NATS (Services) Limited

Financial statements
for the year ended 31 March 2014

Company Number: 04129270

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Company Secretary

Richard Churchill-Coleman

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Registered in England and Wales
Company No. 04129270

Auditor

Deloitte LLP

This report presents a summary of the company's business model and strategy together with the principal risks and uncertainties which it faces. The review also explains the company's operating performance and results, financial position and cash flows for the year ended 31 March 2014.

NATS Services provides Air Traffic Control (ATC) and aviation related services to a variety of customers in the UK and overseas.

Our business consists of three distinct service lines under the NATS brand: NATS Airports, NATS Engineering and Other NATS Service lines, which comprised: NATS Consultancy, NATS Defence and NATS Information.

Of these, our core business through the NATS Airports service line is the provision of ATC services under competitive contract to the airport operator. We do this at 15 UK airports plus Gibraltar. 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 nine airports in Spain.

During the year we were successful in retaining a number of our existing domestic airport and engineering contracts, including Cardiff and Belfast and in winning business in new markets. In all, we secured orders worth £103m. We were however, unsuccessful in retaining the ATC and engineering contract at Birmingham Airport following their decision to take these functions in-house. We have agreed a one year extension to our existing contract to support the airport in the transition of the service to Birmingham Airport Air Traffic Ltd (BAATL) from 1 April 2015.

Our strategy relies on adding value to our customers' operations, through our core competencies.

Overall, NATS Services has had a positive year. Its safety performance remained in line with targets and it delivered a solid set of financial results in line with expectations with a profit before tax of £23.3m (2013 restated: £33.2m). Revenues of £214.9m (2013: £222.0m) were lower by 3.2% and is explained in detail below.

Operating environment

Historically, the growth in demand for air travel has been closely linked to the strength of the global economy. Some economies are growing faster than others, with the strongest growth being from the emerging economies of the Middle East and South East Asia. Of the established Western economies, the US has exhibited a particularly robust recovery since the financial crisis. In the meantime recovery in the UK is becoming increasingly solid whilst the

Eurozone has recently exited recession and is back on a growth path. This puts all major regions of the world back into positive growth territory for the first time since the financial crisis. Whilst global demand for air travel recovers on the back of a strengthening global economy, it is the Middle East and South East Asia regions where we expect the growth in demand to be most pronounced and which offer the best prospects for business development: we are already seeing evidence of capacity constraints at busy airports and across airspace in these regions.

The UK's progressively improving economy suggests that we should see a return to sustained growth in air traffic volumes. However, the severity of the economic recession has meant that forecasting a recovery has been particularly challenging, and sustained air traffic growth has been elusive so far with subsequent projections deferring the point at which growth had been anticipated.

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
- to enable the capabilities needed in the business to ensure we deliver our ambitions.

At the very heart of this strategy is our intention to help our customers to deliver a better passenger experience. To defend our existing market position we must continue to understand our customer's requirements in a changing market place. We are offering more compelling propositions to airport operators through value adding innovations in technology and operations which also deliver improved price performance. The market has also seen the emergence of viable competitors and/or in-house provision over a number of years making it more difficult to secure contracts at existing margins.

We are also facing economic regulation for UK Terminal Air Navigation Services (TANS). We believe that a competitive market for TANS remains the most effective long-term business model for airport customers. Our Spanish joint venture shows that where competition exists better quality services can be provided more cost effectively. We will continue to take the necessary steps to support the demonstration of contestability in the UK market and challenge inappropriate forms of economic regulation that would undermine the development of competition. The loss of the Birmingham contract demonstrates the availability of alternative provision in the market.

We have worked hard to develop a compelling growth strategy that builds on our intimate knowledge of how we can add value to airport operations and sees a broader range of products and services offered to our existing and new customers. Our strategy is to focus our resources on customers and countries most likely to provide long term sustainable business on a significant scale and at manageable risk. To this end we have developed a focused territory strategy and targeted customer campaigns.

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 airports and airlines money.

There are limited new business openings in Europe at present, due to political factors, and the growth in military outsourcing has also been slower than expected. It is also taking longer to break into new markets due to economic conditions. However, there are good prospects in specific growth markets such as the Middle East and Asia Pacific, and this is where we are focusing our effort, demonstrated by the opening of offices in Dubai and Singapore.

Our strategy will only succeed if enabled by improving our approach to competing for and delivering new business. We are continuing to develop our commercial capabilities and placing increased emphasis on international partnerships to access new markets while minimising commercial risk. Our people strategy focuses on the recruitment, succession planning and talent development required to deliver our strategy. This year we also developed complementary strategies to deliver continuous safety improvement as the business develops, reduce the impact of aviation on the environment and fuel savings and a technology strategy to ensure alignment with the European SES ATM Research (SESAR) programme.

To support our strategy we have also re-affirmed our core values:

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

Safety

Our first priority remains the safety of aircraft and the travelling public and we are committed to improving operational safety performance. 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.

We have worked with airport operators to prevent runway incursions. NATS is supporting Aberdeen Airport with its trial of a runway incursion alerting system and we are working with several airports to improve compliance with procedures by ground handling agents.

As opportunities for tactical safety improvement continue to reduce, NATS is looking at how to address future risks to the industry. As a key enabler for future safety improvement NATS has developed a Safety Strategy to 2020. The strategy proposes changing how NATS measures and controls safety in its operations, strengthening the role of people in delivering safety and making best use of the resources available. It acknowledges the need to become even more productive in anticipating the risks to our operations in order to help us manage the significant challenges of the future. We were encouraged to see the principles of our Safety Strategy adopted by the Civil Air Navigation Services Organisation (CANSO) as a global standard for best practice.

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.

Regulatory developments

The Civil Aviation Authority (CAA) 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 Single European Sky (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. 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.

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, performance plans for the 5 year period 2015 to 2019 (Reference Period 2 (RP2)) must include national targets for TANS. Therefore, in December 2013, the CAA consulted on TANS and published a draft decision in February 2014 and, following further stakeholder review, provided its decision to DfT in May 2014. In general terms we welcome the CAA's approach to regulation and its intent to avoid hindering the development of contestable market conditions. It recognises that airport operators are best placed to decide the type and levels of performance needed to deliver the service they require for their customers. The CAA has set out specific targets for airport capacity (delay) which maintains historic performance and a general 1% p.a. cost efficiency target (in real terms).

The DfT will now submit the final performance plan for the UK to the European Commission at the end of June 2014. 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.

Environment

Our focus on the environment continues to remain one of our core values. We are developing a new system called Time-Based Separation (TBS) which aims to stabilise the landing rate in strong headwind conditions. Current aircraft separation requirements on the final approach path are defined by distances. Strong headwind conditions reduce an aircraft's speed over the ground and this has a knock-on effect on the achievable landing rate. The TBS concept proposes varying the required distance separations depending upon the prevailing wind conditions in order to recover the lost landing rate in strong headwinds and in turn reduces stacking.

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

This year's performance illustrates the high quality, commitment and professionalism of our people. Valuing the difference we can all make at NATS is one of our core values. At its heart is a respect for individual expertise, capitalising on individual strengths and encouraging people to develop their skills.

This year saw the launch of a NATS wide succession and personal development programme called PATH. This is a five level programme of performance enhancement, leadership development and succession planning which is accessible to all NATS employees. PATH provides our people with access to the latest thinking and development on best in class business practices and supports them in enhancing the skills and competencies required for both their current and future roles. It has been designed to equip our people to meet the challenges of today and tomorrow, and to ensure NATS has the capability and resilience in our talent pool to deliver on our commitment to existing customers and for growth.

