NATS (Services) Limited

Financial statements
for the year ended 31 March 2013

Company Number: 04129270

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Company Secretary

Richard Churchill-Coleman

Registered office

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Registered in England and Wales
Company No. 04129270

Auditor

Deloitte LLP

This review presents a summary of the operating performance and results, financial position and cash flows of NATS (Services) Limited (NATS Services) for the year ended 31 March 2013.

NATS Services provides air traffic control (ATC) and aviation related services to a variety of customers in the UK and overseas.

From April 2012 we organised our activities according to service lines, each representing a core set of products and services that we offer to our customers. Our business consists of three distinct service lines under the NATS brand that connect with our customers: NATS Airports, NATS Engineering and Other NATS Service lines, which is comprised of: NATS Consultancy, NATS Defence and NATS Information.

Of these, our core business through the NATS Airports service line is the provision of ATC services at 15 UK airports plus Gibraltar under competitive contract to the airport operator. These airports include Heathrow, the world's busiest dual-runway airport, and Gatwick airport, the world's busiest single-runway airport.

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

During the year we were successful in retaining a number of our existing domestic airport contracts and winning business in new markets. In all, we secured orders worth £336m in 18 countries.

Our success relies on adding value to our customer's operations, a focus on our core competencies and delivering the same services for our customers overseas as we do in the UK, within carefully chosen markets where risk can be managed effectively.

Overall, NATS Services has had another successful year. Its safety performance remained strong and it delivered a good set of financial results with a profit before tax of £40.3m (2012: £39.4m). Revenues increased by £20.8m to £222.0m (2012: £201.2m) or 10.3%.

Olympics

During the Olympic period we maintained our focus on service delivery at the same time as rising to the challenge posed by the Olympics and Paralympics. The London 2012 Games presented a unique challenge: safely managing an influx of air traffic into some of the most complex and congested airspace in the world, without disruption to our customers and whilst accommodating HM Government's national security requirements.

We prepared thoroughly for the London 2012 Olympics and Paralympics. Each airport unit affected had an Olympic safety activity in its Airport Safety Plan. To meet the demands of all aviators, temporary controlled airspaces which affected almost every aspect of NATS London terminal movement area (TMA) were implemented. This required our engineers to update our systems to reflect changes in airspace and our controllers at airports surrounding London to adapt their operations to cope with the new traffic.

Our vision and strategy

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

Supporting this, the strategy for NATS Services is based on three fundamental principles: to defend our existing market position; to grow our business by providing new and innovative products and services based on our core competences; and to strengthen the capability of our business to enable us to realise our ambitions.

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

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

Long term growth in aviation will place greater pressure on existing airport and airspace infrastructure at the same time as environmental concerns make expansion of that infrastructure more challenging. This is likely to increase demand for our value-adding services such as: maximising utilisation of airport runways and surrounding airspace; mitigating environmental impacts of aviation; and provision of information services designed to improve the performance of the aviation network and save airlines money.

The growing trend towards outsourcing continues with further opportunities arising as the Single European Sky (SES) project demands improved performance from air navigation service providers (ANSPs), enabling us to demonstrate our ability to squeeze maximum use out of runways and airspace. At the same time, changes to International Civil Aviation Organisation (ICAO) standards, European legislation and network technology will mean that airports, airlines and ANSPs will need more complete, timely and accurate information, which NATS Services is well placed to provide.

We expect ANSPs and airport operators to implement major airspace improvements and systems developments over the next decade as a result of the Single European Sky ATM Research (SESAR) project and NextGen program in the USA. This will provide opportunities for NATS Services to help transition new equipment and facilities into operational service given our experience in this area. Cutbacks in defence budgets are also encouraging innovative thinking in the future provision of military air traffic service provision. The NATS group has operated a joint and integrated service with the UK's Ministry of Defence (MoD) for many years and this is a unique differentiator of our capability.

In response to these trends we have developed a clear and compelling strategy which retains and builds on the success of our existing business to realise the opportunities that we believe these changes will present. We also recognise that these developments may bring increased competition to our domestic market, although we have been encouraged by our contract renewals in the past year as customers recognise the unique value inherent in the NATS Services' offering.

Above all, we must continue to deliver a safe and efficient service to our airport customers which is essential not only to maintain our UK market position but also to demonstrate our capabilities to new customers.

The NATS group has set itself a target of generating sustainable revenue of £1bn by 2015. NATS Services' strategy is to contribute to this whilst continuing to deliver a safe and efficient service to its core airport customers.

Growing our business

The company made excellent progress this year with its strategy of defending its existing business, identifying opportunities to grow its business and ensuring that it has the capabilities to enable that growth. We renewed important domestic airports contracts and we are fulfilling contracts in Qatar, Kuwait, Hong Kong and the US. We have opened an office in Abu Dhabi to support our work in the Middle East.

This year the Engineering business was contracted to fit-out Birmingham airport's control tower and on the Consultancy side, our US subsidiary

(NATS (USA) Inc.) was part of the winning consortium for a $331m contract awarded by the US's Federal Aviation Administration to develop its air traffic data communications systems.

Regulatory developments

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

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

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

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

Safety

Our first priority remains the safety of aircraft and the travelling public. We have an international reputation for our approach to safety management, our well established safety culture and our excellent safety record. Our safety improvements focus on tackling operational risks and subsequent sources of safety incidents, including working with others in our industry to do so.

Our Strategic Plan for Safety (SPfS) is designed to mitigate risks in the operation and to deliver safety performance improvements to all operations. It sets out the vision, strategy and areas of focus required to deliver on our committed safety improvement targets. In addition, each airport has an Airport Safety Plan (developed with the airport operator) which identifies the risks at each particular airport and details an action plan to address and mitigate them. Our SPfS strategy is to minimise risk by identifying, understanding and effectively managing current, latent and future risk. Each of the following workstreams work together to ensure that we cover all aspects of safety across the business: ground safety, runway safety, airborne and approach safety, engineering and human performance.

An example of ways in which NATS Services is managing risk relating to airborne and approach safety is in the provision of a viable altitude warning at airfields in mountainous areas. NATS engineers have used NASA satellite data to provide a 3D map of the terrain around Glasgow creating the most accurate model for testing unsafe altitudes. This is the first system in the UK to use 3D terrain mapping in a live operating environment.

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

Environment

Our focus on the environment continues to remain one of our core values. The Flight Profile Monitor (FPM), developed by NATS Services, won the Best Environmental Initiative category at the Airport Operators' Association Awards.

FPM enables airports and airlines that have previously had little or no information about the environmental performance of arriving and departing aircraft to use data to support the drive to reduce noise and CO_2 emissions. The system was trialled at Edinburgh Airport and initial results indicate that improvements in continuous descent approaches could be made - which it is estimated could save at least 510 tonnes of CO_2 emissions per annum representing a £0.1m annual saving to airlines using Edinburgh airport. It also reduces noise in communities under the arrival flight paths.

NATS Services also participated in trials which sought to provide predictive noise respite around Heathrow airport. Further information about the NATS Group's environmental strategy is set out in the Corporate Responsibility statement in the Annual Report and Accounts of NATS Holdings Limited.

People

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

The successful delivery of a safe and efficient air traffic service during the Olympic period is a testament to the professionalism of our front line operational staff, engineers and those supporting them.

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

As a result, it was clear that NATS would be facing a material increase in pension contributions after the actuarial valuation at 31 December 2012 unless changes were made. Through Working Together with NATS' trades unions staff were balloted on, and agreed, to reduce the existing limit on the annual rate of increase in pensionable pay and to recommend to the scheme's Trustees that future service benefits should be indexed at CPI (rather than RPI). When these changes were reflected alongside the Trustees' assumptions for the 2012 valuation the NATS scheme's deficit was £382.6m (compared with £351.1m in 2009) and contributions were set at a more affordable level. NATS Services' share of the defined benefit pension scheme 2012 deficit is c. £96m.

Staff agreed to a three-year pay award closely linked to CPI which provides certainty to them and the company alike. Also, from 2014 NATS is introducing a Company Performance Related Pay Scheme which introduces a direct link between the NATS group's profit performance and the value of an employee's total rewards.

