cent, IAA 6 per cent and Naviair 6 per cent.

Corporate social responsibility

A well-informed and positive approach to corporate responsibility is an integral part of the Naviair culture.

We have not drawn up a specific set of ethical rules. We are working hard to minimise our impact on the climate and the environment following a number of internal guidelines, which ensure job satisfaction and employee development and that we take no part in any breaches of human rights, corruption or violation of any type of legislation that is relevant to our activities.

When we enter into contracts with external suppliers, if applicable we insist on the inclusion of social clauses obliging our suppliers to create an inclusive labour market in terms of diversity, observance of current working environment regulations, agreements and legislation. We signed this type of contract most recently in 2012, while there were no projects in 2013 for which external suppliers were invited to tender.

We believe in diversity, because we think that diversity strengthens our company, so in our job advertisements we encourage anyone with the right qualifications to apply for jobs with Naviair, regardless of age, gender, ethnic background etc.

We do not accept corruption and observe the Danish corruption regulations as expressed in the Danish Criminal Code.

We do not accept breaches of the traffic area legislation or any other legislation relevant to our core business. Consequently, we have a set of internal guidelines that ensure that we comply with relevant legislation. We have appointed an internal Compliance Officer to ensure that we do so. The Compliance Officer carries out regular audits to ensure that the legislation is observed in accordance with our concepts.

Environment – Energy
We constantly strive to minimise our energy consumption.

At Naviair, we work twenty-four hours a day every day of the year, and we have many large energy-consuming facilities. Our energy consumption for cooling and electronic equipment, among other things, is therefore relatively high. In 2013, our electricity consumption in Copenhagen was 5,986 MWh compared with 6,794 MWh in 2012. One of the reasons for our lower electricity consumption is that by converting or replacing various equipment we have reduced our future annual energy consumption for servers by 400,688 kWh, for storage by 32,044 kWh, for networks by 19,053 kWh, for UPS by 54,215 kWh and for cooling by 184,184 kWh. Altogether, we have thus reduced our energy consumption in the area of IT by 86 per cent, corresponding to an annual saving in energy costs of approximately DKK 0.8 million and an annual CO_2 reduction of 310 tonnes. The investments required to implement these savings were minimal.

Our heat consumption in Copenhagen in 2013 was 3,194 MWh compared with 4,302 MWh in 2012. The main reason for the lower heat consumption was the mild autumn and winter in 2013, when the number of degree days was considerably lower than in the previous period.

Between now and 2017, we are also in the process of installing groundwater cooling to replace our current cooling system. When the system is in place, we expect to make annual savings of DKK 1-1.5 million in energy costs. At the same time, we expect to be able to reduce our CO_2 emissions by approximately 275 tonnes per year. A test drilling in 2012 confirmed our expectations. The investment in the system amounts to approximately DKK 32 million.

We strive to act in an energy-conscious manner in all our areas of activity and this of course also applies to places where we work but do not own the equipment or buildings ourselves.

Environment – Air Traffic Control
In addition to the areas where we have a direct impact on the environment, we also endeavour to act in an environmentally responsible manner in our Air Traffic Control (ATC) activities by reducing air pollution and noise inconvenience from air traffic in the areas where we are responsible for ATM.

We work both on giving the aircraft direct routes between destinations and positioning them at the most fuel-efficient altitude for each type of aircraft, regardless of whether they use our Free Route Airspace option. We also ensure that aircraft take off, land and operate on the ground at airports in the most fuel-efficient way.

We do this by prioritising a service-oriented culture, in which we always endeavour to meet airlines' and pilots' requests for routes and altitudes. At the same time, we focus on developing the most efficient traffic concepts and

ensuring the most flexible use of airspace. Our work is of course also guided by the recommendations of the European aviation organisations.

Based on Eurocontrol's and IATA's joint Flight Efficiency Plan, we continue to develop and ensure flexible utilisation of airspace by means of:

- Short routes, direct routes to destinations and fuel-efficient altitudes.
- The option of fuel-efficient approaches to Danish airports.
- Minimal ground delays with engines idling through efficient ATM at airports.
- Continuous Climb Operations wherever possible – with direct routes and climbs to cruising level.

In all the focus areas involving the highest fuel consumption, we have made good headway on the development of climate-friendly traffic concepts. This applies to Free Route Airspace, Continuous Climb Operations, Continuous Descent Operations and Required Navigation Performance.

Eurocontrol has calculated that Free Route Airspace reduces CO_2 emissions in Danish-Swedish airspace by altogether 40,000 tonnes per year.

At Copenhagen Airport, we are cooperating closely with the airport, the airlines and other relevant players to reduce particle emissions, for instance through efficient management of aircraft while they are operating on the ground at the airport.

Furthermore, in Danish-Swedish airspace at Copenhagen Airport, we are working together with the Danish and Swedish authorities to establish a more efficient, more expedient airspace structure in the form of an integrated terminal area in the Øresund region. One benefit of such a structure will be that arrivals and departures at the airport will become even more efficient, saving fuel and reducing the environmental and climate impacts.

Employees

At the end of 2013, the number of employees at Naviair was 651.5 FTEs. Of these, 269.5 FTEs were on secondment to NUAC.

Employee turnover was 7 per cent in 2013.

We ensure that our employees' skills are at a level that meets any requirements that arise through developments in ATM and its supporting activities. We therefore always endeavour to ensure that all employees' levels of training and education and skills satisfy the highest standards. This applies to both ATM, technology and administration. We have structured our supplementary training and skills development into an overall skills plan for the company. Together with our Technical-Operational Development Plan, the skills plan underpins our overall business plan as a management tool for our continued development. The skills plan is regularly updated.

Through Entry Point North and in-house training, we ensure that new ATCOs start out at the highest level. Through regular supplementary training, the skills of our ATCO group are continuously updated, so that everyone is proficient in the latest procedures at all times.

We also maintain a high level of knowledge and skills in the technical and administrative areas through continuous supplementary training and skills development.

We help to share society's responsibility for providing training and jobs for young people. In 2013, we had 9 students, apprentices and trainees in training in Naviair and at Entry Point North.

We make determined efforts to maintain our position as an attractive company and a good workplace. This is essential in order to ensure that our employees are able to meet the high demands we make on their day-to-day efforts and results. Of course, we also work on maintaining a good,

safe working environment. The Working Environment Committee continuously monitors health in the company by regularly measuring the psychological working environment and assessing the physical working environment. In recent years, we have not been awarded anything other than green smileys in connection with the inspections by the Danish Working Environment Authority.

Naviair is affiliated to the Falck Healthcare scheme, which employees can approach anonymously for support, and we have trained a team of stress counsellors, who help employees with private and work-related problems.

A high level of employee satisfaction is a priority target. We measure the level of employee satisfaction every two years. The latest survey was conducted at the end of 2012. In this survey, 90 per cent of respondents expressed satisfaction with their workplace. This shows that the high level of employee satisfaction has been maintained for a number of years. The next survey will be conducted in 2014.

We also conduct leadership surveys every two years. The latest survey was conducted in 2013. The conclusion was that Naviair has both competent and confidence-inspiring managers.

