NATS (Services) Limited
Financial statements
Year ended 31 March 2016

Company Number: 04129270

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Company Secretary

Richard Churchill-Coleman

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Registered in England and Wales
Company No. 04129270

Auditor

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 2016.

NATS Services provides Air Traffic Control (ATC) and aviation related services to a variety of customers in the UK and overseas including: airport operators, the UK Ministry of Defence (MOD), airlines, windfarms and other airspace users.

Our business consists of four distinct areas: Airports ATC; Engineering; Other UK Business (including consultancy, training and aviation information management services); and International.

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[1] of the UK's airports, and to Gibraltar, RAF Wattisham, RAF Netheravon and RAF Middle Wallop under the UK military's Project Marshall contract[2].

As foreshadowed in last year's report, the result this year, before significant one-off items, reflects the competitive environment for our UK airport tower contract market and higher pension accounting costs. Revenue was broadly unchanged at £225.7m (2015: £225.2m) as additional support to our Aquila joint venture for its Project Marshall contract compensated for lower airport contract income. Profit before tax and significant one-off items was lower at £20.3m (2015: £37.1m), reflecting reduced margins. Overall, profit before tax was £22.3m (2015: £27.9m). Our financial performance is reviewed in more detail below.

Our main priorities for the year were to: continue to provide safe and resilient air traffic services from our UK airports; renew or win three or more UK airport contracts; start the Marshall Programme ATC and technical services at Middle Wallop, Netheravon and Shawbury; and achieve the overseas revenue target in our focus regions.

This was another very safe year with no risk-bearing incidents attributable to NATS Services and we continued to look for ways to reduce safety risk, introducing measures over the winter which improved our safety performance at airports, which is starting to show a positive impact.

Last summer we established a strategic partnership with Heathrow Airport Limited which has at its heart a set of working principles and specific incentivised targets in areas from delay performance and service resilience, through to aircraft noise reduction. Our joint objectives are to drive year on year performance to the customer through innovations in service and technology, to

[1] A number of explanatory notes are provided on page 57 of this report

realise improvements for airlines and deliver a world class passenger experience for the travelling public. This year in collaboration with our colleagues in NATS (En Route) plc (NERL) we deployed Time-Based Separation (TBS) for the management of the aircraft approach services to Heathrow airport. The deployment of this capability is a world first, and has improved landing rates at Heathrow airport in conditions of strong headwinds, significantly enhancing performance during some of the windiest days. It has fundamentally, and safely, changed the management of airport approach services and won several industry awards in its first year of operation. Our engineering team also installed an enhanced Instrument Landing System (eILS) which is now in operation on the two westerly runways at Heathrow airport, leading to increased landing rates during low visibility conditions.

We are working hard to make our airport service proposition even more compelling. This was reflected in important contract renewals, in addition to that of Heathrow airport, at Aberdeen, Belfast International, Glasgow, and Southampton. Following a competitive tendering process, we were also awarded the ATC contract by George Best Belfast City Airport, where we have been providing engineering services since 2008.

We continue to face significant competition in the UK airport contract market and we will be competing to retain Edinburgh airport, which is tendering its next ATC contract. We also supported Gatwick airport with the smooth transition of its ATC service to its new provider, and have seconded NATS staff to support that service.

Our support to Project Marshall, awarded in 2014 by the MOD to Aquila, our joint venture with Thales UK Limited, has started positively. We now provide the ATC service at Middle Wallop and Netheravon airfields and we are upgrading and maintaining radio and tower systems at a number of MOD sites.

In Europe, our FerroNATS joint venture handles 20% of Spanish airport air traffic movements and is meeting all of its operational performance targets. We are continuing to develop our other international business and this year generated revenue of £8.7m (2015: £4.6m). The Asia Pacific region performed a little better than expected while the lower oil price has reduced opportunities in the Middle East for now.

Operating environment

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

The UK economy grew by 2.3% in 2015 and is forecast to grow by 2.1% in 2016 (source: Oxford Economics), supported by lower oil prices and low inflation. The US economy continued to grow during 2015 based on strong domestic economic fundamentals and is expected to see growth of 2% during 2016. Eurozone economies also continue to build momentum with a weaker euro supporting stronger exports. Recent reductions in oil prices have reduced the cost of air travel and are contributing to passenger demand. The Middle East market continues to grow. However there remain significant risks to this outlook. The potential impact of the UK's EU referendum decision on the UK economy and on the demand for air travel is uncertain.

There are also risks to growth from a weaker outlook for emerging markets, with the slowdown in growth in China, and the recessions in Brazil and Russia likely to have an adverse impact on demand for air travel, although the International Air Transport Association (IATA) forecasts are still showing strong demand from passengers in these regions. Finally, there is also a risk from the potential escalation of conflicts in the Middle East.

Overall we believe that the global demand for air travel will continue to recover and that growth in the Middle East and Asia Pacific regions will be where demand is most pronounced, and offering the best prospects for business development outside the UK. We are already seeing evidence of capacity constraints at busy airports and across airspace in these regions.

Strategy and business model

The company has two very clear strategic objectives:

- Deliver a safe, efficient and reliable service every day; and
- Win and retain commercial business and explore sound international opportunities as they arise.

The UK has 128 civil licensed aerodromes and of these 110 self-provide the service. Of the rest, 14 are outsourced to NATS Services and four to two other providers. NATS Services operates in a contestable market and faces competition from other Air Navigation Service Providers (ANSPs). As noted above, large UK airports fall within the scope of European Single European Sky (SES) regulations. FerroNATS, our 50:50 joint venture, provides a service to 9 airports in Spain. The airport ATC market has seen the emergence of new competitors and in-house provision, making it more challenging to secure contracts. To maintain our existing market position we must continue to work hard to fulfil our customer's requirements for a safe, efficient and reliable service every day in a changing market place. We are also developing more compelling propositions to airport operators through value adding innovations in technology and operations which also deliver improved price performance. We made a good start this year to our strategic partnership with Heathrow Airport Limited, and we hope to develop similar partnerships with other airport operators in future. We are also tailoring our service to different airport market segments. For example, we are aiming to demonstrate a remote tower capability in 2017.

Our engineering services deliver complex turnkey engineering projects. Our competence is in maintaining and developing communications, navigation and surveillance solutions. We provide services to airports, the MOD, windfarms and construction companies, mainly integrating new infrastructure at airports. Our principal competitors include systems integrators, equipment manufacturers and specialist engineering consultancies.

Our expertise in information services derives from managing aeronautical and air navigation services data, charting and other services. These services are provided to commercial airlines, windfarms and other airspace users.

Our consultancy expertise has evolved from our operational ATC experience and enables us to optimise the safety and operational performance of airports or ANSPs by providing practical advice on maximising the capacity of airport infrastructure. The consultancy market includes other environmental, engineering and infrastructure consultancy firms. NATS also provides training services which are in competition with those also offered by other ANSPs and specialist colleges.

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. Over the last two years we have taken actions to reduce our cost base by implementing leaner organisational structures and consolidating sites. 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. Our commitment to this is embedded in our business plan. This targets a reduction in safety risk (defined as the accident risk per flight) of 13% by the end of 2019, in line with predicted traffic growth.

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.

We now measure our safety performance using the Risk Analysis Tool (RAT), which evaluates the severity and risk of safety incidents. On a 12-month rolling basis to the end of calendar year 2015, our performance generated a RAT score[3] of 34.5 (per 100,000 flights) relative to our target of 24.8.

The most significant operational risks we deal with at airports are runway-related events and issues on the ground. We have seen an increase in both of these in the first half of the year and have responded with more rigorous training, including further continuous professional development, and this has improved performance. We are also continuing to trial runway incursion sensors at Manchester and Aberdeen to assist in the development of automated runway incursion warning systems. While other ground events at airports do not contribute to the RAT assessment risk, these generate additional workload and complexity in the ATC operation and are therefore a focus for NATS. For example, we have been engaging with the Civil Aviation Authority (CAA) and airport operators on strategies to reduce pushback and taxi errors.

