# NATS (Services) Limited
Financial statements
for the year ended 31 March 2015

Company Number: 04129270

## CONTENTS



**Company Secretary**

Richard Churchill-Coleman

**Registered office**

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Registered in England and Wales
Company No. 04129270

**Auditor**

BDO LLP

This report presents a summary of the company's business model and strategy together with the principal risks and uncertainties it faces. The review also explains the company's operating performance and results, financial position and cash flows for the year ended 31 March 2015.

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 areas: NATS Airports; NATS Engineering; and Other NATS Services which provides: consultancy (including training); aviation information management services to UK and overseas customers; and services to the UK military.

Of these, our core business, through NATS Airports, is the provision of ATC services under competitive contract to the airport operator. We do this at 14 of the UK's airports, and to RAF Wattisham and Gibraltar.

Overall, NATS Services has had a positive year. Its safety performance remained in line with targets and it delivered a set of financial results better than planned with a profit before tax and exceptional items of £37.1m (2014: £23.3m). This excludes exceptional charges of £9.2m for restructuring costs. Revenues of £225.2m (2014: £214.9m) were better by £10.3m or 4.8% and are explained in detail below.

During the year, through renewals and new business, we secured contracts which will generate revenue worth £1.05bn in future. About 30% of this relates to work we will perform for our Aquila joint venture for its Project Marshall contract. Awarded by the Ministry of Defence (MOD) to Aquila, Project Marshall is a £1.5bn 22-year contract to modernise military air traffic provision and infrastructure at airbases in the UK and around the world. This contract will transform the UK's military air traffic management. It provides the foundation to deliver efficient and cost effective terminal Air Traffic Management (ATM) services and ensures that this capability keeps pace with modern regulatory demands and Single European Sky (SES) standards. The technical services covered include ATC tower systems, navigation aids and surveillance equipment, network management and communication systems.

We also entered into contract negotiations with a number of airport customers and successfully renewed or extended contracts with Manchester Airport Group Plc for its airports at Manchester and Stansted and also with Luton. We also established a strategic partnership agreement with Heathrow airport. In addition we won the contract to provide ATC and related services to RAF Wattisham.

NATS Services also has a joint venture, ferroNATS, with Spanish infrastructure company Ferrovial, which is contracted to provide tower ATC services at nine airports in Spain. This year we successfully extended the contracts of each of the nine airports by two years over the five years initially contracted. This extension shows the value that ferroNATS is creating for its customer AENA, demonstrating excellent improvements in services delivery, safety risk management and cost reduction.

The UK airport tower contract market is increasingly competitive. This year, after a competitive tender, Gatwick Airport Limited awarded the ATC contract to a competitor. This was very disappointing. NATS Services has provided tower ATC services at Gatwick for more than 30 years and achieved 55 runway movements per hour, making it the best performing single-runway operation in the world. We will work with the incoming provider to facilitate a safe and effective transition by March 2016.

In April 2015, we transitioned the Birmingham airport contract for ATC services to the new in-house provider, Birmingham Airport Air Traffic Limited (BAATL), through a safe and professional process.

**Operating environment**

Historically, the growth in demand for air travel has been closely linked to the strength of the global economy. For the UK the main drivers of traffic growth are the UK, US and Eurozone economies.

The UK economy is now growing at its fastest rate since 2006 and is set for another year of solid growth in 2015 of 2.8% (source: Oxford Economics) supported by lower oil prices and continuing low inflation. The US economy is forecast to accelerate in 2015 based on strong domestic economic fundamentals. Eurozone economies continue to build momentum with a weaker euro supporting stronger exports. However there remain significant risks to this outlook.

There are also risks to growth from a weaker outlook for emerging markets, with slowdowns in activity in China, Brazil and Russia likely to have an adverse impact on demand for air travel, and the potential escalation of conflicts in the Middle East and Ukraine.

Whilst global demand for air travel recovers on the back of a strengthening global economy, it is the Middle East and Asia Pacific 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.

**NATS' vision and the company's strategy and business model**

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

In particular, this means keeping the skies safe and delivering the best possible customer experience.

NATS' business is founded on three core values:

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

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 services; and
- to develop the capabilities needed to deliver our business ambitions.

To defend our existing market position we must continue to work hard to fulfil 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 new competitors and in-house provision making it more challenging to secure contracts.

The UK is our core market and we intend to grow our airport tower, engineering and information services and support to the UK military. We will supplement this by taking advantage of overseas opportunities where we can demonstrate our value to governments and airport operators. Our overseas strategy is to focus on those customers and territories most likely to provide long term sustainable business at manageable risk. Our areas of focus are the Middle East, as one of the world's fastest growing aviation hubs, and the Asia Pacific region where rapid growth in the demand for air travel will require airport expansion and advanced airspace management. We now have offices in Dubai, Oman and Singapore to support our customers in these regions.

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.

Our strategy will only succeed if enabled by improving our approach to competing for and delivering new business. At the end of 2014 we launched a programme to significantly reduce our cost base to make it more competitive. This includes implementing leaner organisational structures and consolidating sites to reduce costs. In addition we will be implementing new technology and innovative service delivery models to increase efficiency and win new customers.

We are continuing to develop our commercial capabilities and the right international partnerships while minimising commercial risk. Our people strategy focuses on the recruitment, succession planning and talent development required to deliver our strategy.

**Safety**

Our priority is 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, developing and trialling runway incursion sensors at both Manchester and Aberdeen airports. We have also focused on aircraft pushback error and to mitigate this have identified a number of improvements, including the development and promotion of a standard set of quick reference pushback documents for ground crew and our controllers. We will be deploying these in partnership with our airport customers.

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**

Single European Sky (SES) is a European Commission (EC) initiative to reform air traffic services to provide a safer, more environmentally sound and cost effective service. Under SES, a legislative framework has been established which regulates air traffic service provision, including terminal air navigation services (TANS) at large UK airports (more than 70,000 movements per annum).

Under the SES regulations, if market conditions do not exist for TANS, air traffic service providers may be subject to European cost efficiency targets and required to disclose their costs by airport.

The Civil Aviation Authority (CAA) had previously advised that market conditions were not present but following the transfer of service in-house to Birmingham airport and the loss of the Gatwick contract, it concluded in May 2015 that market conditions did now exist within the UK.

By the end of 2016, the CAA expects to see at least half of the airport operators whose contracts are nearing termination to have begun some form of open tender for TANS provision. In the absence of this, the CAA will conduct a further review of the market which could be a full competition assessment.

NATS remains focused on supporting positive outcomes for customers and passengers by driving performance. We also continue to support any efforts by the EC and UK Government and regulators to encourage the liberalisation of those TANS markets across Europe that are currently closed to any meaningful competition.

**Environment**

Our focus on the environment continues. We have collaborated with our fellow subsidiary, NATS (En Route) plc to deliver the benefits of the Time Based Separation (TBS) capability at Heathrow which has helped to improve the landing rate in strong headwind conditions, which in turn reduces stacking and so reduces fuel burn and $CO_2$ emissions.

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**

We recognise that employee engagement has a real impact on company performance. This is particularly relevant as we face some significant challenges in delivering our plan for our existing and new contracts, including supporting Aquila with Project Marshall.

Given this context it was important to understand how staff felt about the company. Earlier in the year employees responded to Viewpoint, our staff opinion survey and participated in focus groups, to understand more about the key themes emerging from an initial look at the results. Since the results were published the executive management team has spent time with all areas of the business to update staff on strategic developments, performance and priorities. Updates are also provided monthly for managers to discuss with their teams and action plans have been developed to address those areas staff felt less positive about.

Development of our people and the way we manage that talent is an important determinant of performance. We continued to roll out the NATS succession and personal development programme called PATH. This provides staff with access to the latest thinking and developments in business practice and enhances the skills and competencies required for their current and future roles. It also ensures we have the capability and resilience in our talent pool to support customer service. This year PATH also offered a mentoring programme to support personal development.

Developing leadership skills is an important enabler to managing the changes that we will ask our staff to support. In response to the challenges facing NATS Services we are reviewing its organisation, operation and employment terms. We expect to vacate our office near Heathrow airport by the end of March 2016 and relocate staff to our head office or to the Swanwick Control Centre, and we are seeking to reduce headcount in NATS Services by up to 20% through voluntary redundancy and staff turnover. We have consulted and engaged with Trades Unions on these proposals and staff reductions are being managed after careful consideration of the resource required to maintain safety standards and performance levels.