Overview of financial and operational performance

	2013 £m	2012 £m
Revenue	**222.0**	201.2
Operating profit	**39.4**	38.5
Profit before tax	**40.3**	39.4
Profit after tax	**30.9**	29.5
Dividends	**11.5**	5.7

Revenues improved by £20.8m to £222.0m (2012: £201.2m) due largely to inflationary increases at airports and the benefit of business growth.

Profit before tax increased by £0.9m to £40.3m (2012: £39.4m). Operating costs increased by £19.9m to £182.6m (2012: £162.7m). This included an increase in headcount to support business development, higher staff pension costs and increases in non-staff costs reflecting business growth, engineering and consultancy contracts.

A summary of financial and operational performance by service line is presented below. The principal financial targets are revenue and contribution. The latter takes account of the operating costs which service line managers are able to influence directly. For this reason depreciation charges, exceptional items, variances to budgeted pension costs (the volatility of market conditions between setting the budget and the rate being known at the start of the financial year, combined with the size of the scheme, means these variances can be material), cost of investment in business growth and costs managed outside of service lines, for example, are not included in service line contribution. A reconciliation of service line contribution to operating profit is provided in the notes to the financial statements.

NATS Airports

	2013	2012
Financial performance:		
Revenue (£m)	182.6	174.6
Service line contribution (£m)	61.4	57.5
Capital expenditure (£m)	0.9	0.7
Operational performance:		
Airports served: UK (no.)	15	15
Airports served: Overseas (no.)	6	1
Risk-bearing airprox (no.)	nil	nil
ATC service delivery events (no.)	5	2
ATC asset non-availability (hours)	42	n/a
Average delay per flight (seconds)	0.1	0.3

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

The economic climate this year proved challenging for all our airport customers and the aviation industry generally. Whereas in the past we had many customers asking us to help them with their airport re-development and expansion plans, we now have a number of customers (both existing and new) who are seeking our help to maximise their returns on current assets and to improve their cost effectiveness.
In both cases NATS Airports has demonstrated the value it can add by using its specialist expertise to tailor specific solutions to customers.

NATS Airports revenue at £182.6m (2012: £174.6m) was £8.0m higher than the previous year following an increase in the earned value of contracts accounted for on a stage of completion basis and inflation indexation uplifts on other contracts. Service line operating costs of £121.2m were £4.1m higher than last year (2012: £117.1m) with higher staff and property related costs. Overall, the service line contribution of £61.4m (2012: £57.5m) was £3.9m higher than the prior year.
During the year we successfully renewed the Heathrow contract, secured contract extensions at Gibraltar and Cardiff airports and, following an open market tender process, we were awarded the contract to provide air traffic and engineering services at Luton airport. Regrettably though, Birmingham airport informed us in March 2013 that it will not be awarding NATS a contract beyond March 2014 (although it is likely they will exercise the option for a one year extension to March 2015 for transition). Birmingham airport is positive about service performance, and the recent control tower fit-out undertaken by Engineering. The airport is bringing this and a number of other functions in-house. We will now support the airport to plan for this transition.
We continued to provide a safe service at airports with no risk-bearing airproxes during the period. We maintained our focus on service delivery at the same time as rising to the challenge posted by the Olympics and Paralympics, described above. The average delay per flight attributable to NATS Airports in the period was 0.1 seconds, compared with 0.3 seconds last year. We now also track events which impact service delivery arising from equipment failure and staffing shortages and the average time per incident that equipment is unavailable to support the ATC service.

NATS Engineering

	2013	2012
Financial performance:		
Revenue (£m)	21.0	14.6
Service line contribution (£m)	4.4	3.1
Capital expenditure (£m)	0.6	0.1
Significant deliverables in 2013:		
Edinburgh airport: primary and secondary surveillance radars		
Southampton airport: instrument landing system		
Oxford airport: approach service assets		
Belfast city airport: instrument landing system		
Luton airport: voice and surveillance data recorder		
Birmingham airport: primary radar		
4G remediation of radars: Glasgow, Edinburgh, Kincardine		
Southampton airport: voice and surveillance data recorder		
Humberside airport: radar data processor		

NATS Engineering provides engineering services to airport operators, construction companies and ATM industry suppliers, mainly integrating new ATC infrastructure at airports. Engineering revenue at £21.0m was £6.4m higher than the previous year (2012: £14.6m) reflecting an increase in activity, including the fit-out of Birmingham and Manchester control towers. Costs at £16.6m were £5.1m higher (2012: £11.5m) reflecting staff and materials costs necessary to deliver its contracts. The service line contribution of £4.4m (2012: £3.1m) for the period was £1.3m higher than the previous year.

We continue to provide engineering services to a number of airports at which NATS does not provide the air traffic control, including Belfast City, Inverness and Oxford. Highland & Islands Airports agreed to a three year extension of the Engineering Support Contract, extending the coverage to include Dundee. During the year we refreshed the electronic flight progress strips (EFPS) and flight data processors (FDP) at the majority of airports to enable the ICAO Flight Plan 2012 transition.

We continue to build our presence overseas delivering engineering resource in Kuwait through Stanley Consultants. NATS (USA) Inc., NATS' American subsidiary, was part of the winning consortium led by Harris Corporation that was awarded a Data Communication Integrated Services (DCIS) contract by the Federal Aviation Administration (FAA). Our role is to support Harris Corporation with the development of new operational procedures and in communicating the goals and benefits of DCIS to airlines and other stakeholders.

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

Other NATS Service lines

	2013	2012
Financial performance:		
Revenue (£m)	18.4	12.0
Service line contribution (£m)	4.6	1.5
Capital expenditure (£m)	0.4	0.1
Secured order value:		
UK contracts (£m)	10.6	10.9
Overseas contracts (£m)	4.3	11.7

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

Revenues from Other NATS Service lines at £18.4m (2012: £12.0m) were £6.4m higher than previously, mainly due to consultancy contracts in the Middle East and from an increase in windfarm projects. Costs at £13.8m were £3.3m higher (2012: £10.5m) reflecting the costs associated with these contracts, and new business development. Contribution of £4.6m was £3.1m higher than the previous year.

NATS Consultancy is the initial point of contact for many of our new UK and international customers. It provides services mostly relating to airspace development and airport capacity improvement projects where our expertise is universally recognised as the benchmark for the world's busiest airspace/airports. We have delivered contracts in Qatar, Hong Kong, Singapore, Japan, Turkey and closer to home, in the UK.

NATS Defence provides a range of defence services in the UK and internationally. NATS already has a well-established relationship with the MoD through the provision of joint and integrated civil and military air traffic control services under the Future Military Area Radar Services (FMARS) contract which is reported in and managed by NATS (En Route)plc.

The severe funding pressure within government defence budgets and the 2010 Strategic Defence and Security Review is driving the MoD to look for ways in which it can increase performance and efficiency through technology and innovation. Notably, the extensive joint work with MoD on air security arrangements for the London 2012 Olympics, and NATS' successful performance during the period, has broadened the conversations with MoD and potentially opened up further business opportunities in adjacent areas to ATM.

AQUILA Air Traffic Management Services, the consortium of NATS and Thales, has been selected as one of three companies in the final stages of bidding to support the MoD with air traffic systems and services for its airbases in the UK and overseas.
NATS Information provides data to enable future efficiency and flight optimisation, an area of increasing focus for our customers. We are uniquely placed to source and integrate traffic, weather and aeronautical information management (AIM) data to provide value-adding data services to aircraft operators, an area where we are seen by customers as highly credible. And we have established a leading position in assessing and mitigating the impact of windfarms on aviation (principally radar), creating opportunities to provide surveillance data solutions for the renewable energy market.

Orders were secured in the year in the UK for airspace consultancy and services to windfarm operators, and abroad in

Singapore, Hong Kong and the Middle East with a total value of £14.9m (2012: £22.6m).

Balance sheet

The company's balance sheet can be summarised as follows:

	2013 £m	2012 £m
Intangible fixed assets	**3.4**	3.5
Property, plant and equipment	**12.0**	13.6
Investments	**1.8**	0.4
Loan to fellow subsidiary	**22.5**	22.5
Cash	**119.9**	110.6
Other net liabilities	**(5.2)**	(3.9)
Pension scheme surplus/(deficit)	**2.7**	(7.3)
Net assets	**157.1**	139.4

Shareholders' funds increased by £17.7m to £157.1m. This mainly reflects retained earnings for the year less dividends of £11.5m.