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.

Effective human performance is a critical element of Air Traffic Management (ATM) safety and we have introduced a programme to enhance this which covers: a 'back to basics' focus on core skills required for avoidance action and defensive controlling; operational preparedness and familiarisation; and refresher training.

Regulatory developments

SES is a European 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).

The UK market for TANS is subject to the market conditions test within EC SES Regulations. If conditions are not met TANS are subject to economic regulation and air traffic service providers may be subject to European cost efficiency targets and required to disclose their costs by airport.

Last year the UK made its submission to the EC on the existence of SES market conditions for TANS. The Commission's decision on this is awaited.

Environment

We are helping the aviation industry to build a more sustainable future by limiting and, where possible, reducing the impact of air traffic operations on the environment.

We have collaborated with our fellow subsidiary, NATS (En Route) plc to deliver the benefits of TBS at Heathrow. By improving landing rates in strong headwind conditions it reduces stacking and therefore fuel burn and CO_2 emissions.

The Extended Arrival Manager project led directly to operational trials of Heathrow XMAN (cross-border arrivals management), whereby neighbouring ANSPs slow down Heathrow arrivals when runway capacity delays of seven minutes or more are predicted. This delivers significant fuel, cost and environmental savings to customers.

Further information about the NATS group's environmental strategy is set out in the Responsible Business statement in the Annual Report and Accounts of NATS Holdings Limited.

People

If we are to achieve our operational and financial performance targets it is essential that our employees have a clear understanding of our business direction and strategy. For this reason, the NATS Executive team visited every unit in a series of road shows to explain our priorities and to hear what staff have to say about NATS. As a direct result of those meetings, we will be revising our purpose and values over the summer to make these more engaging for staff. Enhancing this personal and direct dialogue is key to helping all our people to understand better how NATS works as a business, the constraints under which NATS operates and the people flexibility that will be essential to our future success. New thinking about how we continue to deliver performance improvements will be required from every team member in order to continue to improve our performance and meet customer expectations.

We are also thinking differently about how we deliver ATC and technical training to our customers and, in time, to our operational staff. This year NATS endorsed a Foundation Degree in Air Traffic Management at Kingston University which forms the first two years of a BSc in Aviation Studies. The course is only available to trainees of NATS customers and in the future may also be available to NATS trainees. NATS is teaching specific modules of the degree programme combining academic rigour with workplace learning. The programme will give students external recognition of their qualifications and an excellent grounding to become controllers of the future. The first students on the programme are from Avinor, the Norwegian ANSP.

NATS has been active in supporting young people interested in STEM subjects (science, technology, engineering and mathematics) through various schemes for some time, and this year we committed to support University Technical College (UTC) Portsmouth. The school will open in September 2017 and will offer 14-19 year old students the opportunity for a technical education alongside their general education. NATS will provide support to the engineering faculty through a variety of means, from direct contribution into the curriculum design to mentoring of students.

Overview of financial and operational performance

	2016 £m	2015 £m
Revenue	**225.7**	225.2
Profit before tax and significant one-off items	**20.3**	37.1
Profit before tax	**22.3**	27.9
Profit after tax	**19.3**	22.1
Dividends	**9.2**	7.5

The company reported a profit before tax of £22.3m (2015: £27.9m), including a significant one-off charge of £5.2m for staff relocation costs and a £7.2m profit on disposal of the Gatwick control tower (2015: significant one-off redundancy costs of £9.2m). Profit before tax and these significant one-off items was £20.3m (2015: £37.1m).

Revenue

Revenue was broadly unchanged at £225.7m (2015: £225.2m) as growth in Engineering income, mainly for support to Aquila, offset the reduction in revenue from Airports (see below).

Operating costs

Operating costs, before significant one-off items, were £206.5m (2015: £189.1m).

	2016 £m	2015 £m
Staff costs	(116.7)	(115.1)
Non-staff costs	(86.4)	(70.3)
Asset related charges	(3.4)	(3.7)
Operating costs before significant one-off items	(206.5)	(189.1)
Redundancy costs	-	(9.2)
Profit on disposal of non-current assets	7.2	-
Relocation costs	(5.2)	-
Operating costs	(204.5)	(198.3)

The increase in staff costs was largely due to higher pension charges following an increase in the accrual rate for the defined benefit pension scheme to 45.4% (2015: 32.5%). This offset the benefit of lower headcount following last year's redundancy programme.

Non-staff costs at £86.4m (2015: £70.3m) were £16.1m higher than the previous year. This mainly reflects the increase in activity to support Project Marshall and windfarms, as well as property charges from airport operators which are passed through. The company also relocated staff following the closure of its office near Heathrow.

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.

Investment revenue

The company earned £1.1m (2015: £1.0m) from interest on bank deposits and its loan to NERL, a fellow NATS subsidiary.

NATS Airports

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.

	2016	2015
Financial performance:		
Revenue (£m)	173.4	190.1
Service line contribution (£m)	40.0	61.2
Capital expenditure (£m)	1.0	0.3
Operational performance:		
Airports served: UK (no.)	15*	16
Airports served: Overseas (no.)	10	10
Risk-bearing airprox (no.)	nil	nil

* served in the year. Gatwick transitioned out in March 2016 and transfers to NATS were: two military airfields (in April 2016) and Belfast City (in July 2016)

During the year we provided ATC and related engineering services to 14 UK airports, to the military's airfield at Wattisham and to Gibraltar. In addition, our FerroNATS joint venture managed ATC services at nine airports in Spain. We renewed or won a number of important airport contracts in the year (see page 2) as well as Sumburgh approach radar and East Shetland basin ATC and engineering services.

In March 2016 we transitioned ATC operations smoothly to the new provider at Gatwick. We took over the ATC service at RAF Netheravon and RAF Middle Wallop in April 2016 and George Best Belfast City is expected to transition in July 2016.

Revenue at £173.4m (2015: £190.1m) was £16.7m lower than the previous year. This mainly reflected price reductions and the loss of contracts with Birmingham (from April 2015) and Gatwick (from March 2016). Revenue reduction and higher staff pension costs were the principal reasons for the lower service line contribution of £40.0m (2015: £61.2m).

NATS Engineering

	2016	2015
Financial performance:		
Revenue (£m)	31.7	17.3
Service line contribution (£m)	3.7	4.1
Capital expenditure (£m)	1.0	0.2
Significant milestones:		
TBS Heathrow (Full Operational Service)		May
27R Enhanced Instrument Landing System at Heathrow		August
27L Enhanced Instrument Landing System at Heathrow		September
Electronic flight progress strips at Newcastle		September
VHF Radio Communications System at RAF Shawbury		January
Frodsham (Mersey) Windfarm Mitigation Radar		March

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

This year we deployed TBS and an eILS at Heathrow airport (see page 2). We also worked with Newcastle airport to install electronic flight progress strips into its ATC operation, improving efficiency and reducing controller and pilot workload, and fully integrating its operation into the en route network.

We continue to support windfarm operators and agreed turbine mitigation services for Tormywheel Wind Farm that will see a new radar system at Edinburgh airport and surveillance solutions for Frodsham Wind Farm at both Chester and Liverpool airports.

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

Revenue at £31.7m was £14.4m higher than the previous year (2015: £17.3m). This mainly reflected engineering support provided to the Aquila joint venture for its Project Marshall contract, including radio communications at RAF Shawbury. Service line contribution of £3.7m was £0.4m lower than last year (2015: £4.1m) largely reflecting lower margins on contracts.