### Overview of financial and operational performance

| | 2015 | 2014 |
|---|---|---|
| | £m | £m |
| **Revenue** | **225.2** | 214.9 |
| **Operating profit before exceptional items** | **36.1** | 22.5 |
| **Operating profit** | **26.9** | 22.5 |
| **Profit before tax** | **27.9** | 23.3 |
| **Profit after tax** | **22.1** | 18.2 |
| **Dividends** | **7.5** | 5.0 |

Operating profit before exceptional items improved by £13.6m to £36.1m (2014: £22.5m). This excludes exceptional charges for redundancy costs of £9.2m. These costs are being incurred as NATS Services reorganises its activities to improve its competitiveness. Operating profit after exceptional items of £26.9m (2014: £22.5m) was £4.4m higher than last year.

Revenues increased by £10.3m to £225.2m (2014: £214.9m) due largely to improved Airport and Engineering income. Operating costs, before exceptional redundancy costs, decreased by £3.3m to £189.1m (2014: £192.4m). Profit before tax of £27.9m (2014: £23.3m) increased by £4.6m.

### Operating costs

| | 2015 | 2014 |
|---|---|---|
| | £m | £m |
| Staff costs | (115.1) | (115.7) |
| Services and materials | (28.2) | (31.0) |
| Repairs and maintenance | (8.5) | (7.2) |
| Other operating charges | (36.7) | (35.1) |
| Other operating income | 3.1 | - |
| | (185.4) | (189.0) |
| Depreciation and amortisation | (4.1) | (3.7) |
| Deferred grants | 0.4 | 0.3 |
| Operating costs | (189.1) | (192.4) |

The reduction in staff costs was largely due to headcount reductions, lower employee share scheme charges and a lower accrual rate for the defined benefit pension scheme. These factors offset the cost of pay awards linked to the Consumer Prices Index (CPI). Services and materials costs decreased by £2.8m due to lower business development and project related costs. Repairs and maintenance costs increased by £1.3m associated with higher levels of engineering activity. Other operating charges increased by £1.6m reflecting higher legal costs. Other operating income of £3.1m reflects compensation for contract termination.

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. A reconciliation of service line contribution to the company's operating profit is provided in the notes to the financial statements.

**NATS Airports**

| | 2015 | 2014 |
|---|---|---|
| **Financial performance:** | | |
| Revenue (£m) | 190.2 | 183.7 |
| Service line contribution (£m) | 61.6 | 57.4 |
| Capital expenditure (£m) | 0.3 | 0.5 |
| **Operational performance:** | | |
| Airports served: UK (no.) | 16* | 15 |
| Airports served: Overseas (no.) | 10 | 10 |
| Risk-bearing airprox (no.) | nil | nil |
| ATC service delivery events (no.) | 7 | 8 |
| ATC asset non-availability (hours) | 20 | 15 |
| Average delay per flight (seconds) | 0.2 | 0.1 |

*15 from 1 April 2015 following the transfer of Birmingham in-house.

NATS Airports represents our 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 supplied ATC and related engineering services to 14 UK airports and to Gibraltar and RAF Wattisham. In addition, our FerroNATS joint venture manages ATC services at nine Spanish airports.

Revenue at £190.2m (2014: £183.7m) was £6.5m higher than the previous year, largely due to contract price indexation. It also included the RAF's Wattisham airfield for the first time and a contribution from Project Marshall. Revenue growth was also the principal reason for better service line contribution of £61.6m (2014: £57.4m), £4.2m higher than the prior year, and this offset higher staff pay and budgeted pension costs. The FerroNATS joint venture now trades profitably and its financial performance also contributed to the improved result.

At customer request we agreed ten-year contracts with Manchester Airport Group for both Manchester and Stansted airports, the third and fourth largest UK airports respectively, and extended the contract with Luton airport by two years to November 2017. We also established a strategic partnership agreement with Heathrow airport. We will also continue to provide a service to military facilities at Aberporth and The Ranges following the award of a seven year contract by Qinetiq. In April 2015 the Birmingham contract transferred back to the airport for in-house provision and in February 2016 Gatwick will transfer to the new provider.

We continued to provide a safe service at airports with no risk-bearing airprox during the period. The average delay per flight attributable to NATS Airports in the period was 0.2 seconds. We also track events which impact service delivery, such as equipment failure and staff shortages.

Other notable events during the year included the Commonwealth Games in Glasgow and the NATO Summit in Cardiff, both requiring coordination with our en route colleagues and with the military on airspace restrictions.

## NATS Engineering

| | 2015 | 2014 |
|---|---|---|
| **Financial performance:** | | |
| Revenue (£m) | 18.6 | 15.1 |
| Service line contribution (£m) | 4.7 | 2.2 |
| Capital expenditure (£m) | 0.2 | 3.3 |
| **Significant milestones:** | | |
| Multi-static Surface Radar at Heathrow | | September |
| Runway visual range equipment at Newcastle | | November |
| Time Based Separation at Heathrow | | March |
| Manchester Receiver Site | | March |

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

Revenue at £18.6m was £3.5m higher than the previous year (2014: £15.1m) due mainly to engineering support provided to the Aquila joint venture for its Project Marshall contract and from the delivery of Time Based Separation to Heathrow airport. The improvement in service line contribution of £4.7m (2014: £2.2m) also reflected income generated from the Aquila joint venture.

We continue to provide engineering services to a number of airports at which NATS Services does not provide the air traffic control, including Belfast City, Inverness, Oxford, Highland & Islands Airports and Dundee.

NATS Engineering worked with Newcastle airport to deliver an innovative solution to low visibility runway operations. We trialled the use of forward scatter meter runway visual range equipment, which measures runway visibility, and demonstrated that it provided the level of accuracy required for lower visibility conditions and gained regulatory approval accordingly. This will help the airport to reduce the cost of investment in technology required to support low visibility operations.

We also provided an upgraded new Multi-Static Dependent Surveillance radar system at Heathrow which enhances the ground surveillance within the new Terminal 2 apron areas at the airport. The system triangulates the position of aircraft based on transponder transmission. The size of the airport, and the number of buildings on the site, require this system to be one of the largest in the world and one which is vital to maintain the traffic flow at Europe's busiest airport.

We continue to be recognised for our ability to mitigate the impact of windfarms, which can generate false returns on radar. We currently have contracts with EDF, E.ON and SSE and are working on a number of major schemes, in support of the Government's sustainable energy targets.

Contracts awarded in the year, which will be delivered during 2016, include changes to the provision of an extended instrument landing system (eILS) at Heathrow and a refresh of electronic flight progress strips (EFPS) at Luton airport.

### Other NATS Service lines

| | 2015 | 2014 |
|---|---|---|
| **Financial performance:** | | |
| Revenue (£m) | 16.4 | 16.1 |
| Service line contribution (£m) | 2.8 | 2.7 |
| Capital expenditure (£m) | 0.7 | 0.4 |
| **Secured order value:** | | |
| UK contracts (£m) | 40.2 | 31.3 |
| Overseas contracts (£m) | 5.8 | 13.0 |

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

Revenues at £16.4m (2014: £16.1m) were broadly in line with the previous year and service line contribution was £2.8m (2014: £2.7m). The major part of revenue is derived from the production of aeronautical data, services to windfarm developers and to help improve airport performance.

NATS Consultancy is the initial point of contact for many of our customers. It provides services mostly relating to airspace and airport projects and helps clients to address challenges that we have experience in resolving. This provides them with a unique insight that helps them meet performance, environmental, regulatory and commercial challenges.

During the year we continued to support Heathrow airport with a capacity management tool which has improved its scheduling capability and airfield management. As a result, a new early morning landing slot was announced – the first new slot since 1996. The delivery of the tool was a joint collaboration with Siemens Postal, Parcel and Airport Logistics, McLaren Applied Technologies, and AVTECH Sweden.

NATS Defence provides a range of defence services in the UK. 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.

Our Defence team played a key role in supporting Aquila in winning the Project Marshall contract.