The movement in intangible and tangible fixed assets in the year represented the additions of £1.9m, net of depreciation and amortisation charges of £3.6m. The company also invested £1.4m in its Spanish joint venture with Ferrovial.

Other significant changes in the financial position included a change to the deferred tax position mainly arising from the change in the pension financial position.

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2013, measured under international accounting standards and the associated best estimate assumptions, the company's share of the NATS defined benefit pension scheme was in surplus with assets (of £754.9m) exceeding liabilities (of £752.2m) by £2.7m (2012: £7.3m deficit). The improved funding position was due to growth in the scheme's assets which offset the increase in liabilities, the latter being driven by a reduction in the discount rate from 5.05% to 4.45%. Under IFRS, the discount rate is based on the yield on AA corporate bonds.

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

b. Actuarial – funding basis

From January 2011, NATS Services started to pay its share of the group's deficit recovery contributions to the defined benefit scheme under an 11-year recovery plan agreed with the Trustees following their 2009 actuarial valuation. This valuation, which is for funding purposes and uses assumptions including a margin for prudence, gives rise to a different valuation than that disclosed under international accounting standards. During the year to 31 March 2013 the company paid deficit recovery payments totalling £6.0m (2012: £5.6m). Before pension salary sacrifice payments of £3.5m, the company's overall contributions to the defined benefit scheme were £30.2m (2012: £29.3m), equivalent to 45.9% of pensionable pay (2012: 45.5%).

The 2009 actuarial valuation for the NATS group reported a deficit of £351.1m (see table below).

Actuarial valuations at 31 December:	2012 £m	2009 £m
Assets	3,527.5	2,793.9
Liabilities	(3,910.1)	(3,145.0)
Deficit	(382.6)	(351.1)

The scheme actuary's latest triennial valuation of the scheme was prepared as at 31 December 2012. This reported a scheme deficit of £382.6m for the NATS group, NATS Services' share of this deficit is c. £96m, an increase since the valuation as at 31 December 2009 (of £351.1m, NATS Services' share being c. £88m) despite the deficit recovery payments since 2011 and the subsequent pension reforms. This deficit has arisen mainly because the liabilities of the scheme increased significantly in the intervening period as a result of a reduction in real gilt yields, and because there was not a corresponding increase to the value of the assets. The increase in liabilities would have been significantly worse had mitigating actions not been taken to reduce the limit on increases in pensionable pay from RPI + 0.5% to CPI + 0.25%.

Following confirmation of the results of the 2012 actuarial valuation, the Trustees and the NATS group have agreed a revised schedule of contributions and a deficit recovery plan for the period to 31 December 2023. NATS Services will make contributions of c. £36m in the 2014 financial year, including salary sacrifice payments of £4m.

Cash flow

Overall, the company's cash balances increased by £9.3m in the year to £119.9m (2012: £110.6m).
Net cash flows from operating activities at £22.6m was £2.8m higher than 2012 (2012: £19.8m) mainly reflecting higher net operating receipts and lower tax payments, partly offset by higher cash contributions to the pension scheme as explained above.

There was a net cash outflow from investing activities of £1.8m (2012: inflow of £0.3m) and outflows of £11.5m (2012: £4.8m outflow) from financing activities, which represented dividends paid.

Outlook

Our vision is to be the acknowledged global leader in innovative air traffic solutions and airport performance. We will continue to be a company which has a strong core UK business that achieves some organic growth, but with major growth being delivered in new business areas through innovation, partnerships, joint ventures and acquisitions.

A number of the company's airport ATC contracts are due for renewal by 2015. To retain them we must ensure our airport offering is attractive to airport customers by focusing on service levels, improving price propositions and increasing the value we offer.

Also, there is the possibility that part of our UK airport ATC business will become subject to some form of economic regulation from January 2015 onwards, under Single European Sky legislation, as discussed above.

To mitigate the challenge to our business we will continue to focus on our growth strategy. We believe significant opportunities are available within the aviation sector where our reputation and capability set is very strong. We are developing new business opportunities primarily in international ATC towers, technology and infrastructure integration and real time operational information; facilitated by expanding consulting services and the company's international presence to build relationships and extend reach into target markets.

In delivering our vision, our priorities will remain the same, ensuring and improving safety, driving down delay and reducing our impact on the environment, together with creating and delivering innovative customer-focused solutions.

Paul Reid
Managing Director, Services

Report of the directors

The directors present their report and audited accounts for the year ended 31 March 2013.

Principal activities and business review

The company's principal activities are the provision of airport air traffic services at UK and overseas airports and the sale of its expertise and capabilities to UK and overseas customers. The latter includes air traffic consultancy, training services and airport data management.

The directors consider that the year end financial position was satisfactory and that the company is well placed to develop its activities in the foreseeable future.

A description of the company's principal activities and business and financial review is set out above.

Results and dividends

The results for the year are shown in the income statement on page 20. Two interim dividends for the year ended 31 March 2013 were paid in June 2012 and December 2012, the equivalent of £115.00 per share (totalling £11.5m), to its parent company (2012: £5.7m). The Board recommends a final dividend for the year of £nil (2012: £nil).

In May 2013, the Board declared and paid an interim dividend for the year ending 31 March 2014 of £37.50 per share (totalling £3.75m).

Charitable donations

The company made aggregate donations of £4,771 (2012: £4,401).

Use of financial instruments

The company uses financial instruments to manage financial risk. The accounting policies and notes to the financial statements, set out below, explain the financial risk management objectives and policies of the company and describe exposures to credit and other risks.

Employees

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

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

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

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

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

Policy and practice on payment of creditors

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

The average number of days taken to pay suppliers calculated in accordance with the requirements of the Companies Act 2006 is 27 days (2012: 20 days).

Going concern and subsequent events

The directors' assessment of going concern is explained in note 3 to the financial statements. Subsequent events are disclosed in note 25 to the financial statements.

Directors and their interests

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

John Devaney
Richard Deakin
Nigel Fotherby
Paul Reid

None of the directors had any interests in the share capital of the company. The interests of the directors in the ordinary shares of the company's ultimate parent undertaking, NATS Holdings are as follows:

Richard Deakin - 800
Nigel Fotherby – 2,777
Paul Reid – 2,777

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

Directors' responsibilities

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

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

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

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

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

Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Auditor

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

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

Richard Churchill-Coleman
Secretary

27 June 2013

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

Registered in England and Wales

Company number: 04129270

Independent auditor's report to the members of NATS (Services) Limited

We have audited the financial statements of NATS (Services) Limited for the year ended 31 March 2013 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 25. The financial reporting that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

John Clennett

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

Chartered Accountants and Statutory Auditor
Southampton, United Kingdom

27 June 2013

Income statement
for the year ended 31 March

	Notes	2013 £m	2012 £m
Revenue	4	222.0	201.2
Staff costs	7	(105.6)	(95.4)
Services and materials		(30.0)	(29.6)
Repairs and maintenance		(9.1)	(7.2)
External research and development		(0.1)	(0.1)
Depreciation, amortisation and impairment	6	(3.6)	(4.3)
Gain on disposal of non-current assets		0.1	0.2
Other operating charges		(34.6)	(26.7)
Deferred grants released	6	0.3	0.4
Net operating costs		(182.6)	(162.7)
Operating profit	6	39.4	38.5
Investment revenue	8	0.9	0.9
Profit before tax		40.3	39.4
Tax	9	(9.4)	(9.9)
Profit for the year attributable to equity shareholders		30.9	29.5

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

Statement of comprehensive income
for the year ended 31 March

	Notes	2013 £m	2012 £m
Profit for the year		30.9	29.5
Other comprehensive expense for the year net of tax			
Actuarial loss on defined benefit pension scheme	21	(2.1)	(30.5)
Change in fair value of hedging derivatives		(0.2)	-
Transfer to income statement on cash flow hedges		0.1	-
Deferred tax relating to components of other comprehensive expense	17	0.5	7.8
		(1.7)	(22.7)
Total comprehensive income for the year attributable to equity shareholders		29.2	6.8