Many of the company's staff are members of the NATS group's defined benefit pension scheme and the company bears c. 24% of the group's contributions to this scheme. The Trustees of NATS' defined benefit pension scheme reported the outcome of the 2012 triennial valuation in the period: a deficit of £382.6m, compared with £351.1m in 2009. This reflected actions taken by the company to manage the cost and risk of the scheme through pension reforms that the company agreed with its trades unions and staff. 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' scheme but without a corresponding increase in scheme assets (a large part 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 (NTUS), staff 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). The result was also a schedule of contributions set at a more affordable level than would otherwise have been the case.

Staff also agreed to a 3-year pay award which is linked to CPI. In addition, NATS introduced a company performance related pay scheme (CPRP) which directly links the company's profit performance to an employee's total reward. This is an important step in aligning staff, shareholder and customer interests in the continued delivery of a high quality, safe and affordable service.

After a 25 year career in NATS, Paul Reid, MD Services, resigned leaving the company at the beginning of December 2013. He has been replaced by Catherine Mason who joined NATS on 1 April 2014. Catherine joins from Translink Group, where she has been Group Chief Executive since 2008 responsible for providing all public transport in Northern Ireland within a complex governance and stakeholder environment.

Overview of financial and operational performance

	2014 £m	Restated 2013 £m
Revenue	**214.9**	222.0
Operating profit	**22.5**	32.3
Profit before tax	**23.3**	33.2
Profit after tax	**18.2**	25.4
Dividends	**5.0**	11.5

Revenues decreased by £7.1m to £214.9m (2013: £222.0m) due largely to lower Engineering and Consultancy income from projects.

Profit before tax decreased by £9.9m to £23.3m (2013 restated: £33.2m). Operating costs increased by £2.7m to £192.4m (2013: £189.7m).

	2014 £m	Restated 2013 £m
Staff costs	**(115.7)**	**(112.7)**
Services and materials	**(31.0)**	**(30.0)**
Repairs and maintenance	**(7.2)**	**(9.1)**
External research and development	**-**	**(0.1)**
Other operating charges	**(35.1)**	**(34.6)**
	(189.0)	**(186.5)**
Depreciation and amortisation	**(3.7)**	**(3.6)**
Deferred grants	**0.3**	**0.3**
Gain on disposal of non-current assets	**-**	**0.1**
Operating costs	**(192.4)**	**(189.7)**

Staff costs were £3.0m higher reflecting pay rises linked to the Consumer Prices Index (CPI), a new staff incentive scheme and an increase in staff numbers to support the growth strategy. Service and materials increased by £1.0m with higher costs to support business development. Repairs and maintenance costs decreased by £1.9m associated with lower levels of engineering activity and other operating charges increased by £0.5m.

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

	2014	2013
Financial performance:		
Revenue (£m)	183.7	182.6
Service line contribution (£m)	57.4	61.4
Capital expenditure (£m)	0.5	0.9
Operational performance:		
Airports served: UK (no.)	15	15
Airports served: Overseas (no.)	10	6
Risk-bearing airprox (no.)	nil	nil
ATC service delivery events (no.)	8	5
ATC asset non-availability (hours)	15	42
Average delay per flight (seconds)	0.1	0.1

NATS Airports represents our air traffic control (ATC) and airport optimisation services which we offer to UK and international airport customers, helping airports to drive airport efficiencies and capacity in a cost effective manner. This service line supplies ATC and related engineering services to 15 UK airports and to Gibraltar. In addition, our ferroNATS joint venture is now managing ATC services at nine Spanish airports following the successful completion of a complex transition from Aena, the Spanish air traffic control provider.

The economic climate this year proved challenging for all our airport customers and the aviation industry generally. Coupled with the slow pace of change towards Air Traffic Management (ATM) liberalisation this has limited growth opportunities. 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.

Revenue at £183.7m (2013: £182.6m) was £1.1m higher than the previous year reflecting changes in contract prices and inflation indexation uplifts on contracts. Service line operating costs of £126.3m were £5.1m higher than last year (2013: £121.2m) mainly due to higher staff-related costs.

Overall, the service line contribution of £57.4m (2013: £61.4m) was £4.0m lower than the prior year.

During the year we successfully renewed the contracts at Cardiff, Belfast International and Gibraltar Airports. The Birmingham airport contract ends in March 2015 following the airport's decision to take ATC and engineering functions in-house; we agreed a one year extension to the contract and have been providing support to ensure a smooth and safe transition.

We continued to provide a safe service at airports with no risk-bearing airproxes during the period. The average delay per flight attributable to NATS Airports in the period was 0.1 seconds, in line with last year. We 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.

The CAA has proposed cost efficiency and capacity targets for large airports for RP2, as discussed earlier in the report. In addition, there are two environmental metrics which will continue to be monitored but with no targets set: additional taxi-out time and additional time in terminal airspace.

NATS Engineering

	2014	2013
Financial performance:		
Revenue (£m)	15.1	21.0
Service line contribution (£m)	2.2	4.4
Capital expenditure (£m)	3.3	0.6

Significant deliverables in 2014:
Manchester airport: new control tower building
Birmingham airport: new control tower building
Birmingham airport: instrument landing system
Clyde windfarm: radar mitigation solution
Heathrow airport: voice and radar recorder replacement
East Shetland Basin: communications system
Bristol airport: emergency voice communications system
Bristol airport: semi-automated meteorological observation system
Hong Kong International airport: land reclamation consultancy

NATS Engineering provides engineering services to airport operators, construction companies and ATM industry suppliers, mainly integrating new ATC infrastructure at airports.

Revenue at £15.1m was £5.9m lower than the previous year (2013: £21.0m) with lower levels of new project activity - 2013 reflected significant contracts for the fit-out of Birmingham and Manchester control towers which were largely completed in that year. Costs at £12.9m were £3.7m lower (2013: £16.6m) reflecting lower staff and materials costs associated with lower levels of activity. The service line contribution of £2.2m (2013: £4.4m) was £2.2m lower 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, Oxford, Highland & Islands Airports and Dundee. We also won the contract to provide the engineering services at RAF Gibraltar.

We were able to demonstrate the flexibility, resourcefulness and specialist knowledge of our engineering employees when they repaired the instrument landing systems at Stansted following damage caused by an aircraft in a speedy safe manner minimising the impact on the airport customer. We also supported Gatwick airport when they were hit by adverse weather conditions before Christmas, our engineers worked hard to restore critical systems and managed significant disruption and failures to keep ATC disruption to a minimum.

In April, the new control tower building at Birmingham entered operation following the installation of both new equipment and the transfer of existing systems from the previous tower. In June, the fit out of the new Manchester control tower completed and it entered operational service.

NATS Engineering completed a project to replace the Radar Data Processor (RDP) and Display Systems at Farnborough airport which support both the airport and delegated LARS operations. The RDP incorporates all the latest safety nets and improves resilience for the customer. NATS fully achieved the aspirations of the customer to have the new system transitioned into operational service by March 2014 therefore allowing planning for the Farnborough Airshow in July to commence.

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). Whilst progress has been slower than planned NATS Engineering has now been awarded 3 packages of work through this programme.

Other NATS Service lines

	2014	2013
Financial performance:		
Revenue (£m)	16.1	18.4
Service line contribution (£m)	2.7	4.6
Capital expenditure (£m)	0.4	0.4
Secured order value:		
UK contracts (£m)	31.3	10.6
Overseas contracts (£m)	13.0	4.3

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

Revenues at £16.1m (2013: £18.4m) were £2.3m lower than previously, mainly due to higher consultancy contracts in the Middle East largely completed in 2013. Costs at £13.4m were £0.4m lower (2013: £13.8m) reflecting lower project related costs. Contribution of £2.7m was £1.9m lower than the previous year (2013: £4.6m) reflecting lower levels of project activity.