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.

### Outlook for 2016

As a result of competition in the UK airport tower contract market, the loss of the Birmingham contract, and other cost pressures including higher pension accounting costs, the company's profit before tax is likely to be much lower in 2016 than in 2015.

## Balance sheet

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

| | 2015 | 2014 |
|---|---|---|
| | £m | £m |
| Intangible fixed assets | **2.9** | 3.1 |
| Property, plant and equipment | **10.1** | 12.8 |
| Investments | **2.4** | 2.2 |
| Loan to fellow subsidiary | **22.5** | 22.5 |
| Cash | **152.8** | 134.0 |
| Other net liabilities | **(6.9)** | (11.7) |
| Pension scheme deficit | **(71.1)** | (2.3) |
| Net assets | **112.7** | 160.6 |

The principal changes in financial position since the prior year have been a deterioration in the defined benefit pension scheme funding position (net of related deferred tax) and retained earnings.

The movement in intangible and tangible fixed assets in the year represented additions of £1.2m, net of depreciation and amortisation charges of £4.1m. The company also invested £0.2m in its joint venture with Thales (Aquila) and the Dubai subsidiary.

Other net liabilities decreased by £4.8m to £6.9m (2014: £11.7m) principally reflecting an increase in the deferred tax asset associated with the change in defined benefit pension scheme (see below), net of other changes in working capital and redundancy provisions.

## Defined benefit pensions

### a. IFRS – accounting basis

At 31 March 2015, measured under international accounting standards and the associated best estimate assumptions, the company's share of the NATS defined benefit scheme was in deficit with liabilities (£1,017.5m) exceeding assets (£946.4m) by £71.1m (2014: £2.3m). A reconciliation of the movement since the prior year is shown below.

| Defined benefit scheme liability | £m |
|---|---|
| At 1 April 2014 | (2.3) |
| Charge to income statement | (24.6) |
| Actuarial gains/(losses): | |
| - on scheme assets | 87.0 |
| - on scheme liabilities | (164.1) |
| Employer contributions | 32.9 |
| At 31 March 2015 | (71.1) |
| Represented by: | |
| Scheme assets | 946.4 |
| Scheme liabilities | (1,017.5) |
| Deficit | (71.1) |

Given the size of the scheme relative to the company, changes in market conditions can have relatively large impacts on the results and financial position. Although the value of scheme assets increased by 17.3% in the year this was more than offset by the growth in liabilities from a reduction in real discount rates.

### b. Actuarial – funding basis

The scheme actuary's last 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. £92m. 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.

Following that triennial valuation, the Trustees and the company 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 £26.6m for calendar year 2014 and £28.6m for calendar year 2015, the company's share being £6.4m and £7.0m respectively. Future service contributions were paid at a rate of 36.7% of pensionable pay (excluding salary sacrifice) until 1 January 2015 when these reduced to 29.4%, reflecting the cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service from 1 November 2013. Overall, excluding salary sacrifice contributions of £3.5m (2014: £3.6m), the company's contributions in the year of £29.4m (2014: £30.7m) represented 45.0% of pensionable pay (2014: 46.0%).

The next triennial valuation will be performed as at 31 December 2015 and, depending on the funding position at that date, may result in a change to the contribution schedule previously agreed. Assuming that to be the case, the company expects the new schedule to apply from January 2017.

The scheme's Trustees are undertaking a liability driven investment programme to hedge the impacts of inflation and interest rates on liabilities. The NATS group also 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.

## Cash flow

| | 2015 £m | 2014 £m |
|---|---|---|
| Net cash from operating activities | **26.8** | 20.0 |
| Net cash used in investing activities | **(0.7)** | (0.2) |
| Net cash used in financing activities | **(7.3)** | (5.7) |
| Increase in cash and cash equivalents | **18.8** | 14.1 |
| Cash and cash equivalents at end of year | **152.8** | 134.0 |

Overall, the company's cash balances increased by £18.8m in the year to £152.8m (2014: £134.0m).

Net cash from operating activities at £26.8m was £6.8m higher than 2014 (2014: £20.0m). This reflects higher revenue receipts from Airports and Engineering contracts (including revenues from Project Marshall) and the deferral of some Project Marshall income.

There was a net cash outflow from investing activities of £0.7m (2014: outflow of £0.2m) and outflows of £7.3m (2014: £5.7m) from financing activities, which included a dividend of £7.5m.

## 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. We will focus our international growth in the Middle East and Asia Pacific, executing our existing contracts and developing influence in those regions by better understanding their ATM challenges. In addition, growth will be delivered through innovation, partnerships, joint ventures and, if appropriate, acquisitions.

We are in the process of negotiating a number of the company's key airport ATC contracts. 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.

Looking forward, we expect some contraction in our revenue and profit margins over the medium term as we respond to the challenging UK airport contract market.

We are proactively supporting the safe and professional transition of Gatwick to the new provider in March 2016. Following the award of Project Marshall to Aquila, the focus in 2016 will be safely transitioning two military airfields in addition to implementing the asset provision and technical package of Project Marshall.

**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.

As a provider of a safety critical service, safety is the company's highest priority. To embed a safety culture across the organisation and to mitigate safety 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. A number of mechanisms exist to identify systems resilience risks. These include regular reviews of system health through a series of structured questions with evidence-based outcomes. In addition, tactical issues are assessed following engineering updates to NATS' Safety Tracking and Reporting System to determine whether immediate escalation is required and to identify any emerging trends requiring investigation.

### 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 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.

Also, 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.

**Defined benefit pension scheme**

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, pensionable pay rises are capped and future service benefits as from 1 November 2013 are linked to the Consumer Prices Index. In June 2013 the Trustees agreed a new schedule of contributions with the company. The next formal review of the funding of the defined benefit scheme will follow the next 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)**

The UK market for Terminal Air Navigation Services (TANS) is subject to the market conditions test within the European Commission's SES Regulations. If conditions are not met TANS are subject to economic regulation. In May 2015 the Department for Transport (DfT) accepted CAA's advice that market conditions are satisfied and wrote to the Commission asking for the UK TANS market to be deregulated. The Commission's response is expected by September 2015.

By the end of 2016, the CAA expects to see at least half of the airport operators whose contracts are nearing termination to have begun some form of open tender for TANS provision. In the absence of this, the CAA will conduct a further review of the market which could be a full competition assessment.

**Electronic and other external and internal threats**

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

**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: financial risks**

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 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 an executive Treasury Committee. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

The Strategic report was approved by the Board of directors on 25 June 2015 and signed on its behalf by:

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 2015.

Details of significant events since the balance sheet date are contained in note 27 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 £5.0m (£50.00 per share) and £2.5m (£25.00 per share) were paid (2014: £5.0m). The Board recommends a final dividend for the year of £nil (2014: £nil).

In May 2015, the Board declared an interim dividend for the year ending 31 March 2016 of £61.00 per share (totalling £6.1m) which was paid to its parent company in June 2015.

### 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 (resigned 31 August 2014)

Richard Deakin (resigned 18 May 2015)

Nigel Fotherby

Catherine Mason (appointed 29 May 2014)

Martin Rolfe (appointed 18 May 2015)

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 EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

- so far as the director is aware, there is no relevant audit information of which the company's 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 position and performance, business model and strategy.

## Auditors

BDO LLP were appointed as auditor during the period. BDO LLP have expressed their willingness to continue in office as auditor and a written resolution of the sole shareholder to re-appoint BDO is expected to be signed on 30 July.