Balance sheet
at 31 March

	Notes	2013 £m	2012 £m
Non-current assets			
Intangible assets	11	3.4	3.5
Property, plant and equipment	12	12.0	13.6
Investments	23	1.8	0.4
Retirement benefit asset	21	2.7	-
Trade and other receivables	13	22.5	22.5
Deferred tax asset	17	-	0.9
		42.4	40.9
Current assets			
Derivative financial instruments	14	-	0.1
Trade and other receivables	13	39.3	34.0
Cash and cash equivalents	15	119.9	110.6
		159.2	144.7
Total assets		201.6	185.6
Current liabilities			
Trade and other payables	16	(34.1)	(30.9)
Current tax liabilities		(3.9)	(3.5)
Derivative financial instruments	14	(0.2)	-
		(38.2)	(34.4)
Net current assets		121.0	110.3
Non-current liabilities			
Trade and other payables	16	(5.2)	(4.5)
Retirement benefit obligations	21	-	(7.3)
Deferred tax liability	17	(1.1)	-
		(6.3)	(11.8)
Total liabilities		(44.5)	(46.2)
Net assets		157.1	139.4
Equity			
Called up share capital	18	0.1	0.1
Hedge reserve		-	0.1
Other reserves		0.4	0.6
Retained earnings		156.6	138.6
Total equity		157.1	139.4

The financial statements (Company Number 04129270) were approved by the Board of directors and authorised for issue on 27 June 2013 and signed on its behalf by:

John Devaney
Chairman

Nigel Fotherby
Finance Director

Statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the company				
	Share capital	Hedge reserve	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 April 2011	0.1	0.1	0.9	137.2	138.3
Profit for the year	-	-	-	29.5	29.5
Other comprehensive expense for the year	-	-	(0.3)	(22.4)	(22.7)
Total comprehensive (expense)/income for the year	-	-	(0.3)	7.1	6.8
Dividends paid	-	-	-	(5.7)	(5.7)
At 31 March 2012	0.1	0.1	0.6	138.6	139.4
At 1 April 2012	0.1	0.1	0.6	138.6	139.4
Profit for the year	-	-	-	30.9	30.9
Other comprehensive expense for the year	-	(0.1)	(0.2)	(1.4)	(1.7)
Total comprehensive (expense)/income for the year	-	(0.1)	(0.2)	29.5	29.2
Dividends paid	-	-	-	(11.5)	(11.5)
At 31 March 2013	0.1	-	0.4	156.6	157.1

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

Cash flow statement

for the year ended 31 March

	Notes	2013 £m	2012 £m
Net cash flow from operating activities	19	22.6	19.8
Cash flows from investing activities			
Interest received		0.9	0.9
Purchase of property, plant and equipment and other intangible assets		(1.5)	(0.3)
Proceeds from disposal of property, plant and equipment		0.2	-
Investment in joint venture		(1.4)	(0.3)
Net cash (outflow)/inflow from investing activities		(1.8)	0.3
Cash flows from financing activities			
Loans repaid by fellow subsidiary		-	0.9
Dividends paid		(11.5)	(5.7)
Net cash outflow from financing activities		(11.5)	(4.8)
Increase in cash and cash equivalents during the year		9.3	15.3
Cash and cash equivalents at 1 April		110.6	95.3
Cash and cash equivalents at 31 March		119.9	110.6

1. General information

NATS (Services) Limited (NATS Services) is a private 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 18. The nature of the company's operations and its principal activities are set out in the Report of the directors.

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

2. Accounting policies

The following accounting policies have been applied consistently in both 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 33. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.
In the current year, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any significant impact on the amounts reported in these financial statements.

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

There are no additional disclosures required by applying this amendment.

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

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

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

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

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

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

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

IFRS 1 (amended): *Government Loans*
Annual Improvements to IFRSs (2009 - 2011) Cycle
IFRS 9: *Financial Instruments*
IFRS 10: *Consolidated Financial Statements*
IFRS 10, IFRS 12 and IAS 27 (amended): *Investment Entities*
IFRS 11: *Joint Arrangements*
IFRS 12: *Disclosure of Interests in Other Entities*
IFRS 13: *Fair Value Measurement*
IAS 27 (revised): *Separate Financial Statements*
IAS 28 (revised): *Investments in Associates and Joint Ventures*
IFRIC 20: *Stripping Costs in the Production Phase of a Surface Mine*
IAS 19: *Employee Benefits (2011)*

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

IFRS 9: *Financial Instruments* - will impact the measurement and disclosures of financial instruments.
IFRS 12: *Disclosure of Interests in Other Entities* - will impact the disclosure of interests that the group has in other entities.

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

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

At completion of the 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 (NATS)) to this company.

In addition, the company entered into a Management Services Agreement (MSA) with NATS on 25 July 2001. This agreement provides for the provision by NATS 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 an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company also entered into an Intercompany Services Agreement (ICA) on 25 July 2001 with NATS (En Route) plc (NERL). Under this agreement this company provides NERL with the following services:

- North Sea helicopter advisory service;
- Air traffic services in certain sectors;
- Accommodation and support services to NERL units sited on NATS Services Heathrow premises; and
- Miscellaneous other services.

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

- 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 company commenced trading from 26 July 2001.

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

Operating profit

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

Operating segments

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

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

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

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;
- Sales of goods are recognised when they are delivered and title has passed;
- Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts (see below);
- Dividend income is recognised when the shareholder's rights to receive payment have been established; and
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

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

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

Property, plant and equipment

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

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

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

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

Borrowing costs

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

For NATS Services this assumes qualifying assets relate to any additions to new projects that begin after 31 March 2009, included in assets under construction, and excludes acquisitions that are acquired in a state ready for use.

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

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

Deferred grants and other contributions to property, plant and equipment

Government grants as contributions to non-current assets are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful economic lives of the related assets.

Grants of a revenue nature are credited to income in the period to which they relate.

Non-current assets held for sale

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

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

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:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

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

Recoverable amount is the higher of net realisable value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate discount rate.

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 in the income statement immediately.

Where an impairment loss on an intangible or tangible asset, 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.

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Under the Finance Bill 2012 which was enacted on 17 July 2012, the corporation tax rate was reduced to 23% with effect from 1 April 2013. It is the Government's intention that legislation will be introduced in the Finance Bill 2013 to reduce the main rate of corporation tax to 21% for the financial year commencing 1 April 2015. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate. As further reductions in the UK corporation tax rates have not been substantively enacted at the balance sheet date, this is considered a non-adjusting event in accordance with IAS 10 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

Foreign currency translation

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

In order to hedge its exposure to certain foreign exchange risks, the 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 company's parent, NATS, has entered into a deed of Pension Fund adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme whereby the company was admitted to participate in the Civil Aviation Authority Pension Scheme from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS has become a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the pension scheme. The pension scheme has been divided into two sections to accommodate this and a series of common investment funds established in which both sections participate for investment purposes.

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

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

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

In 2009 and during 2014 financial year, the company and Trustees introduced a number of pension reforms, as explained in note 21. These included: 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 13 to 16.

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

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

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

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

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

Impairment of financial assets
Financial assets are rigorously assessed for indicators of impairment at half year and year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment losses on trade receivables are recognised using allowance accounts. When a trade receivable is considered irrecoverable, it is written off against the allowance account, any subsequent recoveries are credited to the allowance account. Changes in the allowance account are recognised in the income statement.

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

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

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

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

income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

Derivative financial instruments and hedging activities
The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward exchange contracts to hedge these exposures. These are disclosed in notes 14 and 15 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 NATS group's policies approved by the Board of directors of NATS Holdings, 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 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 net profit or loss.

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.

3. Critical judgements and key sources of estimation uncertainty

Retirement benefits
The company accounts for its defined benefit pension scheme such that the net pension scheme asset or liability is reported on the balance sheet

with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. To the extent that there is a net pension scheme asset, this assumes economic benefit will arise, at least to the extent shown, from contributions to the pension scheme at a rate below the future cost of pension benefits.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affects the balance sheet position and the company's reserves and income statement. Refer to note 21 of the notes to the accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme asset/liability.