NATS Consultancy is the initial point of contact for many of our new UK and international customers, providing a window into our range of capabilities and services. It provides services mostly relating to airspace and airport projects to help clients address challenges that we have already faced, bringing a unique insight into meeting performance, environmental, regulatory and commercial challenges.

We are providing training to Romania and Oman. We have delivered capacity management, airport and airspace design contracts in the UK, Singapore, Hong Kong, Qatar, Japan, Australia and Turkey. Together with partners Siemens Postal Parcel and Airport Logistics, McLaren Applied Technologies and AVTECH Sweden AB, we are delivering a contract which will provide an enhanced capacity analysis capability to Heathrow airport, allowing them to easily assess proposed changes to the airport infrastructure. This will improve the schedule planning process; assist in making the airport more efficient; and help Heathrow deliver its operating schedule to plan.

NATS Defence provides a range of defence services in the UK and, where opportunities exist, 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 UK defence budgets is driving the MoD to look for ways in which it can increase performance and efficiency through technology and innovation. The successful work on London 2012 air security arrangements, on moving Prestwick military ATC to Swanwick and on FMARS PR2 negotiations has broadened conversations with the MoD on other potential opportunities for providing innovative defence services in adjacent areas to ATM.

AQUILA Air Traffic Management Services, the consortium of NATS and Thales, has been selected as one of two consortia 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 aeronautical information management (AIM), airspace design services and data solutions for future flight efficiency and airport optimisation, an area of increasing focus for our customers. We are uniquely placed to source and integrate traffic, weather and AIM data to provide value-adding data services to aircraft operators, an area where we are seen by customers as highly credible. We have begun to provide AIM services internationally and are implementing a new aeronautical data quality compliant AIM platform in conjunction with Avinor and Borealis partners. Swedavia awarded NATS the contract to design Performance Based Navigation procedures for 5 airports in Sweden. We have established a leading position in assessing and mitigating the impact of windfarms on aviation (principally radar). As a result we have awarded a contract to Raytheon to modify two key radars to mitigate against the interference caused by wind turbines. Raytheon will now begin work to deliver a technical modification that will mitigate the effects of turbines in the vast majority of cases.

Balance sheet

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

	2014	2013
	£m	£m
Intangible fixed assets	**3.1**	3.4
Property, plant and equipment	**12.8**	12.0
Investments	**2.2**	1.8
Loan to fellow subsidiary	**22.5**	22.5
Cash	**134.0**	119.9
Other net liabilities	**(11.7)**	(5.2)
Pension scheme (deficit)/surplus	**(2.3)**	2.7
Net assets	**160.6**	157.1

Shareholders' funds increased by £3.5m to £160.6m. This reflects profit for the year of £18.2m, actuarial losses on the company's defined benefit scheme and other charges of £9.7m recognised in comprehensive income and dividends of £5.0m.

The movement in intangible and tangible fixed assets in the year represented the additions of £4.2m, net of depreciation and amortisation charges of £3.7m. The company also invested £0.4m in its Spanish joint venture with Ferrovial.

Other net liabilities increased by £6.5m to £11.7m (2013: £5.2m) principally reflecting a decrease in trade and other receivables.

Other significant changes in the financial position included a change to the value of the retirement benefit asset and to the deferred tax position.

Defined benefit pensions

a. IFRS – accounting basis

At 31 March 2014, measured under international accounting standards and the associated best estimate assumptions, the company's share of the NATS defined benefit pension scheme was in deficit with liabilities (of £809.1m) exceeding assets (of £806.8m) by £2.3m (2013: £2.7m surplus). Given the size of the scheme, 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. Membership experience which differs from that expected will also impact on the liabilities of the scheme.

b. Actuarial – funding basis

The scheme actuary's latest triennial valuation of the scheme was prepared as at 31 December 2012 and reported a scheme deficit of £382.6m for the NATS group, NATS Services' share of this deficit is c. £96m – the deficit would have been significantly worse had action not been taken by the company to secure staff agreement to reduce the limit on increases in annual pensionable pay from RPI + 0.5% to CPI + 0.25%. This valuation, which is for funding purposes and uses assumptions including a margin for prudence, gives rise to a different valuation than that disclosed under international accounting standards. It determines the contributions that the NATS group (and therefore the company) is required to make to the defined benefit scheme.

The Trustees and the company have agreed a schedule of contributions and a deficit recovery plan for the period to 31 December 2023. This required the NATS group to make deficit repair payments of £25.7m for calendar year 2013 and £26.6m for calendar year 2014, and future service contributions at a rate of 36.7% of pensionable pay (excluding salary sacrifice) for this period. From 1 January 2015 future service contributions will reduce to 29.4%, reflecting the revised cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Also, from 1 January 2015, deficit contributions will be £28.6m, increasing by 2.37% each year. The company's share of the deficit recovery contributions is c.24%.

The NATS group continues to work with Trustees to ensure an appropriate investment strategy is in place, including de-risking the scheme as funding levels improve to mitigate future volatility in the funding position.

During the year ended 31 March 2014 the company paid deficit recovery payments of £6.2m (2013: £6.0m). Before pension salary sacrifice payments of £3.6m the company's overall contributions to the defined benefit scheme were £30.7m (2013: £30.2m), equivalent to 46.0% of pensionable pay (2013: 45.9%).

Cash flow

Overall, the company's cash balances increased by £14.1m in the year to £134.0m (2013: £119.9m).
Net cash from operating activities at £20.0m was £2.6m lower than 2013 (2013: £22.6m). Higher revenue receipts from consultancy and engineering contracts and lower tax payments were more than offset by higher costs.

There was a net cash outflow from investing activities of £0.2m (2013: outflow of £1.8m) and outflows of £5.7m (2013: £11.5m outflow) from financing activities, which included a dividend of £5.0m.

Looking Ahead

NATS' 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. In addition, growth will be delivered in new territories and business areas through innovation, partnerships, joint ventures and acquisitions.

Together with our partner, Thales, we are one of the two remaining bidders for Project Marshall, a long term contract to manage air traffic and related infrastructure at Ministry of Defence (MoD) airbases. We expect a decision on this in the autumn.

2014 sees Scotland host the Commonwealth Games, the third largest multi-sport event in the world. Glasgow airport and the Prestwick air traffic control centre will be at the heart of managing the relevant airspace during this time, as competitors from 71 countries, along with spectators and officials and a number of Heads of State and VIPs fly to Glasgow. Whilst traffic levels are not expected to increase significantly, we are drawing on our experience of the 2012 London Olympics to ensure that we have the right safety, service, and security assurances in place to help deliver a successful event.

We are also in the process of tendering or negotiating a number of the company's key airport ATC contracts which are due for renewal by 2015. To retain them we must ensure our airport offering is compelling to airport customers by focusing on service levels, improving price propositions and increasing the value we offer.

Catherine Mason
Managing Director, Services

Principal risks and uncertainties

The operational complexities inherent in the business leave NATS Services exposed to a number of significant risks and uncertainties. Our risk management process has identified the key risks that the Board believes are likely to have the most significant impact on our business, financial position, results and reputation based on the severity and likelihood of the risk factor. Risks are re-assessed regularly and reflect the Board's assessment as at the date of this report. The list is not intended to be exhaustive.

The company has maintained a focus on mitigating these risks although many remain outside of our control – for example changes in governmental regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

The risk of an aircraft accident

A loss of separation attributable to NATS Services that results in an accident in the air or on the ground would significantly impact on NATS' reputation as a provider of safe air traffic services. This could result in a loss of revenue in the short-term as investigations take place and the loss of future contracts due to reputational damage. To mitigate this risk NATS has developed and is implementing a strategic plan for safety and maintains a safety risk management system.