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

R C-Col

Richard Churchill-Coleman
Secretary

25 June 2015

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 2015 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on 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 2015 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 Strategic Report and 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 returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
25 June 2015

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

## Income statement
for the year ended 31 March

| | | 2015 | | | 2014 |
|---|---|---|---|---|---|
| | Notes | Before Exceptional items £m | Exceptional items £m | Result for the year £m | Result for the year £m |
| Revenue | 4 | 225.2 | - | 225.2 | 214.9 |
| Staff costs | 7 | (115.1) | (9.2) | (124.3) | (115.7) |
| Services and materials | | (28.2) | - | (28.2) | (31.0) |
| Repairs and maintenance | | (8.5) | - | (8.5) | (7.2) |
| Depreciation, amortisation and impairment | 6 | (4.1) | - | (4.1) | (3.7) |
| Other operating charges | | (36.7) | - | (36.7) | (35.1) |
| Other operating income | 6 | 3.1 | - | 3.1 | - |
| Deferred grants released | 6 | 0.4 | - | 0.4 | 0.3 |
| Net operating costs | | (189.1) | (9.2) | (198.3) | (192.4) |
| **Operating profit** | 6 | 36.1 | (9.2) | 26.9 | 22.5 |
| Investment revenue | 8 | 1.0 | - | 1.0 | 0.8 |
| **Profit before tax** | | 37.1 | (9.2) | 27.9 | 23.3 |
| Tax | 9 | (7.7) | 1.9 | (5.8) | (5.1) |
| **Profit for the year attributable to equity** | | 29.4 | (7.3) | 22.1 | 18.2 |

## Statement of comprehensive income
for the year ended 31 March

| | Notes | 2015 £m | 2014 £m |
|---|---|---|---|
| **Profit for the year** | | 22.1 | 18.2 |
| **Other comprehensive (loss)/ income for the year net of tax** | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial loss on defined benefit pension scheme | 22 | (77.1) | (12.6) |
| Deferred tax relating to items that will not be reclassified | 18 | 15.5 | 2.8 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Change in fair value of hedging derivatives | | (1.1) | 0.2 |
| Transfer to income statement on cash flow hedges | | - | (0.1) |
| Deferred tax relating to items that may be reclassified | 18 | 0.2 | - |
| | | (62.5) | (9.7) |
| **Total comprehensive (loss)/ income for the period net of tax attributable to equity holders of the company** | | (40.4) | 8.5 |

# Balance sheet
at 31 March

| | Notes | 2015 £m | 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 11 | 2.9 | 3.1 |
| Property, plant and equipment | 12 | 10.1 | 12.8 |
| Investments | 24 | 2.4 | 2.2 |
| Loan to joint venture | 24 | 0.4 | 0.6 |
| Deferred tax asset | 18 | 16.1 | 0.9 |
| Trade and other receivables | 13 | 22.9 | 22.5 |
| | | 54.8 | 42.1 |
| **Current assets** | | | |
| Loan to joint venture | 24 | 0.1 | 0.1 |
| Trade and other receivables | 13 | 38.3 | 31.1 |
| Cash and cash equivalents | 15 | 152.8 | 134.0 |
| | | 191.2 | 165.2 |
| **Total assets** | | 246.0 | 207.3 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | (46.1) | (32.0) |
| Provisions | 17 | (0.3) | (0.6) |
| Current tax liabilities | | (3.1) | (2.7) |
| Derivative financial instruments | 14 | (0.1) | - |
| | | (49.6) | (35.3) |
| **Net current assets** | | 141.6 | 129.9 |
| **Non-current liabilities** | | | |
| Trade and other payables | 16 | (10.4) | (7.9) |
| Provisions | 17 | (1.2) | (1.2) |
| Retirement benefit obligations | 22 | (71.1) | (2.3) |
| Derivative financial instruments | 14 | (1.0) | - |
| | | (83.7) | (11.4) |
| **Total liabilities** | | (133.3) | (46.7) |
| **Net assets** | | 112.7 | 160.6 |
| **Equity** | | | |
| Called up share capital | 19 | 0.1 | 0.1 |
| Hedge reserve | | (0.8) | 0.1 |
| Other reserves | | 0.2 | 0.2 |
| Retained earnings | | 113.2 | 160.2 |
| **Total equity** | | 112.7 | 160.6 |

The financial statements (Company Number 04129270) were approved by the Board of directors and authorised for issue on 25 June 2015 and signed on its behalf by:

Martin Rolfe
Chief Executive

Nigel Fotherby
Finance Director

## Statement of changes in equity
for the year ended 31 March

| | Equity attributable to equity holders of the company | | | | |
|---|---|---|---|---|---|
| | Share capital £m | Hedge reserve £m | Other reserves[1] £m | Retained earnings £m | Total £m |
| **At 1 April 2013** | 0.1 | - | 0.4 | 156.6 | 157.1 |
| Profit for the year | - | - | - | 18.2 | 18.2 |
| Other comprehensive income/ (loss) for the year | - | 0.1 | (0.2) | (9.6) | (9.7) |
| Total comprehensive income/ (loss) 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 |
| **At 1 April 2014** | 0.1 | 0.1 | 0.2 | 160.2 | 160.6 |
| Profit for the year | - | - | - | 22.1 | 22.1 |
| Other comprehensive loss for the year | - | (0.9) | - | (61.6) | (62.5) |
| Total comprehensive loss for the year | - | (0.9) | - | (39.5) | (40.4) |
| Dividends paid | - | - | - | (7.5) | (7.5) |
| **At 31 March 2015** | 0.1 | (0.8) | 0.2 | 113.2 | 112.7 |

[1] Other reserves arose on completion of the PPP transaction in July 2001

## Cash flow statement
for the year ended 31 March

| | Notes | 2015 £m | 2014 £m |
|---|---|---|---|
| **Net cash flow from operating activities** | 20 | 26.8 | 20.0 |
| **Cash flows from investing activities** | | | |
| Interest received | | 1.0 | 0.9 |
| Purchase of property, plant and equipment and other intangible assets | | (1.6) | (0.7) |
| Investment in joint venture | | (0.1) | (0.4) |
| **Net cash outflow from investing activities** | | (0.7) | (0.2) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (7.5) | (5.0) |
| Loan to joint venture | | 0.2 | (0.7) |
| **Net cash outflow from financing activities** | | (7.3) | (5.7) |
| **Increase in cash and cash equivalents during the year** | | 18.8 | 14.1 |
| Cash and cash equivalents at 1 April | | 134.0 | 119.9 |
| **Cash and cash equivalents at 31 March** | | 152.8 | 134.0 |

## 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 19. 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 34. 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 company 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 26.

During the year, the company has adopted the amendments to IAS 32, on offsetting financial assets and liabilities, IAS 36 on recoverable amount disclosures for non-financial assets and IAS 39, on novation of derivatives and continuation of hedge accounting. The company has also adopted IFRIC Interpretation 21 'Levies'. The adoption of these amendments and the Interpretation has not had a significant impact on the company's profit for the period, net assets or cash flows.

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

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

IFRS 10 and IAS 28 (amendments): *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*

IAS 1 (amendments): *Disclosure Initiative*

IAS 16 and IAS 38 (amendments): *Clarification of Acceptable Methods of Depreciation and Amortisation*

IAS 19 (amendments): *Defined Benefit Plans: Employee Contributions*

IFRS 9 *Financial Instruments* deals with classification of financial assets and liabilities, hedge accounting and introduces a new expected credit losses model. The standard is expected to have two main impacts on the company: the adoption of the expected credit losses model in assessing the fair value of trade and contract receivables; and the option to recognise the impact of changes in own credit risk in other comprehensive income rather than the income statement. The standard is effective for reporting periods beginning on or after 1 January 2018 subject to EU endorsement. The company will assess the impact of IFRS 9 closer to the implementation date.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service. The standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017, but the IASB is currently consulting on whether to defer this date to 1 January 2018. The company will assess the impact of IFRS 15 closer to the implementation date.

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;
- Services to the London Approach service (engineering services and use of communications Facilities);
- 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 company entered into an MSA with its wholly-owned subsidiary, NATS Solutions Limited (NATS Solutions). This agreement provides for the provision of personnel. The company is responsible for paying to NATS Solutions an amount equal to the aggregate of all costs incurred in relation to employment of the personnel together with appropriate staff related costs, expenses and disbursements.

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

*Operating profit*

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

*Operating segments*

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

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

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

*Exceptional items*

Items which are deemed by the directors to be exceptional by virtue of their nature or size are included under the statutory classification appropriate to their nature but are separately disclosed on the face of the income statement to assist in understanding the financial performance of the company.

*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.

The company's share of results of associates and joint ventures are not presented in these financial statements. They are incorporated into the consolidated financial statements of NATS Holdings Limited, the company's ultimate parent, using the equity accounting method.

*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 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 payments*

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

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

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 NATS Employee Sharetrust Limited (NESL) 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 is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Under the Finance 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 cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses and return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

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

Other than loans and receivables the company does not have financial assets in other categories.