Going concern

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the business and financial review section above and in the accounts of NATS Holdings. In addition, note 15 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long-term contracts, many of which were renewed in the year. The company is also actively seeking to reduce its operating cost base through a cost saving programme to provide mitigation for future revenue shortfalls and cost pressures from legacy pension arrangements. As a result, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

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

4. Revenue

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

	2013 £m	2012 £m
NATS Airports	182.6	174.6
NATS Engineering	21.0	14.6
Other NATS Service lines	18.4	12.0
	222.0	201.2
Investment revenue (see note 8)	0.9	0.9
	222.9	202.1

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

A portion of the company's revenue from the rendering of services denominated in foreign currencies is cash flow hedged. The amounts disclosed above for revenue from the rendering of services includes the recycling of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue. For the year ended 31 March 2013 the amount included in revenue above is a loss of £0.1m (2012: £nil)

5. Business and geographical segments

Operating segments

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

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

For management reporting purposes, the company is currently organised into three service lines: NATS Airports, NATS Engineering and Other NATS Service lines, which consists of: NATS Consultancy, NATS Defence and NATS Information. These service lines have similar economic characteristics and exhibit similar financial performance, the nature of the products and the services provided is in the support of air traffic solutions and services and the customer base is drawn predominantly from airport operators and airlines.

Principal activities

The following table describes the activities for each operating segment:

NATS Airports	The provision of air traffic control and airport optimisation services at UK and international airports and engineering support services provided to contract airports.
NATS Engineering	The provision of engineering services to airport operators, construction companies and Air Traffic Management (ATM) industry suppliers, integrating new ATM infrastructure and new airports.
Other NATS Service lines	Includes NATS Defence, providing a range of other defence services in the UK and internationally; NATS Consultancy, offering airspace development, capacity improvement and training; and NATS Information, providing data to enable future efficiency and flight optimisation.

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

Segment information about these activities is presented below.

Revenue

Service line revenue includes intra-group revenue.

Segmental information about these businesses is presented below.

	2013			2012		
	External revenue £m	Intra-group revenue £m	Revenue £m	External revenue £m	Intra-group revenue £m	Revenue £m
NATS Airports	169.4	13.2	182.6	162.1	12.5	174.6
NATS Engineering	20.4	0.6	21.0	14.0	0.6	14.6
Other NATS Service lines	14.2	4.2	18.4	7.9	4.1	12.0
	204.0	18.0	222.0	184.0	17.2	201.2

Intra-group revenue includes revenue for services to NATS (En Route) plc of £18.0m (2012: £17.2m).

5. Business and geographical segments (continued)

Operating profit

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

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

	2013 £m	2012 £m
NATS Airports	61.4	57.5
NATS Engineering	4.4	3.1
Other NATS Service lines	4.6	1.5
Service line contribution	70.4	62.1
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(3.3)	(3.9)
Profit on disposal of non-current assets	0.1	0.2
Pension accrual rate variance to budget	(4.4)	0.2
Employee share scheme costs	(0.4)	(0.8)
Redundancy costs	(0.6)	(0.4)
Cost of investment in business growth	(4.4)	(3.0)
Other costs not directly attributed to service lines	(18.0)	(15.9)
	39.4	38.5

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:

	2013 Airport air traffic services £m	2013 Miscellaneous services £m	2013 Total £m	2012 Airport air traffic services £m	2012 Miscellaneous services £m	2012 Total £m
Revenue	169.4	52.6	222.0	162.1	39.1	201.2
Costs	(133.1)	(49.5)	(182.6)	(126.2)	(36.5)	(162.7)
Operating profit	36.3	3.1	39.4	35.9	2.6	38.5

Geographical segments

The following table provides an analysis of the company's revenue by geographical area, based on the geographical location of its customers:

	2013 £m	2012 £m
UK	211.9	197.3
Rest of Europe	2.0	1.0
Africa and Middle East	4.6	1.8
Asia	2.9	0.9
Other	0.6	0.2
Total	222.0	201.2

Capital expenditure and company assets are all located within the UK, with the exception of investments of £1.8m (2012: £0.4m) which the company holds in overseas entities (see note 23). These investments have been established to enable the company to undertake business abroad.

Major customers

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

6. Operating profit for the year

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

a) Redundancy costs

During the year voluntary redundancy was offered to staff in some areas of the business.

	2013 £m	2012 £m
Voluntary redundancy costs (including pension augmentation costs, see note 7a)	0.6	0.4

b) Other items

	2013 £m	2012 £m
CAA regulatory charges	2.9	2.8
Depreciation and impairment of property, plant and equipment	3.1	3.2
Amortisation and impairment of internally generated intangible assets	0.5	1.1
Deferred grants released	(0.3)	(0.4)

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

c) Transactions with group companies

	2013 £m	2012 £m
Net charges for services provided by parent undertaking	3.0	2.7
Charges for services provided by other group companies	18.0	14.8

In addition to the staff costs referred to in note 7a below, NATS Services 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 NATS Services. Under the Intercompany Services Agreement (ICSA) NERL provides certain services to NATS Services. The MSA and ICSA are explained in more detail in note 2.

7. Staff costs

a) Staff costs

	2013 £m	2012 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	75.2	68.5
Social security costs	8.0	7.1
Pension costs (note 7b)	22.7	19.9
	105.9	95.5
Less: amounts capitalised	(0.3)	(0.1)
	105.6	95.4

Wages and salaries includes redundancy costs of £0.6m (2012: £0.2m), share-based payment charges, other allowances and holiday pay. Pension costs include £nil (2012: £0.2m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

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

b) Pension costs

	2013 £m	2012 £m
Defined benefit pension scheme costs (note 21)	21.6	19.4
Defined contribution pension scheme costs	1.1	0.5
	22.7	19.9

c) Staff numbers

The monthly average number of employees (including executive directors) was:	2013 Number	2012 Number
Air traffic controllers	577	571
Air traffic service assistants	156	159
Engineers	143	130
Others	212	174
	1,088	1,034

8. Investment revenue

	2013 £m	2012 £m
Interest on bank deposits	0.6	0.6
Interest receivable from intercompany loans	0.3	0.3
	0.9	0.9

9. Tax

	2013 £m	2012 £m
Current tax	6.9	7.2
Prior year adjustment relating to current tax	-	(0.1)
Deferred tax (See note 17)	2.5	2.8
	9.4	9.9

Corporation tax is calculated at 24% (2012: 26%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2013 £m	%	2012 £m	%
Profit on ordinary activities before tax	40.3		39.4	
Tax on profit on ordinary activities at standard rate in the UK of 24% (2012: 26%)	9.7	24.0	10.2	26.0
Tax effect of group relief	(0.2)	(0.5)	(0.2)	(0.6)
Tax effect of corporation tax rate reduction from 26% to 24% from 1 April 2012	-	-	0.1	0.3
Tax effect of prior year adjustments	-	-	(0.1)	(0.3)
Other permanent differences	(0.1)	(0.2)	(0.1)	(0.3)
Tax charge for year at the effective tax rate of 23.1% (2012: 25.1%)	9.4	23.3	9.9	25.1
Deferred tax credit taken directly to equity (see note 17)	(0.5)		(7.8)	

10. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend for the year of £15.00 (2012: £53.00) per ordinary share	1.5	5.3
Second interim dividend for the year of £100.00 (2012: £4.00) per ordinary share	10.0	0.4
	11.5	5.7

In May 2013, the Board declared and paid an interim dividend for the year ending 31 March 2014 of £37.50 per share (totalling £3.75m) to its parent company.