Other NATS Service lines

	2016	2015
Financial performance:		
Revenue (£m)	20.6	17.8
- Other UK business	*11.9*	*13.2*
- International	*8.7*	*4.6*
Service line contribution (£m)	(1.2)	3.8
- Other UK business	*(1.1)*	*3.7*
- International	*(0.1)*	*0.1*
Capital expenditure (£m)	1.0	0.7
Secured order value:		
UK contracts (£m)	47.5	40.2
Overseas contracts (£m)	5.5	5.8

Other NATS Service lines include other UK business, providing information and consultancy services to customers in the UK, and International which mainly represents our operations in the Asia Pacific and Middle East regions.

The major part of other UK business revenue is derived from the production of aeronautical data for future flight efficiency, services to windfarm developers and to help improve airport performance, an area of increasing focus for our customers.

We are uniquely placed to source and integrate traffic, weather and aeronautical data to provide value-adding data services to aircraft operators, an area where we are seen by customers as highly credible. We are implementing a new aeronautical data quality compliant platform in conjunction with Avinor and Borealis partners.

Other UK business revenue at £11.9m (2015: £13.2m) was lower than the prior year, mainly reflecting reduced information services. Overall these activities generated a loss of £1.1m (2015: £3.7m contribution) reflecting higher contract support and business development costs.

International revenues have grown to £8.7m (2015: £4.6m), with the Asia Pacific region performing better than expected. We are finding fewer opportunities in the Middle east at the moment. At a service line contribution level our International activities are reporting a loss of £0.1m (2015: £0.1m contribution) as we continue to build our presence in these regions.

Outlook for 2017

We expect our revenue next year to be broadly in line with 2016, with increased revenue from support to Aquila offsetting further price reductions and the loss of airport ATC contract income. However, we expect profit to be lower due to reduced margins.

Balance sheet

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

	2016	2015
	£m	£m
Intangible fixed assets	2.7	2.9
Property, plant and equipment	9.6	10.1
Investments	2.4	2.4
Loan to fellow subsidiary	22.5	22.5
Cash	147.7	152.8
Other net assets/(liabilities)	0.9	(6.9)
Pension scheme deficit	(15.4)	(71.1)
Net assets	170.4	112.7

The change in financial position since the start of the year reflects an improvement in the accounting measurement of the defined benefit pension scheme IAS19 funding position (net of related deferred tax) and retained earnings.

The movement in intangible and tangible fixed assets in the year represented additions of £3.0m, net of depreciation and amortisation charges of £3.7m.

Other net assets increased by £7.8m to £0.9m (2015: net liabilities of £6.9m) principally reflecting an increase in working capital, increased loans to joint ventures, and a decrease in the corporation tax liability offset by a decrease in the deferred tax asset associated with the change in defined benefit pension scheme (see below).

Defined benefit pensions

a. Accounting position under IAS 19

At 31 March 2016, 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 (£944.2m) exceeding assets (£928.8m) by £15.4m (2015: £71.1m).

Defined benefit scheme liability	£m
At 1 April 2015	(71.1)
Charge to income statement	(31.4)
Actuarial gains/(losses):	
- on scheme assets	(52.5)
- on scheme liabilities	111.2
Employer contributions*	28.4
At 31 March 2016	(15.4)
Represented by:	
Scheme assets	928.8
Scheme liabilities	(944.2)
Deficit	(15.4)

* including salary sacrifice

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. The IAS19 accounting standard requires discount rates for valuing pension obligations to be based on AA corporate bonds. Since 2015 the yield (in real terms) on these has increased by 35 basis points, leading to a corresponding reduction in pension liabilities. Asset values were broadly unchanged from the prior year.

b. Funding valuation and future funding obligations

The funding of the defined benefit scheme is subject to agreement between the company's parent (as the employer) and the scheme's independent Trustees and is determined based on the conclusion of each triennial valuation conducted by the Trustees. This valuation uses a wide range of assumptions for measuring pension liabilities and legislation requires a margin for prudence. As a result the triennial valuation gives rise to a different valuation than that disclosed under international accounting standards.

The NATS group's last triennial valuation was as at 31 December 2012 and reported a deficit of £382.6m for the NATS group. NATS Services' share of this deficit is c. £92m. The contributions agreed with Trustees included an 11-year deficit recovery plan. The company's share of these deficit repair payments were £6.4m in the 2014, £6.8m in the 2015 and are £7.0m in the 2016 calendar years. In addition, 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 £3.2m (2015: £3.5m), the company's contributions in the year of £25.2m (2015: £29.4m) represented 41% of pensionable pay (2015: 45.0%).

The Trustees are now undertaking their next triennial valuation as at 31 December 2015 and are expected to complete this valuation in the final calendar quarter of 2016. The company expects that this will report a materially larger deficit compared with the results of the 31 December 2012 triennial valuation and the accounting basis for measuring the funding position in our accounts. This will lead to higher pension contributions which the company has adequate resources to finance and which are taken into account in dividend distribution policies.

Cash flow

Overall, the company's cash balances decreased by £5.1m in the year to £147.7m (2015: £152.8m).

	2016 £m	2015 £m
Net cash from operating activities	**2.2**	26.8
Net cash generated from/(used in) investing activities	**1.9**	(0.5)
Net cash used in financing activities	**(9.2)**	(7.5)
(Decrease)/increase in cash and cash equivalents	**(5.1)**	18.8
Cash and cash equivalents at end of year	**147.7**	152.8

Net cash from operating activities at £2.2m was £24.6m lower than 2015

(2015: £26.8m). This reflects lower revenue receipts from Airports and Engineering contracts and higher operating expenditure partly offset by lower redundancy payments and lower contributions to the defined benefit pension scheme from 1 January 2015 (reflecting the cap on pensionable pay rises and the Trustees' decision to move to CPI-linked indexation of future service).

There was a net cash inflow from investing activities of £1.9m (2015: £0.5m outflow) and outflows of £9.2m (2015: £7.5m) from financing activities, for dividend payments.

Our priorities for 2017

- Provide safe and resilient air traffic services from our airports and centres.
- Achieve a Mode-S Surveillance radar capability for Project Marshall.
- Establish a remote tower capability for airport ATC operations.
- Establish further strategic partnerships with our airport customers.

Guy Adams
Commercial Director

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 exposure. Risks are reviewed and re-assessed regularly and reflect the Board's assessment as at the date of this report. The list is not intended to be exhaustive.

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

Safety: the risk of an aircraft accident

A loss of separation attributable to NATS Services that results in an accident in the air or on the ground would significantly impact NATS and its reputation as a provider of safe air traffic services. This could result in 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 further embed our safety culture across the organisation and to mitigate safety risk, NATS operates and continues to refine and develop its strategic plan for safety and maintains a safety risk management system. The latter includes investigations and reviews of operational performance and individual incidents to identify and respond to contributors of safety risk.

Maintaining continuous operations

a. 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.

b. 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.

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 are linked to the Consumer Prices Index. The Trustees are undertaking a formal triennial valuation of the funding of the defined benefit scheme as at 31 December 2015. The company expects this to report an increase in the funding deficit and for additional contributions to be necessary. The company has adequate financing arrangements and cash reserves in place to cover reasonably anticipated increases in contributions to the end of 2019.

Industry outlook and the impact of the UK's referendum on Europe

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.

If the United Kingdom (UK) votes to remain in a reformed European Union (EU), we do not anticipate a significant impact on the company's activities or business risks from the changes agreed with EU partners.

If the UK votes to leave the EU, in the longer-term, the impact of this decision depends to a large extent on the type of relationship that is forged between the UK and the EU. However, we do not expect that it will have a significant impact on the company's activities. However, in the shorter-term the initial uncertainty and market volatility that might result (e.g. exchange rates) could affect the demand for air travel and therefore our future revenue.

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 EC SES Regulations. If conditions are not met TANS are subject to economic regulation. Last year the UK made its submission to the EC on the existence of SES market conditions for TANS. The

Commission's decision on this is awaited.