Operational systems resilience

Operational service provision is increasingly dependent on the performance and resilience of engineering systems and communications, surveillance and flight data infrastructure. To mitigate risks of this type of service disruption NATS Services regularly reviews the resilience of its operational systems.

Loss of service at an airport

Dependent on the nature of the incident and the contract terms in place, a loss of service could result in a significant reduction in income. To mitigate this risk, NATS Services engages regularly with the customer on contingency facilities. The arrangement to provide contingency facilities is the responsibility of the customer. Where the loss of service is not attributable to NATS Services, the risk would be borne by the customer.

NATS has a robust Business Resilience and Continuity system in place, with each unit having a Continuity Plan produced in line with internationally accepted standards, which is regularly exercised and updated to meet potential threats to the operation.

Pension scheme funding

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

Industry outlook

Poor market and economic conditions and political factors can slow down or reduce NATS Services ability to break into new markets. NATS Services is therefore focusing its efforts in specific growth markets where there are known to be good prospects.

Economic regulation of UK Terminal Air Navigation Services (TANS)

In May 2013 the Department for Transport (DfT) accepted the Civil Aviation Authority's (CAA) advice that there is insufficient evidence to demonstrate that the Single European Sky (SES) market conditions tests for terminal air navigation services at large airports in the UK are satisfied. Therefore, the CAA has proposed an additional 1% cost efficiency target over and above NATS' proposed TANS plan. This proposal by the CAA remains compliant with legal requirements but also aims to encourage the development of competition in the UK market. NATS has also proposed making a number of commitments to address the perceptions of airport operators about the economic barriers operating in the market. The aim of this is to strengthen the evidence in support of the existence of market conditions. NATS is currently discussing with the CAA what steps need to be undertaken to further encourage and promote market conditions prior to another assessment taking place (potentially in 2015), to allow enough time for assessment prior to the Commission being able to implement European Union (EU) wide cost efficiency targets at the start of 2017.

Electronic and other external threats

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, could damage our assets or otherwise significantly impact on our service performance. NATS seeks to mitigate these risks through its business continuity controls, security processes and procedures.

Loss of ATC contracts

Failure to achieve contract renewals, except at a lower margin, may lead to a reduction in revenue. Mitigation includes strong customer and supplier relationships, the on-going identification of efficiency opportunities and the use of technology.

Employee relations

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

Other matters

In addition to the top risks set out above there are the following matters of note:

a. Financial risks

The main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 15. The Treasury function is mandated by the Board to manage the financial risks that arise in relation to underlying business needs. The function has clear policies and operating parameters, and its activities are routinely reviewed and agreed by the Treasury Committee. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

b. Scottish independence

There are various scenarios which could have an impact on NATS' business in the event of a 'Yes' vote for independence. These could include: a potential change in ownership of NATS Holdings Limited, impacts on employee terms and conditions, changes in taxation and related payroll structures, a potential change in currency and different employment legislation. The Board is monitoring the status of this potential risk to understand the material impact of a positive vote as more information becomes available.

The Strategic report was approved by the Board of directors on 26th June 2014 and signed on its behalf by:

R C-Coleman

Richard Churchill-Coleman

Secretary

Report of the directors

The directors present their report together with the financial statements and audited accounts for the year ended 31 March 2014.

Details of significant events since the balance sheet date are contained in note 26 to the financial statements. An indication of likely future developments in the business of the company is contained in the Strategic report.

Information about the use of financial instruments by the company is given in note 15 to the financial statements.

Dividends

During the year interim dividends of £3.7m (£37.50 per share) and £1.3m (£12.50 per share) were paid (2013: £11.5m). The Board recommends a final dividend for the year of £nil (2013: £nil).

In May 2014, the Board declared an interim dividend for the year ending 31 March 2015 of £50.00 per share (totalling £5.0m) which was paid in June.

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 (resigned 6 December 2013)
Catherine Mason (appointed 29 May 2014)

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

Directors' indemnities

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

Employees

Contracts of employment with staff are held by the company's parent company, NATS. 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 corporate performance and business plans. The NATS group

CEO and the company's Managing Director maintain visibility with staff through visits to NATS sites where they talk to them about current business issues and take questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the 'Working Together' programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trades Unions.

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

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

Directors' responsibilities

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

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

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

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

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

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

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Auditors

As explained in the Governance report of the annual report and accounts of NATS Holdings Limited, following a market tender process, the Board recommends the appointment of BDO LLP as independent auditor for the financial year ending 31 March 2015. Deloitte LLP will tender their resignation on the date of the Annual General Meeting and a resolution to appoint BDO will be proposed at the Annual General Meeting.

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

R C-Coleman

Richard Churchill-Coleman
Secretary

26 June 2014

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 2014 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 26. 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 2014 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.

David Bell CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 June 2014

Income statement

for the year ended 31 March

	Notes	2014 £m	Restated[1] 2013 £m
Revenue	4	214.9	222.0
Staff costs	7	(115.7)	(112.7)
Services and materials		(31.0)	(30.0)
Repairs and maintenance		(7.2)	(9.1)
External research and development		-	(0.1)
Depreciation, amortisation and impairment	6	(3.7)	(3.6)
Gain on disposal of non-current assets		-	0.1
Other operating charges		(35.1)	(34.6)
Deferred grants released	6	0.3	0.3
Net operating costs		(192.4)	(189.7)
Operating profit	6	22.5	32.3
Investment revenue	8	0.8	0.9
Profit before tax		23.3	33.2
Tax	9	(5.1)	(7.8)
Profit for the year attributable to equity shareholders		18.2	25.4

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

Statement of comprehensive income

for the year ended 31 March

	Notes	2014 £m	Restated[1] 2013 £m
Profit for the year		18.2	25.4
Other comprehensive (expense)/income for the year net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension scheme	22	(12.6)	5.0
Deferred tax relating to items that will not be reclassified		2.8	(1.1)
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of hedging derivatives		0.2	(0.2)
Transfer to income statement on cash flow hedges		(0.1)	0.1
Deferred tax relating to items that may be reclassified	18	-	-
		(9.7)	3.8
Total comprehensive income for the period net of tax attributable to equity holders of the company		8.5	29.2

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*

Balance sheet
at 31 March

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	11	3.1	3.4
Property, plant and equipment	12	12.8	12.0
Investments	24	2.2	1.8
Retirement benefit asset	22	-	2.7
Loan to joint venture	24	0.6	-
Deferred tax asset	18	0.9	-
Trade and other receivables	13	22.5	22.5
		42.1	42.4
Current assets			
Loan to joint venture	24	0.1	-
Trade and other receivables	13	31.1	39.3
Cash and cash equivalents	15	134.0	119.9
		165.2	159.2
Total assets		207.3	201.6
Current liabilities			
Trade and other payables	16	(32.0)	(34.0)
Provisions	17	(0.6)	(0.1)
Current tax liabilities		(2.7)	(3.9)
Derivative financial instruments	14	-	(0.2)
		(35.3)	(38.2)
Net current assets		129.9	121.0
Non-current liabilities			
Trade and other payables	16	(7.9)	(4.8)
Provisions	17	(1.2)	(0.4)
Retirement benefit obligations	22	(2.3)	-
Deferred tax liability	18	-	(1.1)
		(11.4)	(6.3)
Total liabilities		(46.7)	(44.5)
Net assets		160.6	157.1
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		0.1	-
Other reserves		0.2	0.4
Retained earnings		160.2	156.6
Total equity		160.6	157.1