11. Intangible assets

	Operational Software £m	Non-operational software £m	Assets in course of construction and installation £m	Total £m
Cost				
At 1 April 2011	1.6	0.4	-	2.0
Additions internally generated		-	-	-
Additions externally acquired	0.1	-	0.1	0.2
Other transfers	2.8	-	-	2.8
At 1 April 2012	4.5	0.4	0.1	5.0
Additions externally acquired	-	0.4	0.1	0.5
Other transfers	-	-	(0.1)	(0.1)
At 31 March 2013	4.5	0.8	0.1	5.4
Accumulated amortisation				
At 1 April 2011	0.2	0.2	-	0.4
Charge for the year	0.4	0.1	-	0.5
Provision for impairment	0.6	-	-	0.6
At 1 April 2012	1.2	0.3	-	1.5
Charge for the year	0.4	0.1	-	0.5
At 31 March 2013	1.6	0.4	-	2.0
Carrying amount				
At 31 March 2013	2.9	0.4	0.1	3.4
At 31 March 2012	3.3	0.1	0.1	3.5

12. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2011	0.7	9.5	31.4	2.9	3.6	48.1
Additions during the year	-	-	0.1	0.1	0.5	0.7
Disposals during the year	-	-	(0.1)	-	(0.1)	(0.2)
Other transfers during the year	-	-	0.2	-	(3.0)	(2.8)
At 1 April 2012	0.7	9.5	31.6	3.0	1.0	45.8
Additions during the year	-	0.4	-	0.1	0.9	1.4
Other transfers during the year	-	-	1.0	-	(0.9)	0.1
At 31 March 2013	0.7	9.9	32.6	3.1	1.0	47.3
Accumulated depreciation and impairment						
At 1 April 2011	0.7	8.6	18.6	1.2	-	29.1
Provided during the year	-	0.2	2.8	0.2	-	3.2
Disposals during the year	-	-	(0.1)	-	-	(0.1)
At 1 April 2012	0.7	8.8	21.3	1.4	-	32.2
Provided during the year	-	0.4	2.4	0.3	-	3.1
At 31 March 2013	0.7	9.2	23.7	1.7	-	35.3
Carrying amount						
At 31 March 2013	-	0.7	8.9	1.4	1.0	12.0
At 31 March 2012	-	0.7	10.3	1.6	1.0	13.6

The company conducts annual reviews of the carrying value of its property, plant and equipment and intangible assets. There has been no provision for impairment recognised as a result of the latest review.

13. Financial and other assets

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

Trade and other receivables

	2013 £m	2012 £m
Non-current		
Intercompany loan (interest bearing)	22.5	22.5
Current		
Receivable from customers gross	11.4	10.9
Allowance for doubtful debts	(0.2)	(0.4)
	11.2	10.5
Amounts recoverable under contracts	1.0	4.2
Other debtors	0.2	0.1
Prepayments	2.8	4.7
Amounts recoverable from subsidiaries (non-interest bearing loan repayable on demand)	0.7	0.7
Accrued income	23.4	13.8
	39.3	34.0

The average credit period taken on sales of services is 18 days (2012: 16 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.2m (2012: £0.4m). This amount has been determined by reference to past default experience.

Receivables in respect of 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. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

Ageing of past due but not impaired trade receivables	2013 £m	2012 £m
30 - 90 days	0.3	0.1
91 - 365 days	2.0	0.4
> 365 days	0.2	-
	2.5	0.5

Movement in the allowance for doubtful debts	2013 £m	2012 £m
Balance at the beginning of the period	0.4	0.8
Release of provision	-	(0.4)
Amounts recovered during the year	(0.2)	-
Balance at end of year	0.2	0.4

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. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £0.2m (2012: £0.2m) which are in administration, receivership or liquidation. The impairment recognised represents the carrying amount of these trade receivables. The group does not hold any collateral over these balances.

Ageing of impaired receivables	2013 £m	2012 £m
91 - 365 days	0.2	0.4

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

At 31 March 2013, NATS Services provided unsecured loans totalling £22.5m to NERL (2012: £22.5m). These loans are subordinate to NERL's senior debt and until the senior debt is repaid in full, these loans may only be repaid on either 31 May or 30 November using cash that would otherwise have been available for distribution to NATS Limited . The loan bears interest at a rate equal to six month LIBOR plus an agreed margin, the current interest rate is 1.50% (2012: 1.62%).

Cash and cash equivalents

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

Overall, the maximum credit risk for the items discussed above would be £178.9m (2012: £162.4m).

14. Derivative financial instruments

Fair value of derivative financial instruments

	2013 £m	2012 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	0.1

Further details on derivative financial instruments are provided in note 15.

Fair value measurements recognised in the balance sheet

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

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

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

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

	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	-	-	-	-	0.1	-	0.1

	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.2)	-	(0.2)	-	-	-	-

15. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern and to meet its obligations to its customers and fund business opportunities as they arise.

The capital structure of the company consists of cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in the statement of changes in equity.

Significant accounting policies

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

Categories of financial instrument

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

	2013 £m	2012 £m
Financial assets		
Trade and other receivables, excluding prepayments and accrued income	35.6	38.0
Cash and cash equivalents and short-term investments	119.9	110.6
Derivative financial instruments in designated hedge accounting relationships	-	0.1
	155.5	148.7
Financial liabilities		
Amortised cost	23.4	14.1
Derivative financial instruments in designated hedge accounting relationships	0.2	-
	23.6	14.1

Amortised cost includes trade and other payables, excluding accruals and deferred income, and amounts owed to other group undertakings.

15. Financial instruments (continued)

Financial risk management objectives

The NATS group treasury function is mandated by the Board of NATS Holdings to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2013.

Market risk

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

Foreign currency risk management

NATS Services 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 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 NATS Services foreign currency denominated monetary assets and monetary liabilities at 31 March was as follows:

	Assets		Liabilities	
	2013	2012	2013	2012
	£m	£m	£m	£m
Euro	0.7	0.2	-	-
US Dollar	0.1	0.2	(0.1)	(0.1)
Canadian Dollar	-	0.1	(0.3)	(0.1)
Qatari Riyal	1.5	1.6	(0.2)	-
Kuwaiti Dinar	0.3	-	-	-
Norwegian Krone	0.2	0.3	(0.2)	(0.2)
Singapore Dollar	0.1	-	-	-
	2.9	2.4	(0.8)	(0.4)

Foreign currency sensitivity analysis

NATS Services held foreign currency cash balances in Euro, US Dollar, Qatari Riyal, Kuwaiti Dinar and Norwegian Krone at 31 March 2013.

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

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

Currency	2013 Impact £m	2012 Impact £m
Euro	(0.1)	-
Qatari Riyal	0.4	0.6
Norwegian Krone	-	(0.1)
	0.3	0.5

15. Financial instruments (continued)

Forward foreign exchange contracts

The company entered into forward foreign exchange contracts to hedge foreign currency receipts and purchases of equipment. The company has designated these forward contracts as cash flow hedges.

At 31 March 2013 the company had the following outstanding forward foreign exchange contracts:

2013

US Dollar bought	$m	£m	Average exchange rate
0-3 months	-	-	-

QAR sold	£m	QAR m	Average exchange rate
0-3 months	0.5	2.7	5.7526
Over 3 months	5.0	28.6	5.7002
	5.5	31.3	5.7047

QAR bought	QAR m	£m	Average exchange rate
0-3 months	2.7	0.5	5.5550

NOK bought	NOK m	£m	Average exchange rate
0-3 months	-	-	-
Over 3 months	-	-	-
	-	-	-

KWD sold	£m	KWD m	Average exchange rate
0-3 months	0.2	0.1	0.4538
Over 3 months	0.1	0.1	0.4537
	0.3	0.2	0.4538

2012

US Dollar bought	$m	£m	Average exchange rate
0-3 months	0.2	0.1	1.6005

QAR sold	£m	QAR m	Average exchange rate
0-3 months	1.1	6.4	5.7572
Over 3 months	6.4	36.9	5.7522
	7.5	43.3	5.7530

QAR bought	QAR m	£m	Average exchange rate
0-3 months	-	-	-

NOK bought	NOK m	£m	Average exchange rate
0-3 months	1.3	0.1	9.2310
Over 3 months	2.5	0.3	9.3409
	3.8	0.4	9.3040

KWD sold	£m	KWD m	Average exchange rate
0-3 months	-	-	-
Over 3 months	-	-	-
	-	-	-

At 31 March 2013, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £nil (2012: £0.1m unrealised gains). Of these contracts, all will mature within the next financial year, at which stage the amount deferred in equity will be realised in the income statement for hedges relating to revenue expenditure or capitalised and depreciated for those relating to capital expenditure.