Security: electronic and other external and internal threats
Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, could damage our assets or otherwise significantly impact on our service performance. NATS seeks to mitigate these risks through its business continuity controls, staff awareness training and cyber and physical security processes and procedures, including monitoring political stability and security risks in countries where it conducts its business. The company is continuing to enhance its cyber-security processes and controls. The company maintains a close liaison with the majority of Home Office Constabularies as well as Government security agencies and departments including security advice from the Centre for the Protection of National Infrastructure.

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. NATS has been negotiating with its recognised trades unions on a one year pay offer for 2016. Results of the customary ballot on this will be known in July.

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 Strategic report was approved by the Board of directors on 20 June 2016 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 2016.

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 £6.1m (£61.00 per share) and £3.1m (£31.00 per share) were paid (2015: £7.5m). The Board recommends a final dividend for the year of £nil (2015: £nil).

In May 2016, the Board approved and the company paid an interim dividend of £1.0m (£10.00 per share) for the year ending 31 March 2017.

Directors and their interests

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

Guy Adams (appointed 1 February 2016)
Richard Deakin (resigned 18 May 2015)
Nigel Fotherby
Catherine Mason (resigned 31 March 2016)
Martin Rolfe (appointed 18 May 2015)

None of the directors had any interests in the share capital of the company.

The following directors held interests in ordinary shares of the company's ultimate parent undertaking NATS Holdings Limited at 31 March 2016:

Guy Adams	3,077
Nigel Fotherby	2,777
Martin Rolfe	300

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.

Going concern and subsequent events

The directors' assessment of going concern is explained in the financial statements on page 34. Subsequent events are disclosed in note 27 to the financial statements.

Directors' responsibilities

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

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

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

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

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

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

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

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

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 was appointed as auditor at the Annual General Meeting on 31 July 2015. A resolution to re-appoint BDO LLP will be proposed at the Annual General Meeting.

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

Richard Churchill-Coleman
Secretary
20 June 2016

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 2016 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 auditor

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 2016 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.

NS

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
20 June 2016

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

Income statement
for the year ended 31 March

		2016			2015		
	Notes	Result before significant one-off items £m	Significant one-off items £m	Result for the year £m	Result before significant one-off items £m	Significant one-off items £m	Result for the year £m
Revenue	4	225.7	-	225.7	225.2	-	225.2
Staff costs	7	(116.7)	-	(116.7)	(115.1)	(9.2)	(124.3)
Services and materials		(39.1)	-	(39.1)	(28.2)	-	(28.2)
Repairs and maintenance		(9.5)	-	(9.5)	(8.5)	-	(8.5)
Depreciation, amortisation and impairment	6	(3.7)	-	(3.7)	(4.1)	-	(4.1)
Profit on disposal of non-current assets		-	7.2	7.2	-	-	-
Other operating charges		(37.8)	(5.2)	(43.0)	(36.7)	-	(36.7)
Other operating income	6	-	-	-	3.1	-	3.1
Deferred grants released	6	0.3	-	0.3	0.4	-	0.4
Net operating costs		(206.5)	2.0	(204.5)	(189.1)	(9.2)	(198.3)
Operating profit	6	19.2	2.0	21.2	36.1	(9.2)	26.9
Investment revenue	8	1.1	-	1.1	1.0	-	1.0
Profit before tax		20.3	2.0	22.3	37.1	(9.2)	27.9
Tax	9	(4.0)	1.0	(3.0)	(7.7)	1.9	(5.8)
Profit for the year attributable to equity shareholders		16.3	3.0	19.3	29.4	(7.3)	22.1

Statement of comprehensive income
for the year ended 31 March

	Notes	2016 £m	2015 £m
Profit for the year after tax		19.3	22.1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme	23	58.7	(77.1)
Deferred tax relating to items that will not be reclassified subsequently	18	(11.8)	15.5
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of hedging derivatives		0.9	(1.1)
Deferred tax relating to items that may be reclassified subsequently	18	(0.2)	0.2
Other comprehensive income/(loss) for the year, net of tax		47.6	(62.5)
Total comprehensive income/(loss) for the year attributable to equity shareholders		66.9	(40.4)

Balance sheet
at 31 March

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	11	2.7	2.9
Property, plant and equipment	12	9.6	10.1
Investments	25	2.4	2.4
Derivative financial instruments	14	0.1	-
Loan to joint ventures	25	1.4	0.4
Deferred tax asset	18	4.3	16.1
Loan to fellow subsidiary	13	22.5	22.5
Trade and other receivables	13	0.2	0.4
		43.2	54.8
Current assets			
Loan to joint ventures	25	2.4	0.1
Trade and other receivables	13	45.6	38.3
Cash and cash equivalents	15	147.7	152.8
		195.7	191.2
Total assets		238.9	246.0
Current liabilities			
Trade and other payables	16	(38.5)	(46.1)
Provisions	17	(0.3)	(0.3)
Current tax liabilities		(1.1)	(3.1)
Derivative financial instruments	14	(0.2)	(0.1)
		(40.1)	(49.6)
Net current assets		155.6	141.6
Non-current liabilities			
Trade and other payables	16	(12.1)	(10.4)
Provisions	17	(0.8)	(1.2)
Retirement benefit obligations	23	(15.4)	(71.1)
Derivative financial instruments	14	(0.1)	(1.0)
		(28.4)	(83.7)
Total liabilities		(68.5)	(133.3)
Net assets		170.4	112.7
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		(0.1)	(0.8)
Other reserves		-	0.2
Retained earnings		170.4	113.2
Total equity		170.4	112.7

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 20 June 2016 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 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
At 1 April 2015	0.1	(0.8)	0.2	113.2	112.7
Profit for the year	-	-	-	19.3	19.3
Other comprehensive income/(loss) for the year	-	0.7	(0.2)	47.1	47.6
Total comprehensive income/(loss) for the year	-	0.7	(0.2)	66.4	66.9
Dividends paid	-	-	-	(9.2)	(9.2)
At 31 March 2016	0.1	(0.1)	-	170.4	170.4

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

Cash flow statement
for the year ended 31 March

	Notes	2016 £m	2015 £m
Net cash from operating activities	20	2.2	26.8
Cash flows from investing activities			
Interest received		1.1	1.0
Purchase of property, plant and equipment and other intangible assets		(3.2)	(1.6)
Proceeds from disposal of property, plant and equipment		7.4	-
Investment in subsidiaries		(0.1)	-
Investment in joint ventures		-	(0.1)
(Loan to)/repayment from joint ventures		(3.3)	0.2
Net cash inflow/(outflow) from investing activities		1.9	(0.5)
Cash flows from financing activities			
Dividends paid		(9.2)	(7.5)
Net cash outflow from financing activities		(9.2)	(7.5)
(Decrease)/increase in cash and cash equivalents during the year		(5.1)	18.8
Cash and cash equivalents at 1 April		152.8	134.0
Cash and cash equivalents at 31 March		147.7	152.8

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 statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and therefore the company financial statements comply with Article 4 of the EU IAS Regulation. The financial information has also been prepared in accordance with IFRSs.

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 19, on employee contributions in defined benefit plans. These amendments were to clarify how contributions from employees or third parties that are linked to service should be attributed to periods of service. The adoption of these amendments 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 16: *Leases*

IAS 1 (amendments): *Disclosure Initiative*

IAS 7 (amendments): *Disclosure Initiative*

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

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

IFRS 9: *Financial Instruments* deals with classification, measurement and derecognition of financial assets and financial liabilities, hedge accounting and introduces a new expected loss impairment model. The standard is expected to have one main impact on the company: the adoption of the expected loss impairment model in assessing the fair value of trade and contract receivables. 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 to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 2018. The company has started to review all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

IFRS 16: *Leases* specifies how a group will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for reporting periods beginning on or after 1 January 2019. The company has started to review all existing leases to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective 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); 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 attributed 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.