Corporate governance

The framework for Naviair's activities is set out in the Danish Act on Naviair. As a company owned by the state, Naviair is ultimately subject to the authority of the Danish state represented by the Danish Ministry of Transport within the framework established by law. We plan our corporate governance so that it is adapted both to the nature of our company and legislation.

Furthermore, where relevant, we comply with the corporate governance recommendations of the Danish state, which comprise guidelines for the management of state-owned enterprises, including requirements, expectations and recommendations on corporate governance. The recommendations are compiled in 'The State as shareholder', which can be found on the website of the Danish Ministry of Finance, www.fm.dk. We also comply with the recommendations of the Committee on Corporate Governance as described at www.corporategovernance.dk.

During the first half of 2014, we will explain the recommendations that we do not comply with due to Naviair's special corporate form. We will then publish the exceptions on our website, www.naviair.dk, on a continuous basis.

The Board of Directors takes care of Naviair's overall and strategic management, and supervises the Executive Board. The general duties and responsibilities of the Board of Directors are set out in rules of procedure for the Board of Directors. The Executive Board is responsible for the day-to-day management of Naviair and must therefore comply with the guidelines and instructions provided by the Board of Directors.

The members of the Board of Directors that have been appointed by the Danish Minister for Transport include two women and three men. The members of the Board of Directors collectively possess general business and leadership skills and insight into the aviation sector and society in general.

An annual self-assessment procedure has been established for the Board. The Board of Directors' latest self-evaluation was in December 2013.

The Board of Directors meets at least once a quarter, in accordance with Naviair's Articles of Association. The Board of Directors held six meetings in the past year.

Accounting and control systems are designed to ensure that internal and external financial reporting gives a true and fair view without material misstatement and that appropriate accounting policies are defined and applied.

The Board of Directors and the Executive Board regularly review material risks and internal controls related to Naviair's activities and their potential impact on the financial reporting process.

The responsibility for maintaining adequate and effective internal controls and risk management in connection with the financial reporting lies with the Executive Board. The Executive Board monitors the financial position on a continuous basis, partly via monthly reporting. Furthermore, the Executive Board regularly reports on the company's financial position to the Board of Directors ahead of each meeting of the Board of Directors. Procedures, accounting instructions etc. are described in the Naviair Management System.

The Board of Directors regularly monitors the financial reporting process, including that applicable legislation is being complied with and that the accounting policies are relevant. The full Board functions as Audit Committee.

Women and men are evenly represented on Naviair's Executive Board.

At the end of 2013, there were 11 women and 45 men in the entire management group, meaning that 20 per cent of managers were women and 80 per cent men.

In response to the Danish Act to amend the Act on Equal Opportunities for Men and Women, in 2013 Naviair drew up a 'Policy for increasing the numbers of the under-represented gender in Naviair's management groups'.

This enshrines Naviair's aim that gender distribution in the management groups should reflect the general gender distribution in the company of 30 per cent women and 70 per cent men. In order to achieve this aim, we will endeavour to increase the number of women in management from 20 per cent to 30 per cent.

However, in order to ensure that Naviair can live up to the highest standards of safety, punctuality, efficiency, capacity and service for our customers, we will always recruit managers on the basis of an assessment of the best combination of the most important leadership and professional qualifications for the job, without regard to factors such as gender.

With this in mind, we will make every effort to motivate, recruit and train more women for management posts.

Our aim is that a minimum of 40 per cent of the employees accepted on management training courses in the period from 2014 to 2017 should be women. The purpose of this minimum percentage is to ensure that more women will have the skills and qualifications to apply for management posts with Naviair.

We have set a specific target that the proportion of women managers at Naviair should rise to at least 25 per cent by the end of 2017 and at least 30 per cent by the end of 2020.

An action plan is being drawn up to ensure that we reach this target. Our policy and targets are reported in accordance with the reporting rules.

Risks

As Naviair's principal income is directly dependent on the volume of en route traffic in Danish airspace – and traffic to and from the airports that we serve – our largest commercial risk is an unexpected drop in the volume of traffic. This means that airline bankruptcies or route closures have a serious impact on our financial situation, because, in a number of cases, the routes are not re-established by other airlines. Because we need to be able to meet our customers' capacity requirements at all times, we cannot implement cost reductions overnight in response to situations in which we experience a sharp decline in income. This is because we rely on specialised employees on our staff. Training ATCOs so that they can be issued with the certificate required to work in accordance with Danish rules and procedures is costly and takes up to three years on average.

And our investments in ATM systems are both cost-intensive and long-term. Developing and introducing technical systems is time-consuming and normally takes many years. If we make hasty cuts to staff or investments, we therefore run the risk of subsequently not being able to meet capacity requirements in the event of a sharp decline in the volume of traffic being followed by a speedy recovery.

We have protected ourselves against the risk of technical failures by establishing sound back-up systems in all areas and we therefore do not consider technical failure to be a serious risk.

Losing aerodrome control service activities to competitors could also erode our income.

The possibility of airlines opting to switch air traffic – especially international routes – to airports further south in Europe in future constitutes a commercial risk for Naviair. If part of the air traffic bypasses Danish airspace and Danish airports, this will lead to loss of income for Naviair.

If a decision is made, locally or internationally, to replace air traffic with other modes of transport – or if aviation is constrained through the introduction of new local or international direct and indirect taxes – this will result in a risk of a reduction in air traffic, with consequent loss of income for Naviair.

If the quality of ATM in Danish airspace deteriorates – or the unit rate for En route reaches a high level – compared with the neighbouring airspaces, there is also a risk that airlines will bypass Danish airspace, which would lead to a loss of income for Naviair.

Lastly, unforeseen situations and events that have an adverse impact on air traffic may cause Naviair inconvenience. The latest serious example is the Icelandic ash cloud that closed the whole of European airspace for several days in spring 2010.

Naviair has established an insurance programme under which we insure significant risks by taking out relevant insurance. We have insured insurable risks so that any claims and actions giving rise to liability will not constitute a financial risk to our company. Besides statutory insurance, we have taken out insurance against consequential loss, product liability and special aviation liability.

Financial review

Naviair's financial statements have been presented in accordance with the provisions of the Danish Financial Statements Act with adjustments as described under accounting policies.

Profit for the year

Profit before tax for the year was DKK 59.5 million net of a DKK 132.3 million adjustment in respect of over-/under-recovery of charges compared with profit of DKK 57.0 million in 2012. Profit after tax for the year was DKK 51.4 million compared with DKK 42.7 million in 2012.

At the beginning of the year, a small increase in traffic was anticipated for 2013. However, traffic showed a sustained downward trend throughout the first quarter, and we did not see any growth compared with 2012 until from April. For the rest of the year, traffic increased compared with 2012, but it has been and still is difficult to judge whether the growth is stable or merely short-lived. For the full year, the number of service units on En route increased by 6.7 per cent compared with 2012.

However, traffic remains lower than the assumptions forming the basis for the first reference period of the performance scheme, 2012-2014. Compared with the many rapid – upward as well as downward – fluctuations in traffic, Naviair continues to focus on cutting costs both in the short-term and more structurally, and on maintaining a highly financially responsible approach on the part of all Naviair's employees.