The financial statements (Company Number 04129270) were approved by the Board of directors and authorised for issue on 26 June 2014 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 £m	Hedge reserve £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2012	0.1	0.1	0.6	138.6	139.4
Profit for the year[2]	-	-	-	25.4	25.4
Other comprehensive (expense)/income for the period[2]	-	(0.1)	(0.2)	4.1	3.8
Total comprehensive (expense)/income for the period[2]	-	(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
At 1 April 2013	0.1	-	0.4	156.6	157.1
Profit for the year	-	-	-	18.2	18.2
Other comprehensive income/(expense) for the year	-	0.1	(0.2)	(9.6)	(9.7)
Total comprehensive income/(expense) for the year	-	0.1	(0.2)	8.6	8.5
Dividends paid	-	-	-	(5.0)	(5.0)
At 31 March 2014	0.1	0.1	0.2	160.2	160.6

[1] Other reserves arose on completion of the PPP transaction in July 2001
[2] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*

Cash flow statement

for the year ended 31 March

	Notes	2014 £m	2013 £m
Net cash flow from operating activities	20	20.0	22.6
Cash flows from investing activities			
Interest received		0.9	0.9
Purchase of property, plant and equipment and other intangible assets		(0.7)	(1.5)
Proceeds from disposal of property, plant and equipment		-	0.2
Investment in joint venture		(0.4)	(1.4)
Net cash outflow from investing activities		(0.2)	(1.8)
Cash flows from financing activities			
Dividends paid		(5.0)	(11.5)
Loan to joint venture		(0.7)	-
Net cash outflow from financing activities		(5.7)	(11.5)
Increase in cash and cash equivalents during the year		14.1	9.3
Cash and cash equivalents at 1 April		119.9	110.6
Cash and cash equivalents at 31 March		134.0	119.9

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 20. The nature of the company's operations and its principal activities are set out in the Strategic report.

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

2. Accounting policies

The following accounting policies have been applied consistently in 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 35. 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.

The company has utilised the exemption under IFRS 10: *Consolidated Financial Statements* (see below) and the Companies Act 2006 from preparing and delivering consolidated accounts. The name of the parent undertaking which draws up the consolidated accounts is disclosed in note 25.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported or the associated disclosures in these financial statements.

With effect from 1 April 2013, the company has adopted the new standard IAS 19 (revised 2011): *Employee Benefits*. IAS 19 (revised 2011) has been adopted retrospectively in accordance with IAS 8 and is reflected in the disclosures in note 22. The principal impacts on the reporting from adopting the new standard is as follows:

IAS 19 (revised 2011) replaces interest cost and expected return on plan assets with a finance cost on the pension deficit. The finance cost is calculated using the rate applied to discount defined pension liabilities. The discount rate is lower than the expected return on plan assets, increasing operating costs recognised in the income statement with corresponding adjustments to experience gains and losses recognised in other comprehensive income. The net pension surplus at 31 March 2013 is unchanged.

These changes have been applied retrospectively to the comparative information for the year ended 31 March 2013 and have had the following impact on the financial statements compared with the previous version of IAS 19:

	Year ended 31 March 2013 £m
Operating costs	(7.1)
Profit before tax	(7.1)
Tax	1.6
Net decrease in profit for the period	(5.5)
Actuarial gains on the defined benefit scheme	7.1
Tax on items that will not be reclassified to the income statement	(1.6)
Total comprehensive income for the period	-

The company has also adopted the amendments to IFRS 13: *Fair Value Measurement*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement disclosure requirements for use across other standards within IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes additional disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013 and, under transitional provisions the disclosure requirements set out in the standard have not been applied to comparative information.

The company has applied the amendments to IAS 1: *Presentation of Items of Other Comprehensive Income*. The amendment increases the required level of disclosure within the statement of comprehensive income, requiring items within other comprehensive income that may be reclassified to the income statement to be grouped together, and the associated tax on these items to be analysed on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. This amendment is concerned with disclosure only and has no impact on the reported results or financial position of the group.

In the current year, the group has applied for the first time a package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements*, IFRS 12: *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011): *Separate Financial Statements* and IAS 28 (as revised in 2011): *Investments in Associates and Joint Ventures*.

IFRS 10 changes the definition and criteria for control. This has no impact on the financial statements.

IFRS 11 relates to arrangements where there is joint control by two or more parties of another entity. IFRS 11 classifies the joint arrangement as either a joint operation (which requires the recognition of the investor's share of assets, liabilities, revenues and expenses) or joint venture (which requires the equity method of accounting under IAS 28 (revised 2011)), depending on the underlying rights and obligations of the parties of the arrangement. The company is party to a joint arrangement with Ferrovial which is determined to be a joint venture under IFRS 11. This has no impact on the financial statements as the results of the joint venture are not reflected in these financial statements.

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the application of IFRS 12 has had no impact on the disclosures in the financial statements (see note 24).

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

IFRS 9: *Financial Instruments*
IFRS 10, IFRS12 and IAS 27: (amendments) *Investment Entities*
IAS 36 (amendments): *Recoverable Amount Disclosures for Non-Financial Assets*
IAS 39 (amendments): *Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21: *Levies*

IFRS 9 will impact both the measurement and disclosures of financial instruments. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed. The directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements in future periods.

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 services;
- 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 and business development activities; and
- Other services to NATS Services' business development (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, goodwill impairment, 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 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.

Deferred grants and other contributions to property, plant and equipment

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

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

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried in the balance sheet at cost less any impairment in the value of individual investments.

Non-current assets held for sale

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

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Impairment of tangible and intangible assets

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

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

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

Where an impairment loss on an intangible or tangible asset 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 2013 which was enacted on 17 July 2013, the corporation tax rate was reduced to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate.

Foreign currency translation

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

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

Retirement benefit costs

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

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

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

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

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

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 22. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 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 premia payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Effective interest method

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

Equity

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

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in 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 share of the NATS group's 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 22 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 Strategic Report above. 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 2014.

4. Revenue

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

	2014 £m	2013 £m
NATS Airports	183.7	182.6
NATS Engineering	15.1	21.0
Other NATS Service lines	16.1	18.4
	214.9	222.0
Investment revenue (see note 8)	0.8	0.9
	215.7	222.9

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 2014 the amount included in revenue above is a gain of £0.1m (2013: £0.1m loss).

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.

Segment information about these activities is presented below.

Revenue

Service line revenue includes intra-group revenue.

Segmental information about these businesses is presented below.

	2014 External revenue £m	2014 Intra-group revenue £m	2014 Revenue £m	2013 External revenue £m	2013 Intra-group revenue £m	2013 Revenue £m
NATS Airports	170.2	13.5	183.7	169.4	13.2	182.6
NATS Engineering	13.5	1.6	15.1	20.4	0.6	21.0
Other NATS Service lines	11.4	4.7	16.1	14.2	4.2	18.4
	195.1	19.8	214.9	204.0	18.0	222.0

Intra-group revenue includes revenue for services to NATS (En Route) plc of £19.3m (2013: £18.0m) and to NATS (USA) Inc of £0.5m (2013: £nil).

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:

	2014 £m	Restated 2013 £m
NATS Airports	57.4	61.4
NATS Engineering	2.2	4.4
Other NATS Service lines	2.7	4.6
Service line contribution	62.3	70.4
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(3.4)	(3.3)
Profit on disposal of non-current assets	-	0.1
Pension accrual rate variance to budget	(5.4)	(11.5)
Employee share scheme costs	(0.9)	(0.4)
Redundancy costs	(0.4)	(0.6)
Cost of investment in business growth	(7.5)	(4.4)
Other costs not directly attributed to service lines	(22.2)	(18.0)
	22.5	32.3

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:

	2014			Restated 2013		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	170.2	44.7	214.9	169.4	52.6	222.0
Costs	(143.3)	(49.1)	(192.4)	(138.6)	(51.1)	(189.7)
Operating profit	26.9	(4.4)	22.5	30.8	1.5	32.3

Geographical segments

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

	2014 £m	2013 £m
UK	206.5	211.9
Rest of Europe	2.4	2.0
Africa and Middle East	5.1	4.6
Asia	0.7	2.9
Other	0.2	0.6
Total	214.9	222.0

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £2.9m (2013: investments £1.8m) which the company holds in overseas entities (see note 24). These investments have been established to enable the company to undertake business abroad.