Significant one-off items

Significant one-off items are deemed as such by the directors by virtue of their nature or size. These 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 weighted average cost of capital.

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 Act 2015 which was enacted on 26 March 2015, the corporation tax rate was reduced to 20% with effect from 1 April 2015 and under the Finance (No.2) Act 2015 which was enacted on 18 November 2015, the corporation tax rate will be reduced to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate.

Foreign currency translation

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing 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 23. 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.

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 23 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 a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2016.

4. Revenue

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

	2016 £m	2015 £m
Airports	173.4	190.1
Engineering	31.7	17.3
Other UK Business	11.9	13.2
International	8.7	4.6
	225.7	225.2
Other operating income	-	3.1
Investment revenue (see note 8)	1.1	1.0
	226.8	229.3

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 provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is £nil (2015: £nil).

5. Business and geographical segments

Operating segments

The NATS Executive team is considered to be the chief operating decision maker as defined by IFRS 8. The segmental analysis is based on the information that the Executive team uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The business is organised into service lines, each providing a core set of products and services to our customers: Airports, Engineering, Other UK business and International.

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), employee share scheme costs, redundancy and relocation costs, the cost of investing in business growth, and profit/(loss) on disposal of non-current assets. A reconciliation of service line contribution to operating profit is set out below.

Principal activities

The following table describes the activities for each operating segment:

Airports	The provision of air traffic control and airport optimisation services at UK and international airports and engineering support services provided to contract airports.
Engineering	The provision of engineering services to other airport operators, construction companies and Air Traffic Management (ATM) industry suppliers, integrating new ATM infrastructure and new airports.
Other UK business	Other services provided to UK customers including: defence services, providing a range of services to UK MOD; consultancy, offering airspace development, capacity improvement and training; and Information, providing data to enable future efficiency and flight optimisation.
International	The provision of air traffic control and related services (including consultancy, engineering, training and information services) to overseas customers.

A change to the service line management reporting structure was introduced from 1 April 2015. This reports International as a separate operating segment. As a result the previous period comparatives for the year ended 31 March 2015 have been presented on a consistent basis.

Segment information about these activities is presented below.

Revenue

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

	2016			2015		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Airports	161.2	12.2	173.4	176.4	13.7	190.1
Engineering	29.8	1.9	31.7	15.4	1.9	17.3
Other UK business	6.5	5.4	11.9	7.7	5.5	13.2
International	6.3	2.4	8.7	4.1	0.5	4.6
	203.8	21.9	225.7	203.6	21.6	225.2

Intercompany revenue includes revenue for services to NATS (En Route) plc of £19.2m (2015: £21.2m), NATS (USA) Inc of £0.2m (2015: £0.1m), NATS Services DMCC of £0.5m (2015: £0.3m) and NATS Services (Asia Pacific) Pte. Limited of £2.0m (2015: £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:

	2016 £m	2015 £m
Airports	40.0	61.2
Engineering	3.7	4.1
Other UK business	(1.1)	3.7
International	(0.1)	0.1
Service line contribution	42.5	69.1
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(3.4)	(3.7)
Profit on disposal of non-current assets	7.2	-
Employee share scheme costs	0.1	-
Redundancy and relocation costs	(6.1)	(10.2)
Cost of investment in business growth	-	(6.6)
Other costs not directly attributed to service lines	(19.1)	(21.7)
Operating profit	21.2	26.9

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:

	2016 Airport air traffic services £m	2016 Miscellaneous services £m	2016 Total £m	2015 Airport air traffic services £m	2015 Miscellaneous services £m	2015 Total £m
Revenue	161.2	64.5	225.7	175.5	49.7	225.2
Costs (net)	(136.5)	(68.0)	(204.5)	(145.7)	(52.6)	(198.3)
Operating profit	24.7	(3.5)	21.2	29.8	(2.9)	26.9

Geographical segments

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

	2016 £m	2015 £m
UK	218.4	218.5
Rest of Europe	1.5	2.8
Africa and Middle East	1.3	2.7
Asia	4.1	0.7
Other	0.4	0.5
Total	225.7	225.2

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £2.4m (2015: £2.8m) which the company holds in overseas entities (see note 25). 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 £56.5m (2015: £79.0m) which arose from the company's largest customer.

6. Operating profit

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

a) Significant one-off items

During the year ended 31 March 2015, the company announced a restructuring of its activities, which included a voluntary redundancy programme and the closure of a site and the redeployment of staff. These redundancy and relocation costs are considered to be significant one-off items and have been shown separately in the income statement. In addition, the profit recorded on the disposal of the Gatwick Control Tower is considered to be a significant one-off item and has also been shown separately in the income statement.

	2016 £m	2015 £m
Voluntary redundancy costs associated with restructuring	-	9.2
Relocation costs from Heathrow to the Corporate Technical Centre	5.2	-
Profit on disposal of Gatwick Control Tower building	(7.2)	-
	(2.0)	9.2

Redundancy costs include pension augmentation costs, see note 7a.

b) Other items

	2016 £m	2015 £m
CAA regulatory charges for safety regulation at airports	3.1	3.2
Other voluntary redundancy costs	0.6	0.6
Other relocation costs	0.3	0.4
Depreciation of property, plant and equipment	2.5	2.9
Amortisation of intangible assets	1.2	1.2
Deferred grants released	(0.3)	(0.4)
Compensation on contract termination	-	(3.1)
Auditors remuneration for audit services (see below)	-	-

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

The company incurs voluntary redundancy costs in the normal course of business. Redundancy costs include pension augmentation costs, see note 7a.

c) Transactions with group companies

	2016 £m	2015 £m
Net charges for services provided by parent undertaking	2.3	2.7
Charges for services provided by other group companies	26.3	22.0

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 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 (including all taxes and social security, redundancy and pension costs) together with appropriate staff related costs and expenses and disbursements. 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. NATS Services DMCC provides support to NATS Services contracts in the Middle East.

7. Staff costs

a) Staff costs

	2016 £m	2015 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	75.0	88.9
Social security costs	8.4	8.7
Pension costs (note 7b)	33.8	26.8
	117.2	124.4
Less: amounts capitalised	(0.5)	(0.1)
	116.7	124.3

Wages and salaries include a credit of £0.2m for redundancy subsequently settled as pension contributions (2015: £9.8m redundancy costs), share based payment charges, other allowances and holiday pay. Pension costs include £0.8m (2015: £nil) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

b) Pension costs

	2016 £m	2015 £m
Defined benefit pension scheme costs (note 23)	31.4	24.6
Defined contribution pension scheme costs (note 23)	2.4	2.2
	33.8	26.8

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

c) Staff numbers

The monthly average number of employees (including executive directors) was:	2016 No.	2015 No.
Air traffic controllers	495	555
Air traffic service assistants	141	156
Engineers	136	144
Others	229	238
	1,001	1,093

8. Investment revenue

	2016 £m	2015 £m
Interest on bank deposits	0.8	0.6
Interest receivable from intercompany loans	0.3	0.4
	1.1	1.0

9. Tax

	2016 £m	2015 £m
Corporation tax		
Current tax	2.5	5.3
Adjustments in respect of prior year - UK taxation	0.1	-
Non UK taxation	0.6	-
Adjustments in respect of prior year - non UK taxation	0.5	-
Double taxation relief prior year adjustment	(0.5)	-
	3.2	5.3
Deferred tax (see note 18)		
Origination and reversal of temporary timing differences	(0.1)	0.4
Adjustments in respect of prior year	(0.2)	-
Effect of tax rate change on opening balance	0.1	0.1
	(0.2)	0.5
	3.0	5.8

Corporation tax is calculated at 20% (2015: 21%) 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:

	2016 £m	%	2015 £m	%
Profit on ordinary activities before tax	22.3		27.9	
Tax on profit on ordinary activities at standard rate in the UK of 20% (2015: 21%)	4.5	20.0	5.9	21.0
Tax effect of change in corporation tax from 20% to 18% (2015: 21% to 20%)	0.1	0.5	0.1	0.2
Tax effect of group relief	-	-	(0.1)	(0.2)
Tax effect of prior year adjustment - current tax	0.1	0.5	-	-
Tax effect of prior year adjustment - deferred tax	(0.2)	(0.9)	-	-
Other permanent differences	-	-	(0.1)	(0.2)
Sale of Gatwick Control Tower building	(1.5)	(6.7)	-	-
Tax charge for year at an effective tax rate of 13.4% (2015: 20.8%)	3.0	13.4	5.8	20.8
Deferred tax (charge)/credit taken directly to equity (see note 18)	(12.0)		15.7	

10. Dividends

	2016 £m	2015 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of £61.00 (2015: £50.00) per ordinary share	6.1	5.0
Second interim dividend of £31.00 (2015: £25.00) per ordinary share	3.1	2.5
	9.2	7.5

In May 2016, the Board approved and the company paid an interim dividend for the year ending 31 March 2017 of £10.00 per share (totalling £1.0m).