Against this background, profit of DKK 191.8 million before tax and adjustments for over-/under-recovery of charges is satisfactory and contributes to Naviair being able to discharge a number of obligations earlier than anticipated and to reduce some unit rates for 2014.

Operating income from ordinary activities

Naviair's operating income from ordinary activities was DKK 1,244.9 million compared with DKK 1,139.5 million in 2012.

Revenue was DKK 1,036.3 million compared with DKK 958.7 million in 2012. Together with other operating income of DKK 4.5 million (see note 3), revenue reflects the income generated by Naviair's four areas of activity.

Income from Naviair's four areas of activity was up DKK 76.2 million on 2012. The increase was mainly due to En route – Denmark, which was DKK 66.0 million, and reflects a higher traffic level than in 2012, and the increases in charges.
Operating income from ordinary activities included DKK 321.0 million relating to services provided to NUAC under the supply contract, compared with DKK 196.5 million in 2012. The increase reflected the fact that NUAC took over the operation of the ATCCs in Copenhagen, Malmö and Stockholm on 1 July 2012 – on behalf of Naviair and LFV. The figures for 2013 thus cover a full year of operation and consequently a higher level of activity.

Other external expenses

Other external expenses amounted to DKK 471.4 million compared with DKK 370.2 million in 2012. Services provided by NUAC under the supply contract amounted to DKK 319.8 million compared with DKK 203.1 million in 2012. This cost was largely offset by services provided to NUAC under the supply contract under Naviair's other operating income.

Other costs were DKK 146.1 million compared with DKK 156.9 million in 2012. The decrease reflects the sustained tight focus on the cost trend. At the same time, the Danish Transport Authority's supervision fee fell by DKK 4.7 million to DKK 5.6 million as a consequence of the abolition of the supervision fee with effect from 1 July 2013.

Staff costs
Staff costs were DKK 561.5 million, a decrease of DKK 1.5 million on 2012. Naviair thus succeeded in making up for pay increases under current agreements and non-recurring costs in connection with the alignment of resources.

Naviair had 651.5 FTEs at the end of the year compared with 684.0 at the beginning of the year.

Depreciation, amortisation and impairment losses
Depreciation, amortisation and impairment losses were DKK 110.0 million compared with DKK 104.8 million in 2012. Depreciation, amortisation and impairment losses for 2013 included impairment losses of DKK 0.4 million in respect of scrapped assets. The increase compared with 2012 was entirely as planned and in keeping with Naviair's investment plan.

Income tax expense
SIncome tax expense was DKK 8.1 million, of which DKK 5.6 million was tax payable and DKK 2.5 million has been transferred to deferred tax.

Balance sheet

Naviair's balance sheet total stood at DKK 1,716.9 million at 31 December 2013 compared with DKK 1,724.0 million at 31 December 2012.

Assets
Fixed assets represented DKK 1,178.1 million, or 68.6 per cent, of total assets. Fixed assets decreased by DKK 14.2 million compared with the beginning of the year.

Current assets amounted to DKK 538.7 million. Under-recovery of charges amounted to DKK 81.5 million, of which DKK 39.1 million related to the period before 1 January 2012, when the first reference period of the performance scheme, 2012-2014, commenced. Under-recovery of charges amounted to DKK 182.6 million at the beginning of the year. The total adjustment for the year was DKK 101.1 million.

Equity
Naviair's equity at 31 December 2013 was DKK 843.6 million and was made up of contributed capital of DKK 600.0 million and retained earnings of DKK 243.6 million.

Besides contributed capital, the Danish state has provided Naviair with subordinated loan capital, which stood at DKK 536.6 million at 31 December 2013. The contributed capital was provided on terms that mean that the loan can be accounted for as equity or capital ranking as equity at all times.

Liabilities other than provisions
Of the total liabilities other than provisions, DKK 786.6 million, interest-bearing debt represented DKK 536.6 million.

Cash flow statement

Cash flows from operating activities before net financials were an inflow of DKK 337.2 million, which included an inflow of DKK 291.0 million relating to ordinary operating activities. Bank loans within short-term liabilities other than provisions were reduced by DKK 100.0 million.

Outlook for 2014

The outlook for 2014 is a small increase in traffic. However, Naviair's income is expected to show a small decline as a consequence of the reduction of the unit rates for 2014.

A previously implemented alignment of resources and the sustained focus on cutting costs have enabled us to reduce our unit rates compared with previous announcements, and it is our opinion that Naviair will record a satisfactory profit for 2014. The accumulated under-recovery of DKK 224.8 million relating to the period before 1 January 2012 and before the first reference period is expected to be fully offset by the end of 2014.

Events after the reporting period

In December 2013, Naviair entered into an agreement on the acquisition – gradually in the period up to 2017 – of an equity interest totalling 6 per cent in the Aireon LLC joint venture, equivalent to approximately DKK 160 million. Aireon LLC will set up the world's first satellite-based global aviation surveillance system over the coming years. On 17 January 2014, Naviair formed a company, Naviair Surveillance A/S, through which Naviair will acquire the equity interest in Aireon LLC.

The investment transaction was closed on 14 February 2014, when the first equity contribution, DKK 67 million, was made.

Profit by area of activity

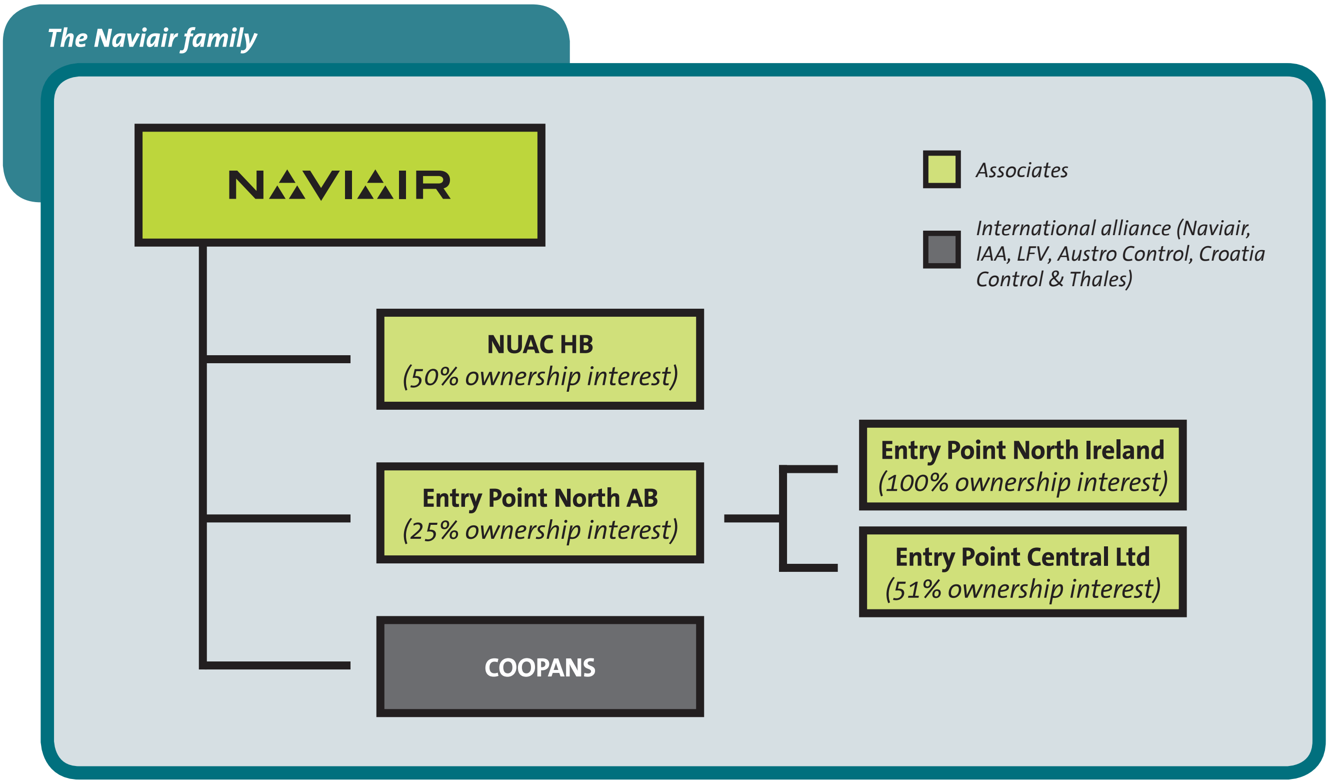
The two largest areas of activity, En route – Denmark and Local Air Traffic Services, are regulated by European Commission Regulation No. 1794/2006 as amended by Commission Regulation No. 1191/2010.

