NATS (Services) Limited

Financial statements
Year ended 31 March 2018

Company Number: 04129270

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Company Secretary
Richard Churchill-Coleman

Registered office
4000 Parkway, Whiteley, Fareham,
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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 2018.

Who we are

NATS Services provides air traffic control (ATC) and aviation related services. We manage our activities so as to enable us to offer services and solutions tailored to our customers.

Our core business is UK Airports. This provides ATC to 13 (from April 2018) of the UK's major airports under competitive contract. In addition, we provide engineering support and airport optimisation services to UK airport operators.

Defence provides services to the UK MOD. This is mainly through its support to Aquila, our joint venture with Thales, which is fulfilling the MOD's Project Marshall[1] contracts. Under this contract, we provide ATC services at Gibraltar Airport and to RAF Wattisham, RAF Middle Wallop and RAF Netheravon.

Other UK Business includes Aeronautical Information Management (AIM), design and data services, consultancy and ATC training provided to UK airline customers and other airspace users, such as windfarm operators.

Our International activities focus on the Asia Pacific and Middle East markets and also targets specific international airports and ANSPs. Our FerroNATS joint venture with Ferrovial Servicios, provides a service to nine airports in Spain. Also, we jointly own Searidge Technologies, a Canadian provider of digital tower technology to airports around the world, with NAV CANADA.

In May 2018, we acquired a strategic minority interest in Aireon, which provides satellite-based air traffic surveillance systems with global coverage capable of tracking and monitoring aircraft in real-time.

Review of the year

The company's revenue at £213.8m was 5.3% lower than last year (2017: £225.8m). Income from UK Airports improved by 2.4%, reflecting higher engineering and consultancy income. This was offset by lower income from Defence for support to Aquila's Project Marshall contracts. The service provision contracts are performing well. However, as we reported last year, the asset provision contract faced schedule challenges. Working with our joint venture partner, Thales, and the MOD, we have now agreed a revised delivery schedule with enhanced programme processes to facilitate this. We now expect our element of the asset provision contract to result in a lower level of profitability, and this is reflected in our results. Profit before tax at £2.5m (2017: £17.3m) was £14.8m lower than last year and mainly reflected Project Marshall and higher staff pension related costs. Our financial performance is reviewed in more detail below.

This year we saw a significant growth in the volume of flights and we worked with airport customers to manage the demand particularly through last summer. We maintained our safety

[1] A number of explanatory notes are provided on page 56 of this report

record with no risk-bearing incidents attributable to NATS Services.

Faced with increasing competition for the provision of ATC at UK airports we have been working hard to strengthen this part of our business. By developing close strategic partnerships and using advances in technology to enhance our service and improve price competitiveness, we extended and retained a number of important contracts this year. This year we agreed new ATC and engineering contracts with Belfast International, Farnborough, London City and Luton airports and an engineering contract with Biggin Hill.

Last summer London City Airport announced its intention to move to a digital tower ATC service as part of the development of its airport. From 2020, we will provide this service from NATS' air traffic control centre in Hampshire. A digital tower enables air traffic controllers to manage aircraft from remote facilities instead of in traditional airport towers and, more importantly, allows the tower to be more integrated into the airport operation and the overall network. This technology is already a viable option for some airports and has the potential more generally to transform the way air navigation services at airports are delivered. Since announcing this, we have seen interest from other UK airports wishing to understand this new capability.

As a leading air navigation service provider, it is important that we play a key role in shaping the way this technology is implemented. For this reason we now jointly own alongside NAV CANADA, a 50% interest in Searidge Technologies, a Canadian provider of digital tower capability.

We continued to pursue opportunities for our Defence services and we were disappointed not to be selected by MOD as provider of its Project Guardian solution.

We also made significant progress in developing our presence in Asia Pacific, a strategic market for us. We were awarded a contract to provide the Airport Authority of Hong Kong with air traffic controllers as part of its programme to operate a third runway and, together with Searidge Technologies and other partners, we are now developing a prototype remote digital tower for Singapore's Changi Airport.

More information is provided in the Overview of financial and operational performance section of this report.

Brexit

The outcome of the European Union (EU) referendum decision and the triggering of Article 50 has not had an impact on our business to date.

Our core UK Airports business is generally characterised by long term contracts whose revenue is not directly linked to the volume of flights handled at airports. For this reason, we do not expect a significant impact on the company's activities over the term of these contracts. If the outcome of negotiations results in a significant contraction in the demand for air travel or restricted market access for airlines, there may be some adverse impact on airport operators which might in turn affect the margins for ATC services or the model for provision of ATC (such as digital towers). As noted above, we are continuing to innovate to offer our service cost effectively.

Strategy and business model

The company has two very clear strategic objectives:

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

NATS Services provided ATC services to 14 major UK airports during the year as well as engineering support and airport optimisation services to UK airport operators.

The UK Airports service operates in a contestable market and faces competition from other Air Navigation Service Providers (ANSPs) and airports using an in-house service, making it more challenging to secure contracts. Large UK airports also fall within the scope of European SES regulations.

The company's strategy is to win and retain UK airport 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 developing more compelling propositions for airport operators through value adding innovations in technology, like digital towers, and operations which also deliver improved price performance. Through performance-led strategic partnerships, as we have with Heathrow airport, we can support airport operators to deliver improvements for airlines and therefore a world class passenger experience for the travelling public.

Engineering support services for UK airport customers deliver complex turnkey projects, mainly integrating new infrastructure at airports. Our competence is in maintaining and developing communications, navigation and surveillance solutions. Our principal competitors include systems integrators, equipment manufacturers and specialist engineering consultancies.