*Loans and receivables*

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

*Impairment of financial assets*

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

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

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of 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.

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

## 3. Critical judgements and key sources of estimation uncertainty

*Retirement benefits*

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

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which 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 position.

*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 2015.

## 4. Revenue

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

| | 2015 £m | 2014 £m |
|---|---|---|
| NATS Airports | 190.2 | 183.7 |
| NATS Engineering | 18.6 | 15.1 |
| Other NATS Service lines | 16.4 | 16.1 |
| | 225.2 | 214.9 |
| Other operating income (see note 6) | 3.1 | - |
| Investment revenue (see note 8) | 1.0 | 0.8 |
| | 229.3 | 215.7 |

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 2015 the amount included in revenue above is £nil (2014: £0.1m gain).

## 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 services to the military 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.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | External revenue £m | Intra-group revenue £m | Revenue £m | External revenue £m | Intra-group revenue £m | Revenue £m |
| NATS Airports | 176.5 | 13.7 | 190.2 | 170.2 | 13.5 | 183.7 |
| NATS Engineering | 16.5 | 2.1 | 18.6 | 13.5 | 1.6 | 15.1 |
| Other NATS Service lines | 10.6 | 5.8 | 16.4 | 11.4 | 4.7 | 16.1 |
| | 203.6 | 21.6 | 225.2 | 195.1 | 19.8 | 214.9 |

Intra-group revenue includes revenue for services to NATS (En Route) plc of £21.2m (2014: £19.3m), NATS (USA) Inc of £0.1m (2014: £0.5m) and NATS Services DMCC of £0.3m (2014: £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:

| | 2015 £m | 2014 £m |
|---|---|---|
| NATS Airports | 61.6 | 57.4 |
| NATS Engineering | 4.7 | 2.2 |
| Other NATS Service lines | 2.8 | 2.7 |
| Service line contribution | 69.1 | 62.3 |
| Costs not directly attributed to service lines: | | |
| Depreciation and amortisation (net of deferred grants released) | (3.7) | (3.4) |
| Pension accrual rate variance to budget | - | (5.4) |
| Employee share scheme costs | - | (0.9) |
| Redundancy and relocation costs | (10.2) | (0.4) |
| Cost of investment in business growth | (6.6) | (7.5) |
| Other costs not directly attributed to service lines | (21.7) | (22.2) |
| | 26.9 | 22.5 |

### Supplementary information

EC Regulations require air navigation service providers to present income and costs, prepared under international accounting standards, for each of their air navigation services.

The following disclosure is provided in this respect:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Airport air traffic services £m | Miscellaneous services £m | Total £m | Airport air traffic services £m | Miscellaneous services £m | Total £m |
| Revenue | 175.5 | 49.7 | 225.2 | 170.2 | 44.7 | 214.9 |
| Costs | (145.7) | (52.6) | (198.3) | (143.3) | (49.1) | (192.4) |
| Operating profit | 29.8 | (2.9) | 26.9 | 26.9 | (4.4) | 22.5 |

### Geographical segments

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

| | 2015 £m | 2014 £m |
|---|---|---|
| UK | 218.5 | 206.5 |
| Rest of Europe | 2.8 | 2.4 |
| Africa and Middle East | 2.7 | 5.1 |
| Asia | 0.7 | 0.7 |
| Other | 0.5 | 0.2 |
| Total | 225.2 | 214.9 |

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £2.8m (2014: investments and loans £2.9m) 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 £79.0m (2014: £81.8m) 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 the company announced a restructuring of its activities, which included a voluntary redundancy programme. These costs are exceptional. In addition, in the normal course of business, voluntary redundancy was offered to staff in some areas of the business.

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Exceptional voluntary redundancy costs (including pension augmentation costs, see note 7a) | 9.2 | - |
| Other voluntary redundancy costs (including pension augmentation costs, see note 7a) | 0.6 | 0.4 |
| | 9.8 | 0.4 |

**b) Other items**

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| CAA regulatory charges | 3.2 | 3.0 |
| Depreciation and impairment of property, plant and equipment | 2.9 | 3.1 |
| Amortisation and impairment of internally generated intangible assets | 1.2 | 0.6 |
| Compensation on contract termination | (3.1) | - |
| Deferred grants released | (0.4) | (0.3) |

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

**c) Transactions with group companies**

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Net charges for services provided by parent undertaking | 2.7 | 3.4 |
| Charges for services provided by other group companies | 22.0 | 20.5 |

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. NATS Solutions Limited also provides support services to NATS Services for air traffic control at military airfields.

## 7. Staff costs

### a) Staff costs

| | 2015 £m | 2014 £m |
|---|---|---|
| Salaries and staff costs, including directors' remuneration, were as follows: | | |
| Wages and salaries | 88.9 | 79.0 |
| Social security costs | 8.7 | 8.4 |
| Pension costs (note 7b) | 26.8 | 28.4 |
| | 124.4 | 115.8 |
| Less: amounts capitalised | (0.1) | (0.1) |
| | 124.3 | 115.7 |

Staff costs include redundancy costs of £9.8m (2014: £0.4m), 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

| | 2015 £m | 2014 £m |
|---|---|---|
| Defined benefit pension scheme costs (note 22) | 24.6 | 26.7 |
| Defined contribution pension scheme costs (note 22) | 2.2 | 1.7 |
| | 26.8 | 28.4 |

### c) Staff numbers

| The monthly average number of employees (including executive directors) was: | 2015 Number | 2014 Number |
|---|---|---|
| Air traffic controllers | 555 | 574 |
| Air traffic service assistants | 156 | 155 |
| Engineers | 144 | 147 |
| Others | 238 | 236 |
| | 1,093 | 1,112 |

## 8. Investment revenue

| | 2015 £m | 2014 £m |
|---|---|---|
| Interest on bank deposits | 0.6 | 0.5 |
| Interest receivable from intercompany loans | 0.4 | 0.3 |
| | 1.0 | 0.8 |

## 9. Tax

| | 2015 £m | 2014 £m |
|---|---|---|
| Current tax | 5.3 | 4.4 |
| Prior year adjustment relating to current tax | - | (0.1) |
| | 5.3 | 4.3 |
| Deferred tax (See note 18) | | |
| Origination and reversal of temporary differences | 0.4 | 0.8 |
| Effect of tax rate change on opening balances | 0.1 | - |
| | 0.5 | 0.8 |
| | 5.8 | 5.1 |

Corporation tax is calculated at 21% (2014: 23%) 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:

| | 2015 £m | % | 2014 £m | % |
|---|---|---|---|---|
| Profit on ordinary activities before tax | 27.9 | | 23.3 | |
| Tax on profit on ordinary activities at standard rate in the UK of 21% (2014: 23%) | 5.9 | 21.0 | 5.3 | 23.0 |
| Tax effect of corporation tax rate reduction from 21% to 20% (2014: 23% to 20%) | 0.1 | 0.2 | 0.1 | 0.3 |
| Tax effect of group relief | (0.1) | (0.2) | - | - |
| Tax effect of prior year adjustments | - | - | (0.5) | (2.2) |
| Other permanent differences | (0.1) | (0.2) | 0.2 | 0.8 |
| Tax charge for year at the effective tax rate of 20.8% (2014: 21.9%) | 5.8 | 20.8 | 5.1 | 21.9 |
| Deferred tax credit taken directly to equity (see note 18) | 15.7 | | 2.8 | |

## 10. Dividends

| | 2015 £m | 2014 £m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year | | |
| First interim dividend of £50.00 (2014: £37.50) per ordinary share | 5.0 | 3.7 |
| Second interim dividend of £25.00 (2014: £12.50) per ordinary share | 2.5 | 1.3 |
| | 7.5 | 5.0 |

In May 2015, the Board declared an interim dividend for the year ending 31 March 2016 of £61.00 per share (totalling £6.1m) which was paid to its parent company in June 2015.