Under this regulation, Naviair is under obligation to break down its income and costs by area of activity. Costs are broken down by direct allocation to the areas of activity, partly through time recording on tasks or using sharing keys.

Cost base statement *(DKK 1,000)*	**En route Denmark**	**En route Greenland**	**En route North Atlantic**	**TNC Copenhagen**	**Billund**	**Others**	**Total**
Income 1)	**721,452**	**21,755**	**33,347**	**201,517**	**19,861**	**42,836**	**1,040,768**
NUAC HB income	306,473	760	772	10,870	1,025	1,054	320,954
NUAC HB costs	-310,242	-886	-895	-12,637	-1,192	-1,226	-327,078
NUAC HB net profit (loss)	**-3,769**	**-126**	**-123**	**-1,767**	**-167**	**-172**	**-6,124**
Other operating expenses 2)	-86,170	-13,599	-23,233	-20,916	-1,613	-6,137	-151,668
Staff costs 3)	-368,318	-6,354	-6,531	-111,448	-15,333	-30,645	-538,629
EBITDA	**263,195**	**1,676**	**3,460**	**67,386**	**2,748**	**5,882**	**344,346**
Depreciation & amortisation	-89,685	-3,274	-2,048	-13,955	-363	-648	-109,972
EBIT	**173,511**	**-1,598**	**1,412**	**53,431**	**2,385**	**5,234**	**234,375**
Net financials	-62,004	-414	-1,005	-23,544	-133	44,540	-42,560
Profit (loss) 4)	**111,507**	**-2,012**	**406**	**29,887**	**2,252**	**49,774**	**191,815**

1) Operating income from ordinary activities calculated exclusive of the following items: adjustment of over-/under-recovery, work carried out for own account and capitalised as well as income from NUAC HB
2) Other external expenses excluding NUAC HB costs
3) Staff costs less work performed for own account and capitalised
4) Profit for the year before adjustment of over-/under-recovery of charges amounting to a loss of DKK 132.3 million and tax amounting to an expense of DKK 8.1 million.

The Naviair family

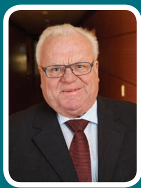


Naviair's management

Board of Directors

Chairman
Anne Birgitte Lundholt
Chairman of the Boards of Directors of Bornholms Erhvervsfond and FOF Danmark
Member of the Board of Directors of Svaneke Bryghus A/S
CEO, ABL ApS

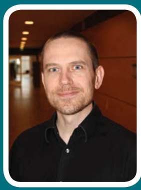
Karsten Baagø *
Senior ATCO



Helge Mortensen
Former government minister

Deputy Chairman
Michael Fleischer
Former colonel and pilot in the Danish Air Force

Susanne P. Lorenzen *
Manager, Workforce Planning



Johan Ohrt *
Senior ATCO

Birthe Høegh Rask
Executive Vice President & CFO, Terma A/S

Kurt Thyregod
Managing Director, Pingvino ApS. Chairman of the Board of Directors of Slice Fruit A/S.
Member of the Boards of Directors of Nosca A/S, Aivon Partners A/S, Aivon Invest A/S and Danes Worldwide
MBA

**) Elected by the employees*

Executive Board

Morten Dambæk
CEO

Hanne Lund
CFO

Other senior executives

Mikael Ericsson
Director, ATM Projects & Engineering

Bent Fog
Director, Technical Maintenance

Birger Grevy
Director, Towers

John G. Hansen
Director, HR

Susanne Isaksen
Director, International Affairs

Bo Pedersen
Director, Communications & Public Affairs

Claus Skjærbæk
COO

Michael Thomsen
Legal Director

Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today discussed and approved the annual report of Naviair for the financial year 1 January - 31 December 2013.

The annual report is presented in accordance with the Danish Financial Statements Act (reporting class D) and Danish accounting standards.

We consider the accounting policies applied to be appropriate and, in our opinion, the financial statements give a true and fair view of the company's financial position and of the results of the company's operations and cash flows. Furthermore, in our opinion, Management's review gives a fair review of the development described in it.

We recommend that the annual report be approved at the Annual General Meeting.

Copenhagen, 21 March 2014

On the Executive Board

Morten Dambæk
CEO

Hanne Lund
CFO

On the Board of Directors

Anne Birgitte Lundholt
Chairman

Karsten Baagø *

Helge Mortensen

Michael Fleischer
Deputy Chairman

Susanne P. Lorenzen *

Johan Ohrt *

Birthe Høegh Rask

Kurt Thyregod

**) Elected by the employees*

Independent auditors' report

To the Board of Directors of Naviair and the Danish Ministry of Transport

Report on the financial statements
We have audited the financial statements of Naviair for the period 1 January – 31 December 2013 comprising accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The financial statements are presented in accordance with the Danish Act on Naviair, the Danish Financial Statements Act and Danish accounting standards.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of financial statements in accordance with the Danish Act on Naviair, the Danish Financial Statements Act and Danish accounting standards. Management is also responsible for the internal control that management deems necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Furthermore, management is responsible for ensuring that the transactions comprised by the financial statements are in accordance with appropriations made, legislation and other regulations as well as agreements concluded and normal practice.

Auditors' responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with international auditing standards and additional requirements under Danish auditing legislation, generally accepted government auditing standards; see the Danish Audit of State Accounts etc. Act. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers internal control relevant to Naviair's preparation and fair presentation of financial statements. The purpose of this is to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Naviair's internal control. An audit also includes evaluating the appropriateness of the accounting policies selected by management and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Furthermore, an audit comprises an assessment of whether procedures and internal controls have been established that help to ensure that the transactions comprised by the financial statements comply with legislation and other regulations as well as agreements concluded and normal practice.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the financial statements give a true and fair view of Naviair's financial position at 31 December 2013 and of the results of Naviair's operations and cash flows for the financial year 1 January – 31 December 2013 in accordance with the Danish Act on Naviair, the Danish Financial Statements Act and Danish accounting standards. Furthermore, in our opinion, procedures and internal controls have been established that help to ensure that the transactions comprised by the financial statements comply with legislation and other regulations as well as agreements concluded and normal practice.