11. Intangible assets

	Operational Software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 2014	4.5	0.8	0.4	5.7
Additions externally acquired	-	0.5	0.5	1.0
Other transfers during the year	-	0.1	(0.1)	-
At 1 April 2015	4.5	1.4	0.8	6.7
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.1	0.8	0.9
Other transfers during the year	-	0.5	(0.5)	-
At 31 March 2016	4.5	2.0	1.2	7.7
Accumulated amortisation				
At 1 April 2014	2.1	0.5	-	2.6
Charge for the year	1.1	0.1	-	1.2
At 1 April 2015	3.2	0.6	-	3.8
Charge for the year	0.8	0.4	-	1.2
At 31 March 2016	4.0	1.0	-	5.0
Carrying amount				
At 31 March 2016	0.5	1.0	1.2	2.7
At 31 March 2015	1.3	0.8	0.8	2.9

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

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 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 1 April 2015	0.1	10.0	34.9	3.0	0.3	48.3
Additions during the year	-	-	0.8	-	1.2	2.0
Disposals during the year	-	(5.1)	(5.1)	(0.1)	-	(10.3)
At 31 March 2016	0.1	4.9	30.6	2.9	1.5	40.0
Accumulated depreciation and impairment						
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 1 April 2015	0.1	9.7	26.1	2.3	-	38.2
Provided during the year	-	0.2	1.7	0.6	-	2.5
Disposals during the year	-	(5.1)	(5.1)	(0.1)	-	(10.3)
At 31 March 2016	0.1	4.8	22.7	2.8	-	30.4
Carrying amount						
At 31 March 2016	-	0.1	7.9	0.1	1.5	9.6
At 31 March 2015	-	0.3	8.8	0.7	0.3	10.1

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

13. Financial and other assets

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

Trade and other receivables

	2016 £m	2015 £m
Non-current		
Loan to fellow subsidiary (interest bearing)	22.5	22.5
Trade and other receivables		
Prepayments	0.2	0.2
Accrued income	-	0.2
	0.2	0.4
Current		
Trade and other receivables		
Receivable from customers gross	20.9	26.0
Allowance for doubtful debts	(0.3)	(0.5)
	20.6	25.5
Amounts recoverable under contracts	0.6	0.6
Prepayments	7.8	7.5
Amounts due from subsidiary undertakings (non-interest bearing loans repayable on demand)	5.5	2.1
Accrued income	11.1	2.6
	45.6	38.3

The average credit period taken on sales of services is 33 days (2015: 31 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.3m (2015: £0.5m). This amount has been determined by reference to past default experience. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

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.

Ageing of past due but not impaired trade receivables

	2016 £m	2015 £m
30 - 90 days	0.1	0.4
91 - 365 days	0.1	0.2
> 365 days	0.2	0.1
	0.4	0.7

Movement in the allowance for doubtful debts	2016 £m	2015 £m
Balance at the beginning of the year	0.5	0.5
Amounts written off as recoverable	(0.2)	-
Balance at end of year	0.3	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 (2015: £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	2016 £m	2015 £m
31 - 90 days	-	0.2
91 - 365 days	-	0.3
> 365 days	0.3	-
	0.3	0.5

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

At 31 March 2016, NATS Services provided unsecured loans totalling £22.5m to NERL (2015: £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 1.1% (2015: 1.6%).

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 £211.8m (2015: £206.8m).

14. Derivative financial instruments

Fair value of derivative financial instruments

	2016 £m	2015 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	-
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	(0.1)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.1)	(1.0)

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, to meet its obligations to its customers, to fund business opportunities as they arise and to fund returns to shareholders.

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 were as follows:

	2016 £m	2015 £m
Financial assets		
Loans and receivables, excluding prepayments	64.1	54.0
Cash and cash equivalents and short term investments	147.7	152.8
Derivative financial instruments in designated hedge accounting relationships	0.1	-
	211.9	206.8
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.3)	(1.1)
Other financial liabilities at amortised cost	(33.6)	(36.6)
	(33.9)	(37.7)

Other financial liabilities at amortised cost includes trade and other payables (excluding deferred income of £17.0m (2015: £19.9m)) and amounts owed to other group undertakings.

Financial risk management objectives

The NATS group's treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the 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 2016.

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

The company enters into contracts for the purchase and sale of goods and services with overseas suppliers and customers who operate in foreign currencies. To mitigate currency risk the contract value is hedged when a firm commitment arises, either through the use of forward foreign currency contracts or by purchasing foreign currency at spot rates on the date the commitment arises or by setting aside already available foreign currency.

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

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

	Assets		Liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
Euro	0.1	1.0	(0.7)	(2.6)
Canadian dollar	0.3	0.3	-	(0.2)
Hong Kong dollar	-	-	(0.2)	-
Kuwaiti dinar	0.6	0.3	-	-
Norwegian krone	0.2	0.1	(0.2)	-
Omani rial	-	0.4	-	-
Philippine peso	0.2	-	-	-
Qatari riyal	0.2	0.3	-	-
Singapore dollar	0.5	0.1	-	-
UAE dirham	0.9	0.7	-	-
US dollar	0.5	0.5	(0.1)	(0.1)
	3.5	3.7	(1.2)	(2.9)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £1.1m at 31 March 2016 (2015: £0.6m) in euro, Canadian dollars, Kuwaiti dinar, Qatari riyals, Norwegian krone and US dollars. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods. These contracts are not reflected on the balance sheet but are reported in the table below.

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

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

Currency	2016 Impact £m	2015 Impact £m
Euro	(1.1)	(1.2)
Canadian dollar	(0.1)	-
Kuwaiti dinar	(0.1)	-
Singapore dollar	(0.1)	-
UAE dirham	(0.1)	(0.1)
US dollar	-	(0.1)
	(1.5)	(1.4)

The company's sensitivity to the euro decreased during the year reflecting a net increase in euro monetary assets and a net increase in euro denominated forward contracts taken out to hedge future payments mainly relating to Project Marshall. Exposure to other currencies has remained fairly constant. NATS Services believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

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.