## 11. Intangible assets

| | Operational Software £m | Non-operational software £m | Assets in course of construction and installation £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| 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 1 April 2014 | 4.5 | 0.8 | 0.4 | 5.7 |
| Additions externally acquired | - | 0.5 | 0.5 | 1.0 |
| Other transfers | - | 0.1 | (0.1) | - |
| At 31 March 2015 | 4.5 | 1.4 | 0.8 | 6.7 |
| **Accumulated amortisation** | | | | |
| At 1 April 2013 | 1.6 | 0.4 | - | 2.0 |
| Charge for the year | 0.5 | 0.1 | - | 0.6 |
| At 1 April 2014 | 2.1 | 0.5 | - | 2.6 |
| Charge for the year | 1.1 | 0.1 | - | 1.2 |
| At 31 March 2015 | 3.2 | 0.6 | - | 3.8 |
| **Carrying amount** | | | | |
| At 31 March 2015 | 1.3 | 0.8 | 0.8 | 2.9 |
| At 31 March 2014 | 2.4 | 0.3 | 0.4 | 3.1 |

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

## 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 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 1 April 2014 | 0.1 | 10.0 | 36.1 | 3.1 | 0.2 | 49.5 |
| Additions during the year | - | - | 0.1 | - | 0.1 | 0.2 |
| Disposals during the year | - | - | (1.3) | (0.1) | - | (1.4) |
| At 31 March 2015 | 0.1 | 10.0 | 34.9 | 3.0 | 0.3 | 48.3 |
| **Accumulated depreciation and impairment** | | | | | | |
| 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 1 April 2014 | 0.1 | 9.5 | 25.1 | 2.0 | - | 36.7 |
| Provided during the year | - | 0.2 | 2.3 | 0.4 | - | 2.9 |
| Disposals during the year | - | - | (1.3) | (0.1) | - | (1.4) |
| At 31 March 2015 | 0.1 | 9.7 | 26.1 | 2.3 | - | 38.2 |
| **Carrying amount** | | | | | | |
| At 31 March 2015 | - | 0.3 | 8.8 | 0.7 | 0.3 | 10.1 |
| At 31 March 2014 | - | 0.5 | 11.0 | 1.1 | 0.2 | 12.8 |

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 in the prior year included £3.3m 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**

| | 2015 £m | 2014 £m |
|---|---|---|
| **Non-current** | | |
| Intercompany loan (interest bearing) | 22.5 | 22.5 |
| Prepayments | 0.2 | - |
| Accrued income | 0.2 | - |
| | 22.9 | 22.5 |
| **Current** | | |
| Receivable from customers gross | 26.0 | 20.0 |
| Allowance for doubtful debts | (0.5) | (0.5) |
| | 25.5 | 19.5 |
| Amounts recoverable under contracts | 0.6 | 0.9 |
| Other debtors | - | 0.7 |
| Prepayments | 7.5 | 5.0 |
| Amounts recoverable from fellow undertakings (non-interest bearing loan repayable on demand) | 2.1 | 0.8 |
| Accrued income | 2.6 | 4.2 |
| | 38.3 | 31.1 |

The average credit period taken on sales of services is 33 days (2014: 35 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.5m (2014: £0.5m). 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 | 2015 £m | 2014 £m |
|---|---|---|
| 30 - 90 days | 0.4 | 0.1 |
| 91 - 365 days | 0.2 | 0.7 |
| > 365 days | 0.1 | 0.2 |
| | 0.7 | 1.0 |

| Movement in the allowance for doubtful debts | 2015 £m | 2014 £m |
|---|---|---|
| Balance at the beginning of the year | 0.5 | 0.2 |
| Increase in allowance recognised in the income statement | - | 0.3 |
| Balance at end of year | 0.5 | 0.5 |

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 (2014: £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 | 2015 £m | 2014 £m |
|---|---|---|
| Current | - | - |
| 30 - 90 days | 0.2 | - |
| 91 - 365 days | 0.3 | 0.5 |
| | 0.5 | 0.5 |

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

At 31 March 2015, NATS Services provided unsecured loans totalling £22.5m to NERL (2014: £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 1.6% (2014: 1.5%).

## 13. Financial and other assets (continued)

**Cash and cash equivalents**

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

Overall, the maximum credit risk for the items discussed above and for loans to joint ventures would be £206.8m (2014: £183.3m).

## 14. Derivative financial instruments

**Fair value of derivative financial instruments**

| | 2015 £m | 2014 £m |
|---|---|---|
| **Current liabilities** | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | (0.1) | - |
| **Non-current liabilities** | | |
| Derivative financial instruments in designated hedge accounting relationships | (1.0) | - |
| Forward foreign exchange contracts (cash flow hedges) | | |

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:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables, excluding prepayments | 54.0 | 49.3 |
| Cash and cash equivalents and short-term investments | 152.8 | 134.0 |
| | 206.8 | 183.3 |
| **Financial liabilities** | | |
| Amortised cost | 36.6 | 27.7 |
| Derivative financial instruments in designated hedge accounting relationships | 1.1 | - |
| | 37.7 | 27.7 |

Amortised cost includes trade and other payables, excluding 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 2015.

**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 company also trades with and provides finance to its overseas joint ventures and subsidiaries. Where appropriate these transactions are conducted in sterling.

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | £m | £m | £m | £m |
| Euro | 1.0 | 1.0 | (2.6) | - |
| United Arab Emirates Dirham | 0.7 | - | - | - |
| US Dollar | 0.5 | 0.1 | (0.1) | - |
| Omani Rial | 0.4 | - | - | - |
| Canadian Dollar | 0.3 | - | (0.2) | (0.2) |
| Qatari Riyal | 0.3 | 2.4 | - | - |
| Kuwaiti Dinar | 0.3 | 0.2 | - | - |
| Norwegian Krone | 0.1 | - | - | (0.1) |
| Singapore Dollar | 0.1 | 0.1 | - | - |
| | 3.7 | 3.8 | (2.9) | (0.3) |

### Foreign currency sensitivity analysis

NATS Services held foreign currency cash balances in Euro, US Dollar, Canadian Dollar, Kuwaiti Dinar and Norwegian Krone at 31 March 2015.

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 | 2015 Impact £m | 2014 Impact £m |
|---|---|---|
| Euro | (1.2) | (0.1) |
| United Arab Emirates Dirham | (0.1) | - |
| US Dollar | (0.1) | - |
| Qatari Riyal | - | (0.2) |
| | (1.4) | (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 2015 the company had the following outstanding forward foreign exchange contracts:

| | 2015 | | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| Euro bought | €m | £m | Average exchange rate | Euro bought | €m | £m | Average exchange rate |
| 0-3 months | 3.0 | 2.2 | 0.7349 | 0-3 months | - | - | - |
| Over 3 months | 14.4 | 11.7 | 0.8121 | Over 3 months | - | - | - |
| | 17.4 | 13.9 | 0.7988 | | - | - | - |

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

| QAR sold | £m | QAR m | Average exchange | QAR sold | £m | QAR m | Average exchange |
|---|---|---|---|---|---|---|---|
| 0-3 months | - | - | - | 0-3 months | 0.2 | 1.1 | 6.0519 |

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

| KWD sold | £m | KWD m | Average exchange | KWD sold | £m | KWD m | Average exchange |
|---|---|---|---|---|---|---|---|
| 0-3 months | 0.3 | 0.1 | 0.4858 | 0-3 months | - | - | - |

At 31 March 2015, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was a loss of £1.1m (2014: £0.1m unrealised gain). 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 2015 or 31 March 2014 and therefore was not exposed to any interest rate risk on borrowings.