Statement on Management's review
Pursuant to the Danish Financial Statements Act, we have read Management's review. We have not performed any procedures additional to the audit performed of the financial statements.

On this basis, in our opinion, the information provided in Management's review is in accordance with the financial statements.

Copenhagen, 21 March 2014

National Audit Office of Denmark	**Deloitte**
Lone Strøm Auditor General	Lynge Skovgaard State Authorised Public Accountant
/Tina Mollerup Laigaard Director	/Ulrik Vassing State Authorised Public Accountant

Accounting policies

The annual report for 2013 of Naviair, a company owned by the Danish state, is presented in accordance with the provisions of the Danish Financial Statements Act for reporting class D.

The accounting policies remain unchanged compared with the previous financial year.
The annual report for 2013 has been presented in DKK 1,000.

The adjustment for the year of over-/under-recoveries reduced profit for the year in 2013 by DKK 132.3 million.

Recognition and measurement in general
Income is recognised in the income statement as earned. Value adjustments of financial assets and liabilities measured at fair value or amortised cost are also recognised. All expenses incurred to generate the earnings for the year are also recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts previously recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company as a result of a past event and the asset has a value that can be measured reliably.

Liabilities are recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits and the liability has a value that can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequent to initial measurement, assets and liabilities are recognised as described for each item below.

On recognition and measurement, account is taken of foreseeable risks and losses arising before the time at which the annual report is presented that confirm or disprove circumstances existing at the balance sheet date.

The measurement currency used is Danish kroner (DKK). All other currencies are accounted for as foreign currencies.

Foreign currency translation
On initial recognition, transactions in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange gains and losses arising between the transaction and settlement dates are recognised in the income statement as net financials.

Receivables, liabilities other than provisions and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rate at the balance sheet date. Items of property, plant and equipment and intangible assets, inventories and other non-monetary assets purchased in foreign currencies are translated using historical rates.

Income statement

Revenue
Revenue from the sale of goods and services is recognised in the income statement when the risks and rewards of ownership have been transferred to the buyer.

Accumulated over-/under-recoveries for the year from en route and terminal activities are recognised as operating income from ordinary activities.

Revenue is recognised net of VAT, duties and trade discounts and is measured at the fair value of the agreed consideration.

Other operating income and other operating expenses
Other operating income and other operating expenses comprise income and expenses of a secondary nature in relation to Naviair's core activity.

Other external expenses
Other external expenses comprise expenses for administration, premises, operation of operational systems and equipment, fees to authorities and others, training and education, bad debts etc.

Expenses related to development projects that do not meet the criteria for recognition in the balance sheet are also recognised as other external expenses.

Staff costs
Staff costs comprise wages and salaries, pensions and other social security costs etc. for the company's employees.

Net financials
Net financials comprise interest income and income expense; realised and unrealised foreign exchange gains and losses on securities, liabilities other than provisions and transactions denominated in foreign currencies; amortisation premiums and allowances relating to mortgage loans etc. as well as surcharges and repayments under the Danish on-account tax scheme.

Income tax
Income tax expense, consisting of current tax for the year and changes in deferred tax, is recognised in the income statement with the portion attributable to profit for the year, and directly in equity with the portion attributable to entries directly to equity. The portion of tax recognised in the income statement that relates to extraordinary profit for the year is taken to this item while the balance is taken to profit for the year from ordinary activities.

Balance sheet

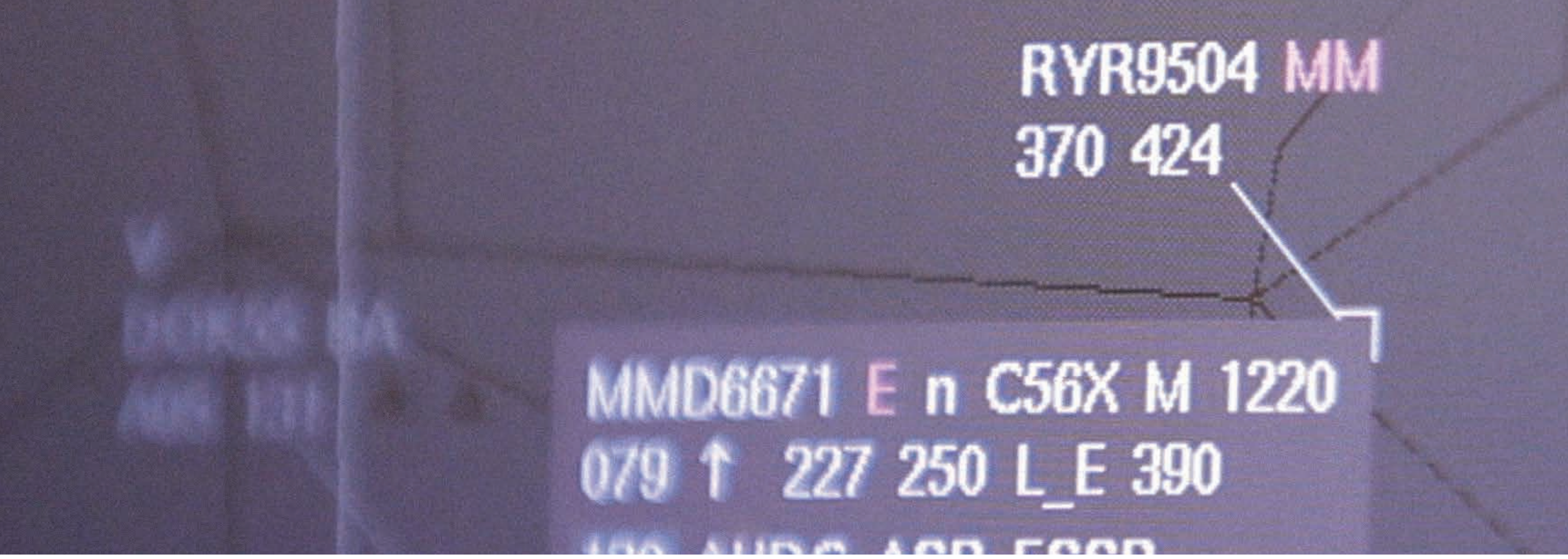
Intangible assets
Intangible assets are measured at cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives of 3-8 years.

Intangible assets relate primarily to customisation of the company's ERP system, which is amortised over 5 years.

A small portion of intangible assets relates to other software, which is amortised over 8 years. This software is upgraded, and this is estimated to extend the life of the software.

The cost of intangible assets under construction comprises expenses, including salaries and amortisation, that are directly or indirectly attributable to the development projects.

Interest expense on loans to finance the construction of intangible assets is recognised in cost if it relates to the construction period.



No amortisation is charged on intangible assets under construction.

Intangible assets are written down to the recoverable amount if this is lower than the carrying amount.