Interest rate risk management

The company had no debt at 31 March 2013 or 31 March 2012 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2013 Amount £m	2013 Economic interest rate %	2013 Average maturity days	2012 Amount £m	2012 Economic interest rate %	2012 Average maturity days
Sterling	119.2	0.4	15	109.9	0.4	5
Euro	0.1	-	-	-	-	-
US Dollar	0.1	-	-	0.2	-	-
Canadian Dollar	-	-	-	0.1	-	-
Qatari Riyal	0.1	-	-	0.1	-	-
Kuwaiti Dinar	0.2	-	-	-	-	-
Norwegian Krone	0.2	-	-	0.3	-	-
	119.9			110.6		

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

15. Financial instruments (continued)

Details of the company's intercompany loan to NERL are as follows:

Currency	2013 Intercompany loan Amount £m	2013 Economic interest rate %	2013 Weighted average time for which rate is fixed days	2012 Intercompany Loan Amount £m	2012 Economic interest rate %	2012 Weighted average time for which rate is fixed days
Sterling	22.5	1.5	186	22.5	1.5	183

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the company's cash deposits and intercompany loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity. There would be an equal and opposite impact on profit and equity if interest rates were to fall by 1%.

	2013 Impact £m	2012 Impact £m
Cash on deposit (2013: £119.9m, 2012: £110.6m)	1.2	1.1
Intercompany loans (2013: £22.5m, 2012: £22.5m)	0.2	0.2
	1.4	1.3

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to NATS Services. 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 is mitigated through comprehensive credit checks and credit control procedures being enforced. 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 Investors Service (Moody's) and Fitch Ratings.

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

Currently, NATS Services' investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to three months and between three and six months are only entered into with institutions holding a long-term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch and A3 and A1 respectively from Moody's. However, dependent on market conditions, tighter restrictions on rating requirements and lower limits may be placed on the duration of deposits. Hence since the 2008 financial crisis, the company has restricted deposits with banks rated below AA to a maximum of one week. Money market fund investments are restricted to AAA-rated liquidity funds.

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

Rating (Standard & Poor's/Moody's)	Limit per institution £m
AAA/Aaa	50.0
AA+/Aa1	40.0
AA/Aa2	30.0
AA-/Aa3	20.0
A+/A1	15.0
A/A2	10.0
A-/A3	7.5

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

Rating (Standard & Poor's)	2013 Number of institutions	2013 £m	2013 By credit rating (%)	2013 Limit utilised (%)	2012 Number of institutions	2012 £m	2012 By credit rating (%)	2012 Limit utilised (%)
AAA	3	43.2	36.0	28.8	1	5.0	4.5	10.0
AA-	2	25.5	21.3	63.8	3	41.2	37.2	68.6
A+	3	36.5	30.5	81.1	4	50.2	45.4	83.6
A	2	4.7	3.9	23.4	4	14.2	12.9	35.5
A-	2	10.0	8.3	66.7	-	-	-	-
		119.9	100.0			110.6	100.0	

Liquidity risk management

The responsibility for liquidity risk management rests with the Board of NATS Holdings with oversight provided by the Treasury Committee. The company's policy is to maintain sufficient cash to fund working capital requirements and new business development opportunities in line with targets approved by the Board.

To provide liquidity, NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2013 (31 March 2012: uncommitted overdraft of £1.0m).

Trade and other payables, including current tax liabilities, are expected to mature within one year.

15. Financial instruments (continued)

Fair value of financial instruments

The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realised within one year. The book values of other financial assets and liabilities approximate to their fair values because of their short maturities.

	Carrying amount		Fair value	
	2013 £m	2012 £m	2013 £m	2012 £m
Financial assets				
Trade and other receivables, excluding prepayments and accrued income	35.6	38.0	35.6	38.0
Cash and cash equivalents	119.9	110.6	119.9	110.6
Derivative instruments in designated hedge accounting relationships	-	0.1	-	0.1
	155.5	148.7	155.5	148.7
Financial liabilities				
Trade and other payables, excluding accruals and deferred income	23.4	14.1	23.4	14.1
Derivative instruments in designated hedge accounting relationships	0.2	-	0.2	-
	23.6	14.1	23.6	14.1

16. 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:

	2013 £m	2012 £m
Current		
Trade payables	2.0	1.4
Amounts due to other group undertakings	14.1	9.9
Other payables	7.3	2.8
Accruals and deferred income	10.7	16.8
	34.1	30.9
Non-current		
Accruals and deferred income (including deferred grants)	5.2	4.5
	39.3	35.4

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 27 days (2012: 20 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit asset £m	Other £m	Total £m
At 1 April 2011	2.0	2.5	(0.4)	4.1
(Credit)/charge to income	(0.7)	3.5	-	2.8
Credit to equity	-	(7.8)	-	(7.8)
At 31 March 2012	1.3	(1.8)	(0.4)	(0.9)
At 1 April 2012	1.3	(1.8)	(0.4)	(0.9)
(Credit)/charge to income	(0.3)	2.9	(0.1)	2.5
Credit to equity	-	(0.5)	-	(0.5)
At 31 March 2013	1.0	0.6	(0.5)	1.1

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

	2013 £m	2012 £m
Deferred tax liabilities	(1.6)	(1.3)
Deferred tax assets	0.5	2.2
	(1.1)	0.9

18. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2013 and 31 March 2012	100,000	0.1	100,000	0.1

19. Notes to the cash flow statement

	2013 £m	2012 £m
Operating profit from continuing operations	39.4	38.5
Adjustments for:		
Depreciation of property, plant and equipment	3.1	3.2
Amortisation of intangible assets	0.5	1.1
Profit on disposal of property, plant and equipment	(0.1)	(0.2)
Deferred grants released	(0.3)	(0.4)
Non-cash element of charge for pension costs	(12.1)	(13.6)
Operating cash flows before movements in working capital	30.5	28.6
Decrease in contract work in progress	3.2	1.2
(Increase)/decrease in trade and other receivables	(8.4)	2.1
Decrease in trade and other payables	(0.4)	(3.4)
Increase/(decrease) in amounts due to other group undertakings	4.2	(0.4)
Cash generated from operations	29.1	28.1
Tax paid	(6.5)	(8.3)
Net cash flow from operating activities	22.6	19.8

Cash and cash equivalents, which are presented as a single class of asset on the face of the balance sheet, comprise cash at bank.

20. Financial commitments

	2013 £m	2012 £m
Capital commitments contracted but not provided for in the accounts.	0.1	-
Minimum lease payments under operating leases recognised in income for the year.	17.0	16.9

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

	2013 £m	2012 £m
Within one year	16.1	16.1
In the second to fifth years inclusive	49.2	21.0
After five years	6.6	7.7
	71.9	44.8

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

Guarantees

NATS Services has committed to providing its subsidiary NATSNav Limited with financial support to enable NATSNav to continue trading and to meet all liabilities known or reasonably foreseeable at the year end as they fall due. NATSNav had net liabilities at 31 March 2013 of £0.3m (2012: £0.3m).

Bid and performance bonds

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

21. Retirement benefit scheme

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

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

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

During the year the company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable pay to a maximum of the consumer price index (CPI) plus 0.25%. In addition, the Trustees consulted members of the scheme on a change to the indexation of future service at CPI, rather than RPI.

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

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

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

Trustees' funding assessment

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2012 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purpose of the Trustees' funding assessment, it was assumed that the annual investment returns before retirement will be 3.37% higher than the annual general increases in salaries (allowance is also made for further salary increases due to promotions) and the annual investment returns for pensions in payment will be 0.22% higher than the annual increases in pensions.

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

NATS, 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 participates in CAAPS and bears the employment (including pension) costs of those personnel.

The company pays fees to NATS 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 to NATS Services. 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.

Contributions to the pension scheme

During the year NATS Services paid cash contributions to the scheme of £33.7m (2012: £33.0m). This amount included £3.5m (2012: £3.5m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 45.9% (2012: 45.5%) of pensionable pay. The company increased contributions from May 2010 to 36.7% of pensionable pay, equivalent to the future service cost and in response to the triennial valuation, NATS made further contributions of £2.0m per month from January 2011, NATS Services' share being c. £0.5m per month, increasing these by 3.5% each January thereafter, under a deficit recovery plan agreed with Trustees. This plan will continue until 31 December 2014 before a revised schedule reflecting the 2012 valuation is implemented. NATS will contribute £2.4m per month from January 2015, NATS Service's share will be c. £0.6m per month.