**Economic interest rate exposure**

The company held cash deposits as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Currency | Amount £m | Economic interest rate % | Average maturity days | Amount £m | Economic interest rate % | Average maturity days |
| Sterling | 152.2 | 0.5 | 15 | 133.2 | 0.4 | 15 |
| Euro | 0.2 | - | - | 0.4 | - | - |
| US Dollar | 0.1 | - | - | 0.1 | - | - |
| Canadian Dollar | 0.1 | - | - | - | - | - |
| Qatari Riyal | - | - | - | 0.2 | - | - |
| Kuwaiti Dinar | 0.1 | - | - | 0.1 | - | - |
| Norwegian Krone | 0.1 | - | - | - | - | - |
| | 152.8 | | | 134.0 | | |

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:

| | 2015 Intercompany loan | | | 2014 Intercompany Loan | | |
|---|---|---|---|---|---|---|
| Currency | Amount £m | Economic interest rate % | Weighted average time for which rate is fixed days | Amount £m | Economic interest rate % | Weighted average time for which rate is fixed days |
| Sterling | 22.5 | 1.6 | 183 | 22.5 | 1.5 | 183 |

#### Interest rate sensitivity analysis

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

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

| | 2015 Impact £m | 2014 Impact £m |
|---|---|---|
| Cash at bank and short-term deposits (2015: £152.8m, 2014: £134.0m) | 1.5 | 1.3 |
| Intercompany loans (2015: £22.5m, 2014: £22.5m) | 0.2 | 0.2 |
| | 1.7 | 1.5 |

#### 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 NATS 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) | 2015 Number of institutions | 2015 £m | 2015 By credit rating (%) | 2014 Number of institutions | 2014 £m | 2014 By credit rating (%) |
|---|---|---|---|---|---|---|
| AAA | 3 | 70.6 | 46.2 | 3 | 48.2 | 35.9 |
| AA- | 2 | 26.5 | 17.3 | 3 | 60.0 | 44.8 |
| A+ | 3 | 33.4 | 21.9 | 1 | 7.1 | 5.3 |
| A | 2 | 19.0 | 12.4 | 1 | 10.0 | 7.5 |
| A- | 1 | 3.3 | 2.2 | 2 | 8.7 | 6.5 |
| | | 152.8 | 100.0 | | 134.0 | 100.0 |

## 15. Financial instruments (continued)

### 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 2015 (31 March 2014: 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.

### 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

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial liabilities** | | | | | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | (1.1) | - | (1.1) | - | - | - | - |

### 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Current** | | |
| Trade payables | 3.9 | 2.0 |
| Amounts due to parent company | 23.7 | 14.7 |
| Amounts due to fellow undertaking | - | 2.0 |
| Other payables | 3.1 | 1.9 |
| Accruals and deferred income (including deferred grants) | 15.4 | 11.4 |
| | 46.1 | 32.0 |
| **Non-current** | | |
| Accruals and deferred income (including deferred grants) | 10.4 | 7.9 |
| | 56.5 | 39.9 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 32 days (2014: 26 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

## 17. Provisions

| | Relocation £m | Other £m | Total £m |
|---|---|---|---|
| At 1 April 2014 | - | 1.8 | 1.8 |
| Additional provision in the year | 0.4 | 0.2 | 0.6 |
| Release of provision in the year | (0.1) | - | (0.1) |
| Utilisation of provision | - | (0.8) | (0.8) |
| At 31 March 2015 | 0.3 | 1.2 | 1.5 |

| | Total £m |
|---|---|
| Amounts due for settlement within 12 months | 0.3 |
| Amounts due for settlement after 12 months | 1.2 |
| | 1.5 |

The other provisions represent the best estimate of other liabilities. 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 parent company.

## 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 £m | Financial instruments £m | Other £m | Total £m |
|---|---|---|---|---|---|
| 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) |
| At 1 April 2014 | 0.1 | (0.5) | - | (0.5) | (0.9) |
| (Credit)/charge to income | (0.3) | 1.8 | - | (1.0) | 0.5 |
| Credit to equity | - | (15.5) | (0.2) | - | (15.7) |
| At 31 March 2015 | (0.2) | (14.2) | (0.2) | (1.5) | (16.1) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Deferred tax liabilities | - | (0.1) |
| Deferred tax assets | 16.1 | 1.0 |
| | 16.1 | 0.9 |

## 19. Share capital

| | Authorised Number of shares | £m | Called up, allotted and fully paid Number of shares | £m |
|---|---|---|---|---|
| Ordinary shares of £1 each | | | | |
| At 31 March 2015 and 31 March 2014 | 100,000 | 0.1 | 100,000 | 0.1 |

## 20. Notes to the cash flow statement

| | 2015 £m | 2014 £m |
|---|---|---|
| Operating profit from continuing operations | 26.9 | 22.5 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 2.9 | 3.1 |
| Amortisation of intangible assets | 1.2 | 0.6 |
| Deferred grants released | (0.4) | (0.3) |
| Adjustments for pension funding | (8.3) | (7.6) |
| Operating cash flows before movements in working capital | 22.3 | 18.3 |
| Decrease in contract work in progress | 0.3 | 0.1 |
| (Increase)/ decrease in trade and other receivables | (6.5) | 8.1 |
| Increase/ (decrease) in trade and other payables and provisions | 9.9 | (3.6) |
| Increase in amounts due to other group undertakings | 5.7 | 2.6 |
| Cash generated from operations | 31.7 | 25.5 |
| Tax paid | (4.9) | (5.5) |
| **Net cash flow from operating activities** | 26.8 | 20.0 |

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

| | 2015 £m | 2014 £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. | 16.5 | 16.9 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Within one year | 15.5 | 15.9 |
| In the second to fifth years inclusive | 27.6 | 39.4 |
| After five years | 4.8 | 5.7 |
| | 47.9 | 61.0 |

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 subsidiaries NATSNav Limited, NATS Services DMCC and NATS Services (Asia Pacific) Pte Limited with financial support to enable them to continue trading and to meet all liabilities known or reasonably foreseeable at the year end as they fall due. NATSNav Limited had net assets at 31 March 2015 of £nil (2014: net liabilities of £0.1m). NATS Services DMCC has net liabilities at 31 March 2015 of £0.7m. NATS Services (Asia Pacific) Pte Limited had net assets at 31 March 2015 of £nil.

### 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 2015 was £4.9m (2014: £4.6m).

## 22. Retirement benefit schemes

### Defined contribution scheme

NATS Limited, the company's immediate parent undertaking, provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The 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 operates a number of contribution structures. In general, 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 2015 employer contributions of £1.5m (2014: £1.1m), excluding employee salary sacrifice contributions of £0.7m (2014: £0.6m), represented 14.1% of pensionable pay (2014: 13.3%).

There were 214 company members of the defined contribution scheme at 31 March 2015 (2014: 201).

### Defined benefit scheme

NATS Limited, the company's immediate parent undertaking, entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. CAAPS is a fully funded defined benefit scheme providing benefits based on final pensionable salaries. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which 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, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chairman.

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

During 2013 the parent company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on 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 were 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 at £2.2m per month for calendar year 2014. These are being paid at £2.4m per month for calendar year 2015 and will increase by 2.37% annually thereafter. NATS Services' 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 Limited for the provision of services, including those of the staff. An element of those fees represents the employment costs (including pension contributions) of staff provided by NATS Limited to 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 schemes (continued)

During the year the company paid cash contributions to the scheme of £32.9m (2014: £34.3m). This amount included £3.5m (2014: £3.6m) 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 45.0% (2014: 46.0%) of pensionable pay.

Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries:NERL and NATS Services, in proportion to their pensionable payrolls. The company's share of the pension scheme's funding is c. 24%.

The estimated contributions expected to be paid by the company during the financial year ending 31 March 2016 is £29.9m, including salary sacrifice contributions of £3.7m.

**Company's accounting valuation under international accounting standards**

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 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 2015 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| RPI inflation | 2.95% | 3.35% | 3.35% |
| CPI inflation | 1.85% | 2.35% | 2.45% |
| Increase in: | | | |
| - pensionable salaries | 2.10% | 2.60% | 2.70% |
| - deferred pensions | 2.95% | 3.35% | 3.35% |
| - pensions in payment | 2.95% | 3.35% | 3.35% |
| Discount rate for net interest expense | 3.35% | 4.50% | 4.45% |

The mortality assumptions have been drawn from actuarial tables 101% S1PMA light and 99% S1PFA light with future improvements in line with CMI 2011 projections for male/female members, subject to a long-term improvement of 1.5% p.a. This is unchanged from 2014. These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 31.0 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 31.1 years and for females to 32.8 years.