Property, plant and equipment
Land and buildings, plant and equipment, transport equipment, fixtures and fittings and IT equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Items of property, plant and equipment under construction are measured at cost. Value-adding modifications and improvements to items of property, plant and equipment are recognised as assets. No depreciation is charged on property, plant and equipment under construction.

Cost includes purchase price, expenses directly attributable to the acquisition and expenses attributable to bringing the asset to a working condition until the date on which the asset is ready for use. The cost of self-constructed assets includes the direct and indirect cost of materials, components, subcontractors and wages and salaries.

Interest expense on loans to finance the construction of items of property, plant and equipment is recognised in cost if it relates to the construction period.

The basis of depreciation is the cost less the estimated residual value at the end of the asset's useful life. The residual value of fixed assets has been estimated at nil, as they are user-specific to such an extent that it is expected that they will not have any saleable value at the end of their useful lives. Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

Buildings and installations 10-50 years
Plant and machinery 6-20 years
Fixtures and fittings, tools and equipment 3-8 years

The estimated useful lives of items of property, plant and equipment are broken down into significant components. Items of property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Investments in associates
Investments in associates are recognised and measured at cost. Distributions from associates are recognised in the income statement at the declaration date.

In order for investments in associates to be measured at cost, the associate must be a supplier to Naviair's core activity. If that is the case, recognition of such investments at cost is deemed to give a fairer view than recognising them using the equity method.

Investments in associates are written down to the recoverable amount if this is lower than the carrying amount.

Receivables
Receivables are measured at amortised cost, which usually corresponds to the nominal value, less provisions for bad and doubtful debts.

Over-/under-recoveries charges
Naviair is entitled to recognise the difference between expenses incurred for en route and terminal activities (three terminals are subject to fixed-price agreements) and charges collected from users. The difference between charges collected and recoverable expenses is recognised as an adjustment to previously collected charges in the following year N+(2-5). The consequence of this is that excessive charges equate to prepayments (provisions), while charges that are too low result in an increase in the amount that may be recovered (receivable).

Since 1 January 2012, Naviair has been entitled to carry forward over-/under-recoveries in respect of en route activities in accordance with the provisions under the EU

regulation on performance schemes for ANSPs, including the provisions on risk-sharing relating to the development in traffic.

Over-/under-recoveries are measured at amortised cost, which usually corresponds to the nominal value. If management estimates that it is not probable that the full receivable can be recovered from users, the receivable is written down to the lower estimated value of the receivable.

Prepayments
Prepayments comprise expenses incurred that are attributable to subsequent financial years. Prepayments are measured at cost.

Other provisions
Other provisions are recognised and measured as the best estimate of the expenses required to settle the obligations at the balance sheet date. Provisions with an estimated term of more than one year from the balance sheet date are measured at the discounted value.

Pensions and availability pay
Naviair pays pension contributions to the Danish state in respect of civil servants and employees employed under collective agreement on special terms (former civil servants), and the Danish state has therefore taken over the pension obligations in respect of these employees. The pension obligation in respect of other employees is covered under defined contribution pension plans. Naviair is responsible for obligations pursuant to the Danish Civil Servants Act's Section 32 on availability pay. These obligations are disclosed as contingent liabilities.

Liabilities other than provisions
Long-term liabilities other than provisions are measured at cost on inception of the loan, equivalent to the proceeds received net of transaction costs. Mortgage loans are subsequently measured at amortised cost.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which normally corresponds to the nominal value.

Deferred income
Deferred income comprises invoiced income to be recognised in the income statement in subsequent financial years. Deferred income is measured at cost.

Income tax
Current tax payable or receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for taxes paid on account.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts and the tax base of assets and liabilities. The tax base of the assets is determined on the basis of the intended use of the individual asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at the value at which the asset is expected to be realised, either by set-off against deferred tax liabilities or as net tax assets.

Cash flow statement

The cash flow statement is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as the company's cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities are determined as operating profit adjusted for non-cash operating items, working capital movements and income tax paid.

Cash flows from investing activities comprise payments in connection with acquisition and disposal of companies, activities and investments as well as purchase, development, improvement and sale etc. of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the company's capital and associated costs as well as inception of loans, conclusion of finance leases, repayments on interest-bearing debt and payment of dividends.

Cash and cash equivalents comprise cash and short-term securities that are subject to an insignificant risk of changes in value and are readily convertible to cash.

The cash flow statement cannot be derived from the published accounting records alone.

Key figures and key performance indicators

Key figures and key performance indicators are defined and calculated in accordance with the guidelines of the Danish Society of Financial Analysts.

$$\text{Operating margin} = \frac{\text{Profit before net financials} \times 100}{\text{Revenue}}$$

$$\text{Return on capital employed} = \frac{\text{Profit before net financials} \times 100}{\text{Total assets}}$$

$$\text{Solvency ratio} = \frac{\text{Equity at year end} \times 100}{\text{Total assets}}$$

$$\text{Return on equity} = \frac{\text{Profit for the year} \times 100}{\text{Average equity}}$$

Income statement

Income statement for the year ended 31 December (DKK 1,000)	Note	2013	2012
Revenue	1	1,036,260	958,719
Adjustment of over-/under-recoveries charges	13	-132,337	-42,081
Work performed for own account and capitalised	2	15,510	20,465
Other operating income	3	325,462	202,413
Total operating income from ordinary activities		**1,244,895**	**1,139,516**
Other external expenses	4	-471,428	-370,230
Staff costs	5	-561,457	-562,983
Depreciation, amortisation and impairment losses	6	-109,972	-104,762
Profit before net financials		**102,038**	**101,541**
Financial income	7	6,017	605
Financial expenses	8	-48,577	-45,135
Profit before tax		**59,478**	**57,011**
Income tax expense	9	-8,084	-14,304
Profit for the year		**51,394**	**42,707**

Proposed distribution of profit (DKK 1,000)		
Retained earnings	51,394	42,707
	51,394	**42,707**

Balance sheet

Assets (DKK 1,000)	**Note**	**31.12.2013**	**31.12.2012**
Software		5,177	6,433
Intangible assets under construction		0	511
Intangible assets	10	**5,177**	**6,944**
Land and buildings		262,021	266,385
Plant and equipment		847,117	839,064
Fixtures and fittings and IT equipment		6,629	8,955
Transport equipment		1,709	1,466
Property, plant and equipment under construction		55,387	69,424
Property, plant and equipment	11	**1,172,863**	**1,185,294**
Investments in associates	12	79	79
Investments		**79**	**79**
Fixed assets		***1,178,119***	***1,192,317***
Under-recovery charges	13	81,482	182,579
Trade receivables	14	162,968	147,247
Receivables from associates		55,389	58,794
Other receivables	15	9,547	10,126
Prepayments	16	33,006	35,667
Receivables		**342,392**	**434,413**
Cash		**196,352**	**97,313**
Current assets		***538,744***	***531,726***
Assets		***1,716,863***	***1,724,043***

Equity and liabilities (DKK 1,000)	**Note**	**31.12.2013**	**31.12.2012**
Contributed capital		600,000	600,000
Retained earnings		243,599	192,205
Equity		***843,599***	***792,205***
Deferred tax	17	37,368	34,865
Over-recovery charges	13	49,292	18,052
Provisions		***86,660***	***52,917***
Subordinated loan capital	18	536,600	536,600
Long-term liabilities other than provisions		**536,600**	**536,600**
Bank loans	19	0	100,000
Trade payables		34,663	70,120
Payables to associates		53,351	26,988
Other payables	20	140,328	135,534
Deferred income		21,662	9,679
Short-term liabilities other than provisions		**250,004**	**342,321**
Liabilities other than provisions		***786,604***	***878,921***
Equity and liabilities		***1,716,863***	***1,724,043***

Fees to auditors	21		
Contingent liabilities	22		
Contractual obligations	23		
Related parties and ownership	24		

Statement of changes in equity (DKK 1,000)	**Contributed capital**	**Retained earnings**	**Total**
Equity at 1 January 2013	600,000	192,205	792,205
Profit for the year	0	51,394	51,394
Equity at 31 December 2013	***600,000***	***243,599***	***843,599***

There have been no changes to contributed capital since 1 January 2010.