The following contracts were outstanding at year end:

2016 Euro bought	€m	£m	Average exchange rate	2015 Euro bought	€m	£m	Average exchange rate
1 - 90 days	0.6	0.5	0.7890	1 - 90 days	3.0	2.2	0.7349
91 - 365 days	12.8	10.3	0.8081	91 - 365 days	0.6	0.5	0.8056
> 365 days	2.5	2.0	0.8244	> 365 days	13.8	11.2	0.8124
	15.9	12.8	0.8100		17.4	13.9	0.7988

Euro sold	£m	€m	Average exchange rate
1 - 90 days	0.3	0.4	0.7382
91 - 365 days	0.1	0.2	0.7417
> 365 days	0.5	0.6	0.7524
	0.9	1.2	0.7459

Canadian dollar bought	CAD m	£m	Average exchange rate
91 - 365 days	1.6	0.8	1.9915

Norwegian krone sold	£m	NOK m	Average exchange rate
1 - 90 days	0.1	0.9	12.378
91 - 365 days	0.0	0.8	12.376
	0.1	1.7	12.377

At 31 March 2016, the aggregate amount of the unrealised loss under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.2m (2015: £1.1m). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement 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 2016 or 31 March 2015 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2016 Amount £m	2016 Economic interest rate %	2016 Average maturity days	2015 Amount £m	2015 Economic interest rate %	2015 Average maturity days
Sterling	146.6	0.5	14.8	152.2	0.5	15.0
Euro	0.1	-	-	0.2	-	-
Canadian dollar	0.2	-	-	0.1	-	-
Kuwaiti dinar	0.5	-	-	0.1	-	-
Norwegian krone	0.1	-	-	0.1	-	-
Qatari riyal	0.1	-	-	-	-	-
US dollar	0.1	-	-	0.1	-	-
	147.7			152.8		

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:

	2016			2015		
	Intercompany loan			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	1.1	183	22.5	1.6	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.

	2016 Impact £m	2015 Impact £m
Cash at bank and short term deposits (2016: £147.7m, 2015: £152.8m)	1.5	1.5
Intercompany loans (2016: £22.5m, 2015: £22.5m)	0.2	0.2
	1.7	1.7

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 13. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's and Fitch Ratings.

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

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

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)	Limit per institution £m
AAA	70.0
AA+	56.0
AA	42.0
AA-	28.0
A+	21.0
A	14.0
A-	10.5

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

	2016			2015		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAA	3	73.1	49.5	3	70.6	46.2
AA-	2	34.6	23.4	2	26.5	17.3
A+	-	-	-	3	33.4	21.9
A	3	21.0	14.2	2	19.0	12.4
A-	1	7.5	5.1	1	3.3	2.2
BBB+	2	11.5	7.8	-	-	-
		147.7	100.0		152.8	100.0

One of the company's investments had been made with an institution that on 31 March 2016 was downgraded by Standard & Poor's to BBB+. This investment was redeemed at the end of the interest period. The remaining deposits of £1.5m with a BBB+ rated institution were held in various current accounts that are not subject to the above investment limits.

15. Financial instruments (continued)

Liquidity risk management

The responsibility for liquidity risk management, the risk that the company will have insufficient funds to meet its obligations as they fall due, rests with the Board of NATS Holdings Limited with oversight provided by the Treasury Committee. The company'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 2016 (31 March 2015: 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 information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

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

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

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

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

Fair value measurements recognised in the balance sheet

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.1	-	0.1	-	-	-	-

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.3)	-	(0.3)	-	(1.1)	-	(1.1)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

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

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

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to 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:

	2016 £m	2015 £m
Current		
Trade payables	2.0	3.9
Amounts due to parent company	21.8	23.7
Amounts due to fellow undertaking	0.9	-
Other payables	1.8	3.1
Accruals and deferred income (including deferred grants)	12.0	15.4
	38.5	46.1
Non-current		
Accruals and deferred income (including deferred grants)	12.1	10.4
	50.6	56.5

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 24 days (2015: 32 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 2015	0.3	1.2	1.5
Utilisation of provision	-	(0.1)	(0.1)
Transfers during the year	(0.3)	-	(0.3)
At 31 March 2016	-	1.1	1.1

	Total £m
Amounts due for settlement within 12 months	0.3
Amounts due for settlement after 12 months	0.8
	1.1

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.

Relocation 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 benefits £m	Financial instruments £m	Other £m	Total £m
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)
At 1 April 2015	(0.2)	(14.2)	(0.2)	(1.5)	(16.1)
(Credit)/charge to income	(0.4)	(0.6)	-	0.8	(0.2)
Charge to equity	-	11.8	0.2	-	12.0
At 31 March 2016	(0.6)	(3.0)	-	(0.7)	(4.3)

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.

	2016 £m	2015 £m
Deferred tax liabilities	-	-
Deferred tax assets	4.3	16.1
	4.3	16.1

19. Share capital

Ordinary shares of £1 each	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
At 31 March 2016 and 31 March 2015	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	2016 £m	2015 £m
Operating profit from continuing operations	21.2	26.9
Adjustments for:		
Depreciation of property, plant and equipment	2.5	2.9
Amortisation of intangible assets	1.2	1.2
Profit on disposal of property, plant and equipment	(7.2)	-
Deferred grants released	(0.3)	(0.4)
Adjustments for pension funding	3.0	(8.3)
Operating cash flows before movements in working capital	20.4	22.3
Decrease in contract work in progress	-	0.3
Increase in trade and other receivables	(3.7)	(6.5)
(Decrease)/increase in trade, other payables and provisions	(4.9)	9.9
(Decrease)/increase in amounts due to other group undertakings	(4.4)	5.7
Cash generated from operations	7.4	31.7
Tax paid	(5.2)	(4.9)
Net cash flow from operating activities	2.2	26.8

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

21. Financial commitments

	2016 £m	2015 £m
Capital commitments contracted but not provided for in the accounts.	2.0	0.1
Minimum lease payments under operating leases recognised in income for the year.	16.2	16.5

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:

	2016 £m	2015 £m
Within one year	14.3	15.5
In the second to fifth years inclusive	17.9	27.6
After five years	6.0	4.8
	38.2	47.9

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

Guarantees

NATS Services has committed to providing its subsidiaries NATS Solutions 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. NATS Solutions Limited had net liabilities at 31 March 2016 of £431 (2015: net assets of £100). NATS Services DMCC had net liabilities at 31 March 2016 of £2.1m (2015: £0.7m). NATS Services (Asia Pacific) Pte Limited had net liabilities at 31 March 2016 of £1.0m (2015: £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 2016 was £5.5m (2015: £4.9m).

22. Share based payments

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

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

Date of share awards	No. employee shares outstanding at 31 March 2016	No. employee shares outstanding at 31 March 2015
Free share awards		
21 September 2001	66,228	79,171
20 October 2003	60,136	72,968
10 September 2004	97,939	116,946
11 January 2008	78,880	95,880
18 September 2009	95,200	117,820
Partnership shares		
1 March 2011	99,440	128,674
1 September 2012	128,043	145,079
30 May 2014	98,120	109,440
Matching shares		
1 March 2011	99,840	129,274
1 September 2012	128,043	145,079
30 May 2014	98,120	109,440
	1,049,989	1,249,771
Dividend shares issued on 28 June 2005	8,000	9,799
Total employee shares in issue at 31 March	1,057,989	1,259,570

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

	Movement in the no. of shares during the year ended 31 March 2016	Movement in the no. of shares during the year ended 31 March 2015
Balance at 1 April	1,259,570	1,236,260
Granted during the year	-	233,100
Forfeited during the year	(1,600)	(4,310)
Exercised during the year	(182,821)	(200,703)
Intercompany share movement	(17,160)	(4,777)
Balance at 31 March	1,057,989	1,259,570

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2016 the price of an employee share was valued at £4.20 (2015: £4.30). A valuation at 30 June 2015 valued the shares at £3.95. The liability on the balance sheet for the employee shares at 31 March 2016 was £4.4m (2015: £5.0m) included in amounts due to parent company. The income statement includes income of £0.1m (2015: £nil). The payments made to employees for the shares they exercised during the year was £0.8m (2015: £0.9m).

23. 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 2016 employer contributions of £1.6m (2015: £1.5m), excluding employee salary sacrifice contributions of £0.8m (2015: £0.7m), represented 14.5% of pensionable pay (2015: 14.1%).

The defined contribution scheme had 199 members at 31 March 2016 (2015: 214).