21. Retirement benefit scheme (continued)

Company's accounting valuation under international accounting standards

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

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

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

	2013	2012	2011	2010
RPI inflation	3.35%	3.25%	3.45%	3.65%
CPI inflation	2.45%	n/a	n/a	n/a
Increase in:				
- salaries	2.70%	3.25%	3.95%	4.15%
- deferred pensions	3.35%	3.25%	3.45%	3.65%
- pensions in payment	3.35%	3.25%	3.45%	3.65%
Expected return on:				
- equities	n/a	7.10%	7.35%	7.55%
- property and other assets	n/a	6.60%	7.35%	7.55%
- bonds	n/a	3.45%	4.70%	4.90%
Discount rate for scheme liabilities	4.45%	5.05%	5.45%	5.65%

The mortality assumptions have been drawn from actuarial tables 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5% pa (2012: 82% S1PMA and 101% S1PFA with future improvements in line with 80%/60% long cohort projections for male/female members, subject to a minimum improvement of 1.25%). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.3 years (2012: 29.0 years) and a female pensioner is 30.8 years (2012: 29.0 years). Allowance is made for future improvements in longevity, such that based on the average age of the current membership, when these members reach retirement, life expectancy from age 60 will have increased for males to 31.1 years (2012: 31.2 years) and for females to 32.6 years (2012: 31.4 years).

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease by 11.6%/Increase by 13.7%
Rate of inflation	Increase/decrease by 0.5%	Increase by 13.7%/Decrease by 11.8%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 4.2%/Decrease by 3.9%
Rate of mortality	1 year increase in life expectancy	Increase by 2.3%

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2013 £m	2012 £m
Current service cost	(26.6)	(26.5)
Past service cost	-	(0.2)
Expected return on scheme assets	38.6	42.1
Interest cost on scheme liabilities	(33.6)	(34.8)
Total defined benefit charge recognised in arriving at operating profit	(21.6)	(19.4)

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

	2013 £m	2012 £m
Actual return less expected return on scheme assets	44.1	(50.8)
Experience gains and losses arising on scheme liabilities	27.5	30.5
Changes in assumptions underlying the present value of scheme liabilities	(73.7)	(10.2)
	(2.1)	(30.5)

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

	2013 £m	2012 £m
Fair value of scheme assets	754.9	651.5
Present value of defined benefit obligations	(752.2)	(658.8)
Surplus/(deficit) in scheme	2.7	(7.3)

21. Retirement benefit scheme (continued)

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

	2013 £m	2012 £m
At 1 April	651.5	639.6
Expected return on scheme assets	38.6	42.1
Actuarial gains and losses	44.1	(50.8)
Contributions from scheme members	0.1	0.1
Contributions from company	33.7	33.0
Benefits paid	(13.1)	(12.5)
At 31 March	754.9	651.5

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

	2013 £m	2012 £m
At 1 April	(658.8)	(630.0)
Current service cost	(26.6)	(26.5)
Past service costs	-	(0.2)
Interest cost	(33.6)	(34.8)
Actuarial gains and losses	(46.2)	20.3
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	13.1	12.5
At 31 March	(752.2)	(658.8)

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

	Fair value of assets		Expected return	
	2013 £m	2012 £m	2013 %	2012 %
Equity instruments	401.8	346.8	n/a	7.10
Property and other assets	100.8	91.7	n/a	6.60
Bonds	227.0	195.3	n/a	3.45
Cash	25.3	17.7	n/a	3.45
	754.9	651.5	n/a	5.84

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

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

The five year history of experience adjustments is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	(752.2)	(658.8)	(630.0)	(593.8)	(461.2)
Fair value of scheme assets	754.9	651.5	639.6	610.3	446.9
Surplus/(deficit) in the scheme	2.7	(7.3)	9.6	16.5	(14.3)
Experience adjustments in scheme liabilities					
Amount (£m)	27.5	30.5	40.6	41.6	8.2
Percentage of scheme liabilities	(3.7%)	(4.6%)	(6.4%)	(7.0%)	(1.8%)
Experience adjustments in scheme assets					
Amount (£m)	44.1	(50.8)	(26.7)	127.1	(177.0)
Percentage of scheme assets	5.8%	(7.8%)	(4.2%)	20.8%	(39.6%)

The actual return on scheme assets for the year ended 31 March 2013 was £82.7m gain (2012: £8.7m loss).

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2013 is £36m, including salary sacrifice contributions estimated at £4m.

22. Related party transactions

Since 26 July 2001, the NATS group has four major shareholders - the Crown, The Airline Group Limited (AG), Heathrow Airport Holdings Limited (formerly BAA Airports Limited) and the NATS Employee Sharetrust Limited. During the year transactions with the Crown have taken place with the Department for Transport (DfT) and the Ministry of Defence (MoD). In addition there have been transactions with Heathrow Airport Holdings Limited.

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

Contractual arrangements exist between Heathrow Airports Holdings Limited and NATS Services in relation to air navigation services provided at Aberdeen, Glasgow, Heathrow, Southampton and Stansted airports. In June 2012 Edinburgh airport was sold by Heathrow Airports Holdings Limited to Global Infrastructure Partners, therefore the trading transactions below exclude the transactions after this date. In February 2013 Stansted airport was sold by Heathrow Airports Holdings Limited to Manchester Airport Group plc, therefore the trading transactions below exclude the transactions after this date.

Trading transactions

During the year, the company entered into the following transactions with related parties.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Heathrow Airports Holdings Limited	95.2	102.6	6.2	9.4	7.7	9.6	5.9	4.9
MoD	3.8	4.2	-	-	0.5	0.5	-	-
Meterological Office	-	-	0.1	-	-	-	-	-

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 20.

The Report of the Directors includes details of the directors of the company. None of these directors received any fees in the year for their services as directors of this company. The consolidated accounts of NATS Holdings include details of the remuneration received by the directors of the group.

Directors remuneration

Remuneration payable to the highest paid director of the company in the year was £337,000 (2012: 360,000).

23. Subsidiaries, joint ventures and associates

The company owns NATSNav Limited whose principal activity is satellite based navigation services. The cost of the investment is stated at £1. NATSNav is a member of a consortium of companies with an investment in European Satellite Services Provider (ESSP) SAS, a corporate entity providing satellite based services to the European Commission, who took over the activities of the European Economic Interest Group (EEIG).

100% of the ordinary share capital and voting rights of NATSNav are held by this company. NATSNav is registered in England and Wales and operates in the United Kingdom. NATSNav has authorised and issued share capital of £1.

The company has provided guarantees in respect of its subsidiary (NATSNav), please refer to note 20 for further details.

On 28 January 2011, NATS Services acquired 50% of the issued share capital of FerroNATS Air Traffic Services for a cash consideration of €0.1m (£0.1m). In June 2011 NATS Services acquired a further €0.4m (£0.3m) of the issued share capital of FerroNATS Air Traffic Services. In the current year NATS Services invested additional funds into FerroNATS in August 2012 (€0.6m or £0.5m) and October 2012 (€1.1m or £0.9m). NATS Services has not presented summarised financial information relating to the year ended 31 March 2013, the summary financial information relating to associates of the NATS group are presented in the NATS Holdings Limited consolidated accounts.

Details of the joint venture with Ferroser at 31 March 2013 are:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
FerroNATS Air Traffic Services SA	Airport air traffic services	28 January 2011	50%	Spain

NATS Services has established two wholly owned subsidiaries; NATS Sverige AB and NATS (USA) Inc, to enable the company to operate in overseas markets. The summary financial transactions of these subsidiaries have not been disclosed as the companies have not entered into any significant financial transactions to date. The details of these subsidiaries are shown below:

Name of company	Principal activity	Proportion of ordinary shares held	Proportion of voting rights held	Country of registration	Country of operation
NATS (USA) Inc	Engineering and ATM consultancy	100%	100%	USA	USA
NATS Sverige AB	Airport air traffic services	100%	100%	Sweden	Sweden

24. Parent Undertaking

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

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

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

25. Events After the Reporting Period

In May 2013, the Board declared and paid an interim dividend for the year ending 31 March 2014 of £37.50 per share (totalling £3.75m) to its parent company.