Cash flow statement

Cash flow statement for the year ended 31 December (DKK 1,000)	Note	2013	2012
Profit for the year		51,394	42,707
Adjustments	25	160,616	163,596
Working capital movements	26	125,144	62,012
Cash flows from operating activities before net financials		**337,154**	**268,315**
Interest income and similar items		6,017	605
Interest expense and similar items		-52,168	-53,264
Cash flows from operations (ordinary activities)		**291,003**	**215,656**
Income tax paid		0	0
Cash flows from operating activities		**291,003**	**215,656**
Purchase of intangible assets and property, plant and equipment		-91,964	-95,057
Cash flows from investing activities		**-91,964**	**-95,057**
Decrease in bank loans		-100,000	-50,000
Cash flows from financing activities		**-100,000**	**-50,000**
Net increase (decrease) in cash and cash equivalents		**99,039**	**70,599**
Cash and cash equivalents at 1 January		97,313	26,714
Cash and cash equivalents at 31 December		**196,352**	**97,313**

Notes

Notes 1-4

1 Revenue (DKK 1,000)	2013	2012
En route – Denmark, charges	702,380	636,410
TNC Copenhagen, charges	200,519	194,883
Local airports	46,384	43,270
North Atlantic, charges	32,990	30,925
Areas covered by the Danish Appropriations Act	33,470	32,328
Other trade receivables	20,517	20,903
	1,036,260	**958,719**

2 Work performed for own account and capitalised (DKK 1,000)	2013	2012
Capitalised direct payroll	14,184	18,794
Capitalised indirect production costs	1,326	1,671
	15,510	**20,465**

3 Other operating income (DKK 1,000)	2013	2012
Services provided to NUAC under supply contract	320,954	196,532
Other operating income	4,508	5,881
	325,462	**202,413**

4 Other external expenses (DKK 1,000)	2013	2012
Services provided by NUAC under supply contract	319,760	203,084
Danish Transport Authority supervision fee	5,612	10,280
Other expenses	146,056	156,866
	471,428	**370,230**

Notes 5-7

5 Staff costs (DKK 1,000)	2013	2012
Wages and salaries	479,368	481,624
Pensions	79,509	80,756
Other social security costs	2,580	603
	561,457	**562,983**
Of which remuneration to the Executive Board and the Board of Directors:		
Salaries to the Executive Board *	2,387	3,345
Pensions to the Executive Board	411	500
Remuneration to the Board of Directors **	1,133	1,200
	3,931	**5,045**

** 2013 CEO and CFO, 2012 CEO, CFO and COO*
*** Chairman DKK 300 thousand, Deputy Chairman DKK 200 thousand and other members DKK 100 thousand,*

Average number of employees	**667**	**688**

6 Depreciation, amortisation and impairment losses (DKK 1,000)	2013	2012
Software	2,369	6,893
Land and buildings	15,596	15,800
Plant and equipment	86,680	76,800
Fixtures and fittings and IT equipment	4,627	4,548
Transport equipment	700	721
	109,972	**104,762**

7 Financial income (DKK 1,000)	2013	2012
Foreign exchange gains	859	333
Interest income	203	272
Dividend from associates	4,955	0
	6,017	**605**

Notes 8-10

8 Financial expenses (DKK 1,000)	2013	2012
Foreign exchange losses	1,074	719
Interest expense	51,094	52,544
Non-deductible interest and percentage supplement	218	0
Capitalisation of interim interest	-3,809	-8,128
	48,577	**45,135**

9 Income tax expense (DKK 1,000)	2013	2012
Current tax for the year	5,581	0
Change in deferred tax	2,503	14,304
	8,084	**14,304**

10 Intangible assets (DKK 1,000)	Software	Intangible assets under construction	Total
Cost at 1 January	14,479	511	14,990
Additions	602	0	602
Disposals	-604	0	-604
Transfers	511	-511	0
Cost at 31 December	**14,988**	**0**	**14,988**
Amortisation and impairment losses at 1 January	8,046	0	8,046
Amortisation charge	2,369	0	2,369
Write-downs on scrapped assets	0	0	0
Disposals	-604	0	-604
Amortisation and impairment losses at 31 December	**9,811**	**0**	**9,811**
Carrying amount at 31 December	**5,177**	**0**	**5,177**

Notes 11-12

11 Property, plant and equipment (DKK 1,000)	Land and buildings	Plant and equipment	Fixtures and fittings and IT equipment	Transport equipment	Property, plant and equipment u/ construction	Total
Cost at 1 January	541,874	1,365,490	21,659	6,769	69,424	2,005,216
Additions	3,200	58,280	1,392	943	31,357	95,172
Disposals	0	-3,958	-1,812	-444	0	-6,214
Transfers	8,032	36,453	909	0	-45,394	0
Cost at 31 December	**553,106**	**1,456,265**	**22,148**	**7,268**	**55,387**	**2,094,174**
Depreciation & impairment losses at 1 January	275,489	526,426	12,704	5,303	0	819,922
Depreciation charge	15,596	86,267	4,627	700	0	107,190
Write-downs on scrapped assets	0	413	0	0	0	413
Disposals	0	-3,958	-1,812	-444	0	-6,214
Depreciation & impairment losses at 31 December	**291,085**	**609,148**	**15,519**	**5,559**	**0**	**921,311**
Carrying amount at 31 December	**262,021**	**847,117**	**6,629**	**1,709**	**55,387**	**1,172,863**
Portion related to capitalised finance costs	54	37,535	0	0	1,758	39,347

Except for a few buildings with a total carrying amount of DKK 6.7 million at 31 December 2013, primarily constructed for navigation equipment at various locations across Denmark and in Greenland, Naviair's total building stock with a total carrying amount of DKK 157.1 million at 31 December 2013 consists of buildings on leased land. These include the entire Naviair headquarters with ATCC, simulator buildings and offices situated in Maglebylille, and the Tower at Copenhagen Airport, Kastrup. These buildings all sit on land owned by Copenhagen Airports A/S.