Major customers

Included in revenues arising from NATS Airports are revenues of £81.8m (2013: £94.4m) 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.

	2014 £m	2013 £m
Voluntary redundancy costs (including pension augmentation costs, see note 7a)	0.4	0.6

b) Other items

	2014 £m	2013 £m
CAA regulatory charges	3.0	2.9
Depreciation and impairment of property, plant and equipment	3.1	3.1
Amortisation and impairment of internally generated intangible assets	0.6	0.5
Deferred grants released	(0.3)	(0.3)

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

	2014 £m	2013 £m
Net charges for services provided by parent undertaking	3.4	3.0
Charges for services provided by other group companies	20.5	18.0

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. NATS (USA) Inc also earns a fee from NATS Services for business development services.

7. Staff costs

a) Staff costs

	2014 £m	Restated 2013 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	79.0	75.2
Social security costs	8.4	8.0
Pension costs (note 7b)	28.4	29.8
	115.8	113.0
Less: amounts capitalised	(0.1)	(0.3)
	115.7	112.7

Wages and salaries includes redundancy costs of £0.4m (2013: £0.6m), share-based payment charges, other allowances and holiday pay.

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

	2014 £m	Restated 2013 £m
Defined benefit pension scheme costs (note 22)	26.7	28.7
Defined contribution pension scheme costs	1.7	1.1
	28.4	29.8

c) Staff numbers

	2014 Number	2013 Number
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	574	577
Air traffic service assistants	155	156
Engineers	147	143
Others	236	212
	1,112	1,088

8. Investment revenue

	2014 £m	2013 £m
Interest on bank deposits	0.5	0.6
Interest receivable from intercompany loans	0.3	0.3
	0.8	0.9

9. Tax

	2014 £m	Restated 2013 £m
Current tax	4.4	6.9
Prior year adjustment relating to current tax	(0.1)	-
	4.3	6.9
Deferred tax (See note 18)		
Origination and reversal of temporary differences	0.8	0.9
	5.1	7.8

Corporation tax is calculated at 23% (2013: 24%) 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:

	2014 £m	%	Restated 2013 £m	%
Profit on ordinary activities before tax	23.3		33.2	
Tax on profit on ordinary activities at standard rate in the UK of 23% (2013: 24%)	5.3	23.0	8.0	24.0
Tax effect of corporation tax rate reduction from 23% to 20% from 1 April 2015	0.1	0.4	-	-
Tax effect of group relief	-	-	(0.2)	(0.6)
Tax effect of prior year adjustments	(0.5)	(2.1)	-	-
Other permanent differences	0.2	0.9	-	-
Tax charge for year at the effective tax rate of 22.2% (2013: 23.4%)	5.1	22.2	7.8	23.4
Deferred tax (credit)/charge taken directly to equity (see note 18)	(2.8)		1.1	

10. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year		
First interim dividend for the year of £37.50 (2013: £15.00) per ordinary share	3.7	1.5
Second interim dividend for the year of £12.50 (2013: £100.00) per ordinary share	1.3	10.0
	5.0	11.5

In May 2014, the Board declared an interim dividend for the year ending 31 March 2014 of £50.00 per share (totalling £5.0m) which was paid to its parent company in June.

11. Intangible assets

	Operational Software £m	Non-operational software £m	Assets in course of construction and installation £m	Total £m
Cost				
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 1 April 2013	4.5	0.8	0.1	5.4
Additions externally acquired	-	-	0.4	0.4
Other transfers	-	-	(0.1)	(0.1)
At 31 March 2014	4.5	0.8	0.4	5.7
Accumulated amortisation				
At 1 April 2012	1.2	0.3	-	1.5
Charge for the year	0.4	0.1	-	0.5
At 1 April 2013	1.6	0.4	-	2.0
Charge for the year	0.5	0.1	-	0.6
At 31 March 2014	2.1	0.5	-	2.6
Carrying amount				
At 31 March 2014	2.4	0.3	0.4	3.1
At 31 March 2013	2.9	0.4	0.1	3.4

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 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 1 April 2013	0.7	9.9	32.6	3.1	1.0	47.3
Additions during the year	-	0.1	3.6	-	0.1	3.8
Disposals during the year	(0.6)	-	(1.1)	-	-	(1.7)
Other transfers during the year	-	-	1.0	-	(0.9)	0.1
At 31 March 2014	0.1	10.0	36.1	3.1	0.2	49.5
Accumulated depreciation and impairment						
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 1 April 2013	0.7	9.2	23.7	1.7	-	35.3
Provided during the year	-	0.3	2.5	0.3	-	3.1
Disposals during the year	(0.6)	-	(1.1)	-	-	(1.7)
At 31 March 2014	0.1	9.5	25.1	2.0	-	36.7
Carrying amount						
At 31 March 2014	-	0.5	11.0	1.1	0.2	12.8
At 31 March 2013	-	0.7	8.9	1.4	1.0	12.0

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.

Additions include £3.3m (2013:£nil) in relation to the fair value of a radar transferred from a customer, which is accounted for in accordance with IFRIC 18: *Transfer of Assets from Customers*.

13. Financial and other assets

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

Trade and other receivables

	2014 £m	2013 £m
Non-current		
Intercompany loan (interest bearing)	22.5	22.5
Current		
Receivable from customers gross	20.0	11.4
Allowance for doubtful debts	(0.5)	(0.2)
	19.5	11.2
Amounts recoverable under contracts	0.9	1.0
Other debtors	0.7	0.2
Prepayments	5.0	2.8
Amounts recoverable from subsidiaries (non-interest bearing loan repayable on demand)	0.8	0.7
Accrued income	4.2	23.4
	31.1	39.3

The average credit period taken on sales of services is 35 days (2013: 18 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.5m (2013: £0.2m). 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

	2014 £m	2013 £m
30 - 90 days	0.2	0.3
91 - 365 days	0.7	2.0
> 365 days	0.6	0.2
	1.5	2.5

Movement in the allowance for doubtful debts	2014 £m	2013 £m
Balance at the beginning of the period	0.2	0.4
Increase in allowance recognised in the income statement	0.3	-
Amounts recovered during the year	-	(0.2)
Balance at end of year	0.5	0.2

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. 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 (2013: £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	2014 £m	2013 £m
91 - 365 days	0.5	0.2

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

At 31 March 2014, NATS Services provided unsecured loans totalling £22.5m to NERL (2013: £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% (2013: 1.50%).

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 £182.6m (2013: £178.9m).

14. Derivative financial instruments

Fair value of derivative financial instruments

	2014 £m	2013 £m
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	(0.2)

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

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:

	2014 £m	2013 £m
Financial assets		
Loans and receivables, excluding prepayments and accrued income	45.1	35.6
Cash and cash equivalents and short-term investments	134.0	119.9
	179.1	155.5
Financial liabilities		
Amortised cost	20.6	23.4
Derivative financial instruments in designated hedge accounting relationships	-	0.2
	20.6	23.6

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

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 2014.

Market risk

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

15. Financial instruments (continued)

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	
	2014 £m	2013 £m	2014 £m	2013 £m
Euro	1.0	0.7	-	-
US Dollar	0.1	0.1	-	(0.1)
Canadian Dollar	-	-	(0.2)	(0.3)
Qatari Riyal	2.4	1.5	-	(0.2)
Kuwaiti Dinar	0.2	0.3	-	-
Norwegian Krone	-	0.2	(0.1)	(0.2)
Singapore Dollar	0.1	0.1	-	-
	3.8	2.9	(0.3)	(0.8)

Foreign currency sensitivity analysis

NATS Services held foreign currency cash balances in Euro, US Dollar, Qatari Riyal and Kuwaiti Dinar at 31 March 2014.