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 the 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 prices index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners (see above). Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

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

Trustees' funding assessment

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

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 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 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 as 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, £2.2m per month for calendar year 2014 and £2.4m per month for calendar year 2015. These are being paid at £2.4m per month for calendar year 2016 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.

23. Retirement benefit schemes (continued)

During the year the company paid cash contributions to the scheme of £28.4m (2015: £32.9m). This amount included £3.2m (2015: £3.5m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 40.6% (2015: 45.0%) 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 to the scheme during the financial year ending 31 March 2017 is £26.1m, including salary sacrifice contributions estimated at £3.1m.

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 NATS 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 was carried out as at 31 December 2012 was updated to 31 March 2016 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2016	2015	2014
RPI inflation	2.90%	2.95%	3.35%
CPI inflation	1.80%	1.85%	2.35%
Increase in:			
- salaries	1.80%	2.10%	2.60%
- deferred pensions	2.90%	2.95%	3.35%
- pensions in payment	2.90%	2.95%	3.35%
Discount rate for net interest expense	3.65%	3.35%	4.50%

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 2015. These tables assume that the life expectancy, from age 60, for a male pensioner is 29.5 years and a female pensioner is 31.1 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.2 years and for females to 32.9 years.

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

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

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

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

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

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 10.9%/ increase by 12.8%
Rate of inflation	Increase/decrease by 0.5%	Increase by 12.6%/ decrease by 10.9%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.6%/ decrease by 3.4%
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.

23. Retirement benefit schemes (continued)

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

	2016 £m	2015 £m
Current service cost	(28.4)	(25.0)
Past service cost	(0.8)	-
Net interest expense	(1.9)	0.7
Administrative expenses	(0.3)	(0.3)
Components of defined benefit costs recognised within operating profit	(31.4)	(24.6)

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

	2016 £m	2015 £m
Return on plan assets (excluding amounts included in net interest expense)	(52.5)	87.0
Actuarial gains and losses arising from changes in financial assumptions	110.6	(180.6)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	0.6	16.5
	58.7	(77.1)

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

	2016 £m	2015 £m
Present value of defined benefit obligations	(944.2)	(1,017.5)
Fair value of scheme assets	928.8	946.4
Deficit in scheme	(15.4)	(71.1)

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

	2016 £m	2015 £m
At 1 April	(1,017.5)	(809.1)
Current service cost	(28.4)	(25.0)
Past service cost	(0.8)	-
Interest expense on defined benefit scheme obligations	(33.7)	(36.0)
Actuarial gains and losses arising from changes in financial assumptions	110.6	(180.6)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	0.6	16.5
Contributions from scheme members	(0.1)	(0.1)
Benefits paid	25.1	16.8
At 31 March	(944.2)	(1,017.5)

The average duration of the scheme's liabilities at the end of the year is 23.6 years (2015: 24.0 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2016 £m	2015 £m
Active members	555.0	647.5
Deferred members	85.2	73.5
Pensioners	304.0	296.5
	944.2	1,017.5

23. Retirement benefit schemes (continued)

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

	2016 £m	2015 £m
At 1 April	946.4	806.8
Interest income on scheme assets	31.8	36.7
Return on plan assets (excluding amounts included in net interest expense)	(52.5)	87.0
Contributions from scheme members	0.1	0.1
Contributions from sponsoring company	28.4	32.9
Benefits paid	(25.1)	(16.8)
Administrative expenses	(0.3)	(0.3)
At 31 March	928.8	946.4

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

	2016 £m	2015 £m
Cash and cash equivalents	12.2	19.3
Equity instruments		
- UK	68.0	67.5
- Europe	19.1	19.5
- North America	55.8	57.5
- Japan	7.8	8.4
- Pacific (excluding Japan)	23.0	22.5
- Emerging markets	72.9	66.9
- Global	132.6	137.8
	379.2	380.1
Bonds		
- Corporate bonds	177.6	184.0
- Index-linked gilts over 5 years	230.4	232.6
	408.0	416.6
Other investments		
- Property	50.6	52.1
- Hedge funds	40.9	41.9
- Global tactical asset allocation	23.3	23.9
- Private equity funds	26.9	28.8
	141.7	146.7
Derivatives		
- Futures contracts	(12.3)	(16.3)
	928.8	946.4

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 and the 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, the Trustees have also considered further de-risking over time to protect the scheme from the impact of volatility in the value of return-seeking assets. This would involve progressively converting from return-seeking assets into hedging assets to increase the level of matching of the scheme's liabilities. As changing the mix of assets changes the returns achieved, this would impact on contributions payable. Before changing this strategy, NATS and the Trustees are likely to consult with 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 2016 was a loss of £20.7m (2015: gain of £123.7m).

24. Related party transactions

The NATS group has four shareholders - the Crown, The Airline Group Limited (AG), LHR Airports Limited and the NATS Employee Sharetrust Limited. During the year transactions with the Crown have taken place with the Meteorological Office, the Department for Transport (DfT) and the Ministry of Defence (MOD). 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 Limited. The directors of NATS Holdings Limited 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 Heathrow airport. 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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
LHR Airports Limited	56.0	80.2	7.8	8.1	4.7	6.0	-	-
MOD	0.2	4.2	-	-	-	0.5	-	-
Meterological Office	-	-	0.2	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. No provisions (2015: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

The Report of the directors includes details of the directors of the company. The consolidated accounts of NATS Holdings Limited 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 £333,000 (2015: £246,000). The number of directors paid by the company during the year was one (2015: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 £20,000 and contributions from the company of £40,000 totalled £60,000.

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.

	2016 £m	2015 £m
Short term employee benefits	1.6	1.8
Post-employment benefits	0.4	0.4
Other long term benefits	-	0.1
Termination benefits	-	-
	2.0	2.3

25. 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.

FerroNATS Air Traffic Services SA

In January 2011, the company 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 the company purchased an additional €0.4m (£0.3m) of share capital and in December 2012 a further €1.7m (£1.4m), maintaining a 50% holding of the issued share capital. The company provided loan finance of €1.3m (£1.1m) in 2014. Of this, €0.5m (£0.4m) was converted to equity. FerroNATS is a joint venture with Ferrovial Servicios SA. FerroNATS provides air traffic control services at 9 airports across Spain.

During the year FerroNATS repaid loan finance of €0.6m (£0.4m) to the company (2015: €0.2m (£0.1m)). At 31 March 2016, the loan outstanding was €0.1m (£0.1m).

Aquila Air Traffic Management Services Limited

In October 2014, the company 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.

During the year, Aquila drew down loan finance of £3.7m (2015: £nil) from the company.

NATS Services has not presented summarised financial information relating to the year ended 31 March 2016, 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 2016 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 (USA) Inc. and NATS Sverige AB to enable the company to operate in overseas markets. The financial transactions with these subsidiaries have been disclosed in note 5 and note 6 as appropriate. 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 Services LLC	Air Traffic Management Consultancy	70%	70%	Oman	Oman
NATS Sverige AB	Airport air traffic services	100%	100%	Sweden	Sweden

The investment in NATS Services LLC is held by NATS Services DMCC.

The company has provided guarantees in respect of its subsidaries, NATS Solutions Limited, NATS Services DMCC and NATS Services (Asia Pacific) Pte Limited, please refer to note 21 for further details.

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.

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

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

27. Events After the Reporting Period

In May 2016, the Board approved and the company paid an interim dividend for the year ending 31 March 2017 of £10.00 per share (totalling £1.0m).

Explanatory notes

1 From 1 July 2016

2 Project Marshall is a 22 year contract to transform the military's terminal Air Traffic Control technical services. It was initiated by the MOD to modernise ATM for over 100 MOD locations, of which over 60 are airfields or ranges, including overseas. It provides the foundation to deliver efficient and cost effective terminal ATM services and ensures that this capability keeps pace with modern regulatory demands and Single European Sky standards

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