12 Investments in associates (DKK 1,000)	31.12.2013	31.12.2012
Cost at 1 January	79	79
Cost at 31 December	**79**	**79**

Investments in associates can be broken down as follows: (SEK 1,000)	Profit (loss) 2013	Equity 31.12.2013
Entry Point North AB, Malmö-Sturup, 25% ownership interest	4,728	24,960
NUAC HB, Malmö, 50% ownership interest	-317	161
	4,411	**25,121**

Notes 13-16

13 Over-/under-recoveries charges (DKK 1,000)	En route before performance scheme	En route after performance scheme	Aerodrome control	Total
Under-recovery charges at 1 January	147,500	34,200	879	182,579
Adjustment for the year	-108,404	7,952	-645	-101,097
Under-recovery charges at 31 December	**39,096**	**42,152**	**234**	**81,482**
Portion expected to be recovered within 1 year	39,096	9,986	0	49,082
Over-recovery charges at 1 January	0	0	18,052	18,052
Adjustment for the year	0	0	31,240	31,240
Over-recovery charges at 31 December	**0**	**0**	**49,292**	**49,292**
Total adjustment for the year	**-108,404**	**7,952**	**-31,885**	**-132,337**

14 Trade receivables (DKK 1,000)	31.12.2013	31.12.2012
Trade receivables, gross	177,148	161,018
Provision for bad and doubtful debts	-14,180	-13,771
	162,968	**147,247**

15 Other receivables (DKK 1,000)	31.12.2013	31.12.2012
VAT and duties	0	1,235
Other receivables	9,547	8,891
	9,547	**10,126**

16 Prepayments (DKK 1,000)	31.12.2013	31.12.2012
Prepaid payroll	29,170	28,129
Other prepayments	3,836	7,538
	33,006	**35,667**

17 Deferred tax (DKK 1,000)	31.12.2013	31.12.2012
Deferred tax relates to the following items:		
Property, plant and equipment	42,291	15,590
Over-/under-recoveries charges	7,082	41,132
Tax loss carryforwards	-12,005	-21,857
	37,368	**34,865**

Provision for deferred tax at 31 December 2013 has been made with 22%, corresponding to the expected tax rate at the date of realisation of the deferred tax.

18 Subordinated loan capital

Subordinated loan capital covers a bullet loan with the Danish state. No instalments are expected to be payable for ten years. Interest is fixed at 9% p.a., and the loan ranks after Naviair's other interest-bearing debt. According to the loan agreement, the loan, with added and accrued interest, meets the criteria for recognition as equity or capital ranking as equity.

19 Bank loans (DKK 1,000)	31.12.2013	31.12.2012
Bank loans fall due in the following order:		
Within one year	0	100,000
Between one year and five years	0	0
After five years	0	0
	0	**100,000**

20 Other payables (DKK 1,000)	31.12.2013	31.12.2012
Holiday pay liability	84,650	86,024
Payroll, A-tax, social security contributions etc. payable	40,537	38,629
Income tax payable	5,799	0
VAT and duties	1,100	0
Other payables	8,242	10,881
	140,328	**135,534**

Notes 21-23

21 Fees to auditors *(DKK 1,000)*	2013	2012
Deloitte, audit fees	360	382
Deloitte, consultancy fees	102	106
Deloitte, other assurance engagements	45	60
National Audit Office of Denmark, audit fees	378	374
	885	**922**

22 Contingent liabilities

Naviair has a liability of up to DKK 1.2 billion under the Danish Act on Civil Servant Pension's Section 32 on availability pay for civil servants and employees employed under collective agreement on special terms. The obligation consists of three months' salary during the termination period plus three years' pay, including pension.

Together with its Swedish sister organisation, LFV, Naviair has set up a jointly owned general partnership, NUAC HB. The general partnership is owned on a 50-50 basis by Naviair and LFV. The partners are jointly, severally and directly liable for the partnership's obligations.

23 Contractual obligations

Naviair is a party to a number of contracts under which Naviair is under obligation to render a contractual performance.

Naviair is under obligation to provide ANS under the Danish Transport Authority's designation of Naviair dated 25 October 2010 and under agreements with Danish airports. Furthermore, Naviair has entered into contracts on support and maintenance of air navigation-related systems and equipment with Danish airports and other Danish ANSPs.

Within the area of property, plant and equipment under construction, Naviair has entered into contracts to a value of approximately DKK 100 million on upgrading of Naviair's ATM system and acquisition of air navigation-related equipment and systems. The remaining payment obligation under these contracts is approximately DKK 30 million.

In addition, Naviair has entered into long-term contracts to a value of approximately DKK 45 million on support and maintenance of Naviair's building installations, ATM systems and other systems (operations).

Naviair has become a co-owner of Aireon LLC, USA, and in the period to 2017 will gradually acquire a total equity interest of 6 per cent, equivalent to a total investment of approximately DKK 160 million. In February 2014, Naviair settled approximately DKK 68 million of its total equity contribution.

Notes 24-26

24 Related parties and ownership	Basis
Control	
Danish Ministry of Transport, DK-1220 Copenhagen	Owner, 100 %
Other related parties	
Danish Transport Authority, DK-1117 Copenhagen	Supervisory authority
NUAC HB	Associate
Entry Point North AB	Associate
Danish Defence	> Contract for aerodrome and approach control services at Aalborg Airport > Cooperation agreement on joint ANS and ATM provision.
Board of Directors and Executive Board	Managerial control
For information on Naviair's transactions with the Board of Directors and the Executive Board, reference is made to note 5.	

25 Cash flow statement – adjustments *(DKK 1,000)*	2013	2012
Financial income	-6,017	-605
Financial expenses	48,577	45,135
Depreciation, amortisation and impairment losses	109,972	104,762
Income tax expense	8,084	14,304
	160,616	**163,596**

26 Cash flow statement – working capital movements *(DKK 1,000)*	2013	2012
Change in receivables	92,022	29,436
Change in provisions	31,240	-150
Change in short-term liabilities other than provisions	1,882	32,726
	125,144	**62,012**

Abbreviations and designations

ANSP:	Air Navigation Service Provider
Austro Control:	ANSP Austria
Avinor:	ANSP Norway
COOPANS:	CO-OPeration of Air Navigation Service providers
Croatia Control:	ANSP Croatia
DMI:	Danish Meteorological Institute
ENAV:	ANSP Italy
Eurocontrol:	European Organisation for the Safety of Air Navigation
FAB:	Functional Airspace Block
HungaroControl:	ANSP Hungary
IAA:	Irish Aviation Authority
LFV:	ANSP Sweden
Nav Canada:	ANSP Canada
NUAC:	Nordic Unified Air traffic Control. NUAC is a jointly owned Swedish general partnership under LFV and Naviair that has been responsible for the operation of the three ATCCs in Copenhagen, Malmö and Stockholm since 2012.

NAVIAIR

Air Navigation Services

Naviair
Naviair Allé 1
DK 2770 Kastrup

T +45 3247 8000
F +45 3247 8800

www.naviair.dk

Annual Report 2013 was published by Naviair in April 2014.

Photos:
Board of Directors: Carsten Thamdrup Lund and Jan Eliassen.

Other photos are digital screenshots from the videos on which Naviair's video presentations are based. They can be viewed at www.youtube.com/naviairTV. Photographer: Christian Alsing

The annual report can be downloaded at www.naviair.dk

@naviair

Annual Report 2013