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

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

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

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

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

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

| Assumption: | Change in assumption: | Impact on scheme liabilities: |
|---|---|---|
| Discount rate | Increase/decrease by 0.5% | Decrease by 11.1%/Increase by 13.0% |
| Rate of inflation | Increase/decrease by 0.5% | Increase by 12.9%/Decrease by 11.0% |
| Rate of salary growth | Increase/decrease by 0.5% | Increase by 3.2%/Decrease by 3.0% |
| Rate of mortality | 1 year increase in life expectancy | Increase by 2.6% |

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 schemes (continued)

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Current service cost | (25.0) | (27.3) |
| Net interest expense | 0.7 | 0.9 |
| Administrative expenses | (0.3) | (0.3) |
| Components of defined benefit costs recognised within operating profit | (24.6) | (26.7) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Return on plan assets (excluding amounts included in net interest expense) | 87.0 | (0.8) |
| Actuarial gains and losses arising from changes in financial assumptions | (180.6) | 9.0 |
| Actuarial gains and losses arising from changes in demographic assumptions | - | - |
| Actuarial gains and losses arising from experience adjustments | 16.5 | (20.8) |
| | (77.1) | (12.6) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Present value of defined benefit obligations | (1,017.5) | (809.1) |
| Fair value of scheme assets | 946.4 | 806.8 |
| Deficit in scheme | (71.1) | (2.3) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| At 1 April | (809.1) | (752.2) |
| Current service cost | (25.0) | (27.3) |
| Interest expense on defined benefit scheme obligations | (36.0) | (33.1) |
| Actuarial gains and losses arising from changes in financial assumptions | (180.6) | 9.0 |
| Actuarial gains and losses arising from changes in demographic assumptions | - | - |
| Actuarial gains and losses arising from experience adjustments | 16.5 | (20.8) |
| Contributions from scheme members | (0.1) | (0.1) |
| Benefits paid | 16.8 | 15.4 |
| At 31 March | (1,017.5) | (809.1) |

The average duration of the scheme's liabilities at the end of the year is 24.0 years (2014: 24.3 years). The present value of the defined benefit obligation can be analysed by member group as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Active members | 647.5 | 507.7 |
| Deferred members | 73.5 | 47.2 |
| Pensioners | 296.5 | 254.2 |
| | 1,017.5 | 809.1 |

## 22. Retirement benefit schemes (continued)

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

| | 2015 £m | 2014 £m |
|---|---|---|
| At 1 April | 806.8 | 754.9 |
| Interest income on scheme assets | 36.7 | 34.0 |
| Return on plan assets (excluding amounts included in net interest expense) | 87.0 | (0.8) |
| Contributions from scheme members | 0.1 | 0.1 |
| Contributions from sponsoring company | 32.9 | 34.3 |
| Benefits paid | (16.8) | (15.4) |
| Administrative expenses | (0.3) | (0.3) |
| At 31 March | 946.4 | 806.8 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Cash and cash equivalents | 19.3 | 23.7 |
| Equity instruments | | |
| - UK | 67.5 | 58.5 |
| - Europe | 19.5 | 17.0 |
| - North America | 57.5 | 49.8 |
| - Japan | 8.4 | 7.0 |
| - Pacific (excluding Japan) | 22.5 | 19.9 |
| - Emerging markets | 66.9 | 62.3 |
| - Global | 137.8 | 115.4 |
| | 380.1 | 329.9 |
| Bonds | | |
| - Corporate bonds | 184.0 | 165.6 |
| - Index-linked gilts over 5 years | 232.6 | 134.1 |
| | 416.6 | 299.7 |
| Other investments | | |
| - Property | 52.1 | 50.1 |
| - Hedge funds | 41.9 | 35.3 |
| - Global tactical asset allocation | 23.9 | 20.1 |
| - Private equity funds | 28.8 | 22.8 |
| | 146.7 | 128.3 |
| Derivatives | | |
| - Futures contracts | (16.3) | 25.2 |
| | 946.4 | 806.8 |

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. In addition, and as an acceleration of the existing strategy, NATS and the Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2015 was £123.7m (2014: £33.2m).

## 23. Related party transactions

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 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 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 existed during the year between LHR Airports Limited and NATS Services in relation to air navigation services provided at Aberdeen, Glasgow, Heathrow and Southampton airports. Aberdeen, Glasgow and Southampton airports were sold by LHR Airports Limited to AGS Airports Limited in December 2014.

**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 | |
|---|---|---|---|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| LHR Airports Limited | 80.2 | 89.3 | 8.1 | 9.8 | 6.0 | 7.6 | - | - |
| MOD | 4.2 | 2.9 | - | - | 0.5 | 0.2 | - | - |
| 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. The consolidated accounts of NATS Holdings include details of the remuneration received by the directors of the group.

**Directors remuneration**

The aggregate remuneration payable to the directors and the highest paid director of the company in the year was £246,000 (2014: £180,000). The number of directors paid by the company during the year was one (2014:one). The director participates in a pension salary sacrifice arrangement. Contributions paid to a defined contribution pension scheme via salary sacrifice have been deducted from this remuneration figure. Contributions to the defined contribution pension scheme, including salary sacrificed by the director of £16,000 and contributions from the company of £33,000 totalled £49,000.

**Remuneration of key management personnel**

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Short term employee benefits | 1.8 | 1.9 |
| Post-employment benefits | 0.4 | 0.4 |
| Other long-term benefits | 0.1 | (0.1) |
| Termination benefits | - | - |
| | 2.3 | 2.2 |

## 24. Subsidiaries, joint ventures and associates

**NATSNav Limited**
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.

**FerroNATS Air Traffic Services SA**
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. FerroNATS provides air traffic control services at 9 airports across Spain.

During the year FerroNATS repaid loan finance of €0.2m (£0.1m) to the company. The company provided loan finance of €1.3m (£1.1m) in the prior year. Of this, €0.5m (£0.4m) was converted to equity.

## 24. Subsidiaries, joint ventures and associates (continued)

**Aquila Air Traffic Management Services**

In October 2014, NATS Services acquired 50% of the issued share capital of Aquila Air Traffic Management Services Limited (Aquila) for a cash consideration of £0.1m. Aquila provides air traffic management services at military airfields in the delivery of Project Marshall for the Ministry of Defence.

NATS Services has not presented summarised financial information relating to the year ended 31 March 2015, the summary financial information relating to associates of the NATS group are presented in the NATS Holdings Limited consolidated accounts.

Details of the joint ventures at 31 March 2015 are:

| Name of company | Principal activity | Date of acquisition | Proportion of ordinary shares held | Country of incorporation |
|---|---|---|---|---|
| FerroNATS Air Traffic Services SA | Airport air traffic services | 28 January 2011 | 50% | Spain |
| Aquila Air Traffic Management Services Limited | Air traffic management services | 9 October 2014 | 50% | United Kingdom |

NATS Services has five wholly owned subsidiaries: NATS Solutions Limited, NATS Services DMCC, NATS Services (Asia Pacific) Pte Limited, NATS Sverige AB and NATS (USA) Inc. to enable the company to operate in overseas markets. The summary financial transactions of NATS Solutions Limited have been disclosed in note 6, transactions with the other subsidiaries have not been disclosed as these 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 Solutions Limited | Airport air traffic services | 100% | 100% | England and Wales | United Kingdom |
| NATS Services DMCC | ATM consultancy | 100% | 100% | UAE | UAE |
| NATS Services (Asia Pacific) Pte. Limited | Airport air traffic related services | 100% | 100% | Singapore | Singapore |
| NATS (USA) Inc | Engineering and ATM consultancy | 100% | 100% | USA | USA |
| NATS Sverige AB | Airport air traffic services | 100% | 100% | Sweden | Sweden |

## 25. Share based payments

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

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

| | No. employee shares outstanding at 31 March 2015 | No. employee shares outstanding at 31 March 2014 |
|---|---|---|
| Total employee shares in issue | 1,259,570 | 1,236,260 |

These shares are valued every six months by independent valuers using discounted cash flows and income multiple methods of valuation. As at 31 March 2015 the price of an employee share was valued at £4.30 (2014: £4.50). The liability on the balance sheet for the employee shares at 31 March 2015 was £5.0m (2014: £5.0m) included in amounts due to parent company. The payments made to employees for the shares they exercised during the year was £0.9m (2014: £0.4m).

## 26. Parent Undertaking

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

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.

## 27. Events After the Reporting Period

In May 2015, the Board declared an interim dividend for the year ending 31 March 2016 of £61.00 per share (totalling £6.1m) which was paid to its parent company in June 2015.