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, accrued income, accrued costs 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	2014 Impact £m	2013 Impact £m
Euro	(0.1)	(0.1)
Qatari Riyal	(0.2)	0.4
	(0.3)	0.3

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 2014 the company had the following outstanding forward foreign exchange contracts:

	2014				2013		
US Dollar bought	$m	£m	Average exchange rate	US Dollar bought	$m	£m	Average exchange rate
0-3 months	0.1	0.1	1.6592	0-3 months	-	-	-

QAR sold	£m	QAR m	Average exchange	QAR sold	£m	QAR m	Average exchange
0-3 months	0.2	1.1	6.0519	0-3 months	0.5	2.7	5.7526
Over 3 months	-	-	-	Over 3 months	5.0	28.6	5.7002
	0.2	1.1	6.0519		5.5	31.3	5.7047

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

NOK bought	NOK m	£m	Average exchange rate	NOK bought	NOK m	£m	Average exchange rate
0-3 months	0.9	0.1	9.0079	0-3 months	-	-	-

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

At 31 March 2014, the aggregate amount of the unrealised gains under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.1m (2013: £nil). 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 2014 or 31 March 2013 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2014 Amount £m	2014 Economic interest rate %	2014 Average maturity days	2013 Amount £m	2013 Economic interest rate %	2013 Average maturity days
Sterling	133.2	0.4	15	119.2	0.4	15
Euro	0.4	-	-	0.1	-	-
US Dollar	0.1	-	-	0.1	-	-
Qatari Riyal	0.2	-	-	0.1	-	-
Kuwaiti Dinar	0.1	-	-	0.2	-	-
Norwegian Krone	-	-	-	0.2	-	-
	134.0			119.9		

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	2014 Intercompany loan Amount £m	2014 Economic interest rate %	2014 Weighted average time for which rate is fixed days	2013 Intercompany Loan Amount £m	2013 Economic interest rate %	2013 Weighted average time for which rate is fixed days
Sterling	22.5	1.5	183	22.5	1.5	186

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%.

	2014 Impact £m	2013 Impact £m
Cash on deposit (2014: £134.0m, 2013: £119.9m)	1.3	1.2
Intercompany loans (2014: £22.5m, 2013: £22.5m)	0.2	0.2
	1.5	1.4

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.

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)	2014 Number of institutions	2014 £m	2014 By credit rating (%)	2013 Number of institutions	2013 £m	2013 By credit rating (%)
AAA	3	48.2	35.9	3	43.2	36.0
AA-	3	60.0	44.8	2	25.5	21.3
A+	1	7.1	5.3	3	36.5	30.5
A	1	10.0	7.5	2	4.7	3.9
A-	2	8.7	6.5	2	10.0	8.3
		134.0	100.0		119.9	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 2014 (31 March 2013: uncommitted overdraft of £1.0m).

Trade and other payables classed as current, including current tax liabilities, are expected to mature within one year. Non-current trade and other payables are due in greater than one and less than five years.

15. Financial instruments (continued)

Fair value measurements

The following table provides an analysis of derivative 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).

Fair value measurements recognised in the balance sheet

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	-	-	-	-	(0.2)	-	(0.2)

Valuation techniques and key inputs

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

The fair values of the financial instruments held at fair value have been determined based on available market information at the balance sheet date: the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

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:

	2014	2013
	£m	£m
Current		
Trade payables	2.0	2.0
Amounts due to other group undertakings	16.7	14.1
Other payables	1.9	7.3
Accruals and deferred income	11.4	10.6
	32.0	34.0
Non-current		
Accruals and deferred income (including deferred grants)	7.9	4.8
	39.9	38.8

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days (2013: 27 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Provisions

	Other £m
At 1 April 2013	0.5
Additional provision in the year	1.4
Release of provision in the year	(0.1)
Utilisation of provision	-
At 31 March 2014	1.8

	Total £m
Amounts due for settlement within 12 months	0.6
Amounts due for settlement after 12 months	1.2
	1.8

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

Redundancy costs are recharged by the company's parent through intercompany recharges and are included within amounts due to other group companies.

18. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit scheme [1] £m	Other £m	Total £m
At 1 April 2012	1.3	(1.8)	(0.4)	(0.9)
(Credit)/charge to income	(0.3)	1.3	(0.1)	0.9
Charge to equity	-	1.1	-	1.1
At 31 March 2013	1.0	0.6	(0.5)	1.1
At 1 April 2013	1.0	0.6	(0.5)	1.1
(Credit)/charge to income	(0.9)	1.7	-	0.8
Credit to equity	-	(2.8)	-	(2.8)
At 31 March 2014	0.1	(0.5)	(0.5)	(0.9)

[1] Restated on adoption of the revised International Accounting Standard 19: *Employee Benefits*

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.

	2014 £m	2013 £m
Deferred tax liabilities	(0.1)	(1.6)
Deferred tax assets	1.0	0.5
	0.9	(1.1)

19. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2014 and 31 March 2013	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	2014 £m	Restated 2013 £m
Operating profit from continuing operations	22.5	32.3
Adjustments for:		
Depreciation of property, plant and equipment	3.1	3.1
Amortisation of intangible assets	0.6	0.5
Profit on disposal of property, plant and equipment	-	(0.1)
Deferred grants released	(0.3)	(0.3)
Adjustments for pension funding	(7.6)	(5.0)
Operating cash flows before movements in working capital	18.3	30.5
Decrease in contract work in progress	0.1	3.2
Decrease/(increase) in trade and other receivables	8.1	(8.4)
Decrease in trade and other payables and provisions	(3.6)	(0.4)
Increase in amounts due to other group undertakings	2.6	4.2
Cash generated from operations	25.5	29.1
Tax paid	(5.5)	(6.5)
Net cash flow from operating activities	20.0	22.6

Cash and cash equivalents which are presented as a single class of asset on the face of the balance sheet, comprise cash at bank and short term highly liquid investments with a maturity of three months or less.

21. Financial commitments

	2014 £m	2013 £m
Capital commitments contracted but not provided for in the accounts.	0.1	0.1
Minimum lease payments under operating leases recognised in income for the year.	16.9	17.0

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:

	2014 £m	2013 £m
Within one year	15.9	16.1
In the second to fifth years inclusive	39.4	49.2
After five years	5.7	6.6
	61.0	71.9

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 2014 of £0.1m (2013: £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 2014 was £4.6m (2013: £6.4m).

22. Retirement benefit scheme

Defined contribution scheme

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

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2014 employer contributions of £1.1m (2013: £0.7m), excluding employee salary sacrifice contributions of £0.6m (2013: £0.4m), represented 13.3% of pensionable pay (2013: 13.0%).

There were 201 company members of the defined contribution scheme at 31 March 2014 (2013: 172).

Defined benefit scheme

NATS Limited, the company's immediate parent undertaking, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which required the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within CAAPS. CAAPS was divided into two sections to accommodate this and a series of common investment funds was established in which both sections will participate for investment purposes. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chairman.

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

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

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

Trustees' funding assessment

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

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2012 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in pensionable salaries and pensions. For the purpose of the Trustees' funding assessment, it was assumed that the annual investment returns before retirement will be 3.37% higher than the annual general increases in pensionable 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 NATS section assets at 31 December 2012 was £3,527.5m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £382.6m, corresponding to a funding ratio of 90.2%.

The 2012 valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual for RPI-linked benefits was 39.0% of pensionable salaries (33.3% employers and 5.7% employees) and for the CPI-linked benefits which accrue from 1 November 2013 was 34.4% of pensionable salaries (28.7% employers and 5.7% employees). In addition, NATS makes payments to the scheme to cover administration costs, including the Pension Protection Fund (PPF) levy, of 0.7% of pensionable salaries.

Contributions to the pension scheme

Following the 2012 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2023. Under the schedule of contributions, normal contributions are paid at 36.7% of pensionable pay until 31 December 2014 and at 29.4% from 1 January 2015 to 31 December 2023. Deficit recovery contributions for the period 1 April 2013 until 31 December 2013 were made at £2.1m per month and are being made at £2.2m per month for calendar year 2014. These will then be made at £2.4m per month for calendar year 2015 and increase by 2.37% annually thereafter. NSL's share of deficit recovery contributions is c.24%.

NATS Limited, the immediate parent of the company, is the employer of, and seconds to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in 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 Limited 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.

22. Retirement benefit scheme (continued)

During the year the company paid cash contributions to the scheme of £34.3m (2013: £33.7m). This amount included £3.6m (2013: £3.5m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice, employer cash contributions were paid at a rate of 46.0% (2013: 45.9%) of pensionable pay.

The estimated contributions expected to be paid by the company during the financial year ending 31 March 2015 is £35.0m, including salary sacrifice contributions of £4.0m.

Company's accounting valuation under international accounting standards

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

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

On transition to IFRS, the company elected to adopt a 'clean start' approach which recognised all actuarial gains and losses at 1 April 2004, and it has reported under an immediate recognition approach in subsequent periods. If an accounting valuation reveals a surplus at the balance sheet date, this is recognised in full to the extent that it can be realised in full by the company.

The Trustees' funding assessment carried out as at 31 December 2012 was updated to 31 March 2014 for the company's accounting valuation under IAS 19. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2014	2013	2012
RPI inflation	3.35%	3.35%	3.25%
CPI inflation	2.35%	2.45%	n/a
Increase in:			
- pensionable salaries	2.60%	2.70%	3.25%
- deferred pensions	3.35%	3.35%	3.25%
- pensions in payment	3.35%	3.35%	3.25%
Expected return on:			
- equities	n/a	n/a	7.10%
- property and other assets	n/a	n/a	6.60%
- bonds	n/a	n/a	3.45%
Discount rate for net interest expense (for 2012, for scheme liabilities)	4.50%	4.45%	5.05%

The mortality assumptions have been drawn from actuarial tables 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5% p.a. (2013: 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 30.9 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.2 years and for females to 32.7 years.

An adjustment is applied to past and future service liabilities as an allowance for members electing to take some of their benefits as cash at retirement.

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

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

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

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

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

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate	Increase/decrease by 0.5%	Decrease by 11.0%/Increase by 12.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.6%/Decrease by 11.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.8%/Decrease by 3.5%
Rate of mortality	1 year increase in life expectancy	Increase by 2.3%

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

22. Retirement benefit scheme (continued)

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

	2014 £m	Restated 2013 £m
Current service cost	(27.3)	(29.2)
Net interest expense	0.9	0.5
Administrative expenses	(0.3)	-
Components of defined benefit costs recognised within operating profit	(26.7)	(28.7)

Administrative expenses for 2013 were included in current service cost above, and within benefits paid in the movement in fair value of scheme assets below.

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

	2014 £m	Restated 2013 £m
Return on plan assets (excluding amounts included in net interest expense)	(0.8)	49.3
Actuarial gains and losses arising from changes in financial assumptions	9.0	(73.7)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(20.8)	29.4
	(12.6)	5.0

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

	2014 £m	Restated 2013 £m
Present value of defined benefit obligations	(809.1)	(752.2)
Fair value of scheme assets	806.8	754.9
(Deficit)/surplus in scheme	(2.3)	2.7

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

	2014 £m	Restated 2013 £m
At 1 April	(752.2)	(658.8)
Current service cost	(27.3)	(29.2)
Past service cost	-	-
Interest expense on defined benefit scheme obligations	(33.1)	(32.9)
Actuarial gains and losses arising from changes in financial assumptions	9.0	(44.3)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	(20.8)	-
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	15.4	13.1
At 31 March	(809.1)	(752.2)

The average duration of the scheme's liabilities at the end of the year is 24.3 years (2013: 25.7 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2014 £m	Restated 2013 £m
Active members	507.7	489.0
Deferred members	47.2	46.6
Pensioners	254.2	216.6
	809.1	752.2

22. Retirement benefit scheme (continued)

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

	2014 £m	Restated 2013 £m
At 1 April	754.9	651.5
Interest income on scheme assets	34.0	33.4
Return on plan assets (excluding amounts included in net interest expense)	(0.8)	49.3
Contributions from scheme members	0.1	0.1
Contributions from sponsoring company	34.3	33.7
Benefits paid	(15.4)	(13.1)
Administrative expenses	(0.3)	-
At 31 March	806.8	754.9

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

	2014 £m	Restated 2013 £m
Cash and cash equivalents	23.7	25.3
Equity instruments		
- UK	58.5	193.9
- Europe	17.0	54.0
- North America	49.8	60.0
- Japan	7.0	28.7
- Pacific (excluding Japan)	19.9	13.7
- Emerging markets	62.3	13.8
- Global	115.4	37.7
	329.9	401.8
Bonds		
- Corporate bonds	165.6	110.2
- Index-linked gilts over 5 years	134.1	132.3
	299.7	242.5
Other investments		
- Property	50.1	38.5
- Hedge funds	35.3	32.6
- Global tactical asset allocation	20.1	18.5
- Private equity funds	22.8	22.1
	128.3	111.7
Derivatives		
- Futures contracts	25.2	(26.4)
	806.8	754.9

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

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

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

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

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

The actual return on scheme assets for the year ended 31 March 2014 was £33.2m (2013: £82.7m).

23. Related party transactions

Since 26 July 2001, the NATS group has four major shareholders - the Crown, The Airline Group Limited (AG), LHR Airports 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 LHR Airports Limited.

AG is a consortium of eight members: British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, Monarch Airlines Retirement Benefit Plan Limited, Thomas Cook Airlines Limited, Thomson Airways Limited, Virgin Atlantic Airways Limited and (as from March 2014) USS Sherwood 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 eight 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 LHR Airports Limited and NATS Services in relation to air navigation services provided at Aberdeen, Glasgow, Heathrow and Southampton.

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	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
LHR Airports Limited	89.3	95.2	9.8	6.2	7.6	7.7	0.0	5.9
MoD	2.9	3.8	0.0	-	0.2	0.5	-	-
Meterological Office	-	-	0.1	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 21.

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 £180,000 (2013: £337,000). The director participated as an active member of the NATS Group's defined benefits pension scheme until 5 April 2012. The additional benefit accrued in the prior year (excluding inflation as measured by the Consumer Price Index (CPI)) multiplied by a factor of 20 was £8,000.

24. 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, which 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 21 for further details.

In January 2011, NATS Services acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA for a cash consideration of €0.1m (£0.1m). In June 2011 NATS Services acquired a further €0.4m (£0.3m) of the issued share capital and in December 2012 a further €1.7m (£1.4m), maintaining a 50% holding of the issued share capital.

During the year NATS Services provided loan finance of €0.9m (£0.7m) to FerroNATS in April 2013 and a further €0.5m (£0.4m) in December 2013. In December 2013 €0.5m (£0.4m) of these loans were converted to equity.

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 at 31 March 2014 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	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. NATS (USA) Inc has authorised and issued share capital of $1. 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

25. 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.

26. Events After the Reporting Period

In May 2014, the Board declared an interim dividend for the year ending 31 March 2015 of £50.00 per share (totalling £5.0m) which was paid to its parent company in June.