Defence represents the provision of ATC and related engineering support and other services to the UK MOD. These services are mainly provided through the Project Marshall contract which is being delivered in partnership with Thales by our Aquila joint venture. Project Marshall is a 22-year concession for the provision of engineering and ATC services and a seven-year asset provision contract to upgrade MOD ATC infrastructure.

Other UK Business includes AIM, design and data services, consultancy and ATC training to airlines and airspace users.

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 offered by other ANSPs and specialist colleges.

While the UK is our core market 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 have offices in Dubai, Hong Kong, 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.

Safety

Safety is embedded in everything we do throughout our organisation and our purpose and our values reflect our commitment to safety. Our safety performance this year was achieved while we continued to make changes to our operation and managed significant traffic growth at many of our airports.

We monitor internal safety performance by application of the Risk Analysis Tool (RAT) which measures the severity and risk of air traffic events. On a 12-month rolling basis to 31 December 2017, our performance generated a RAT score[2] of 23.0 (per 100,000 flights) which was better than our target of 25.3. There were no category A or B Airprox events attributable to NATS Services (2017: nil).

The most significant operational risks we deal with are runway-related events and issues on the ground at airports. To improve runway safety generally, we contributed to the development of a European action plan for the prevention of runway incursions by sharing our experience of high intensity runways in the UK. We delivered a number of technical deployments in the year, including electronic flight progress strips, air ground lighting system and AutoMET (an automatic system to observe and report weather at airports).

The introduction of new technology changes the nature of the operation and it is vital that we learn lessons from the experience of interacting with new tools, managing risks before they lead to incidents.

Regulatory environment

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 European Commission (EC) SES Regulations. If conditions are not met TANS are more heavily monitored and targeted by the EC.

In April 2018, CAA advised the DfT that the UK's terminal air navigation services (TANS) continues to be subject to market conditions under EU legislation.

People

Our People and Organisation Strategy is designed to ensure that our employees have the skills required to deliver today's operational service as well as the talent and capability mix required for the future. This is particularly important as new technology and methods of operation are implemented. We will need to develop and train our existing employees and ensure that we attract, and retain, the range of skills we need for this new environment.

For the last couple of years we have recruited new air traffic controllers (c150 each year) at a faster rate than previously to keep pace with traffic growth and we are training our existing controllers on new technologies as these are being developed.

We also created a series of one-day workshops for managers to help them better communicate with their teams and to improve their understanding of the business and the challenges we face.

Equally important for a high performing business is the wellbeing of every one of our employees. NATS was delighted to be recognised externally with a best new entrant award in Britain's Healthiest Workplace Award and, for the sixth consecutive year, received a gold medal award for health and safety from the Royal Society for the Prevention of Accidents.

Overview of financial and operational performance

	2018 £m	2017 £m
Revenue	213.8	225.8
Profit before tax	2.5	17.3
Profit after tax	2.2	13.8
Dividends	1.0	1.0

Revenue

Revenue at £213.8m (2017: £225.8m) was 5.3% lower than last year. UK Airports revenue was £3.9m higher reflecting higher engineering and consultancy income. This was offset by a decrease in Defence of £15.5m, as the Project Marshall asset provision contract faced schedule challenges. Revenue from Other UK business was £1.0 m lower and International revenue improved by £0.6m.

Operating costs

Operating costs were £213.6m (2017: £209.7m).

	2018 £m	2017 £m
Staff costs	(110.5)	(103.8)
Non-staff costs	(100.0)	(104.2)
Depreciation, amortisation and impairment (net of grants)	(3.1)	(1.7)
Operating costs	(213.6)	(209.7)

Staff costs of £110.5m (2017: £103.8m) were 6.5% higher, mainly reflecting increases for: pension related costs, the apprenticeship levy and national insurance charges and pay awards.

Non-staff costs at £100.0m (2017: £104.2m) were £4.2m lower than the previous year. This mainly reflected the Project Marshall asset provision contract.

Asset depreciation charges, net of grants, increased to £3.1m (2017: £1.7m) and included an impairment charge of £1.1m.

A summary of financial and operational performance by customer group is presented below. The principal financial targets are revenue and contribution. The latter takes account of the operating costs which accountable managers are able to influence directly. A reconciliation of contribution by customer group to the company's operating profit is provided in the notes to the financial statements.

Investment revenue

The company earned £2.3m (2017: £1.2m) from interest on bank deposits, its loan to NERL, and its loans to Aquila and Searidge Technologies.

UK Airports

	2018	2017
Financial performance:		
Revenue (£m)	169.3	165.4
Service line contribution (£m)	26.8	30.2
Capital expenditure (£m)	2.3	3.9
Operational performance:		
Airports served: UK (no.)	14	14
Risk-bearing airprox (no.)	nil	nil
Significant milestones:		
Electronic flight progress strips introduced at Belfast City and Belfast International airports		June
Semi Automatic Meteorological Observation System at Aberdeen airport		June
Replacement of primary communications at Luton and Belfast City airports		December
Enhanced Time Based Separation at Heathrow airport		March
Replacement of all VHF radio systems at Heathrow airport		March

During the year we provided ATC services to 14 UK airports and ATC related engineering services to a further 19 UK airports. A key strategic objective is to win and retain UK airports ATC contracts. Developments in this respect are discussed above. We completed a number of engineering projects in the year including transitioning from paper to electronic flight progress strips at Belfast City and Belfast International. In April 2018 we ensured a smooth hand over of Edinburgh's ATC service to a new provider.

Revenue was 2.4% higher at £169.3m (2017: £165.4m), reflecting better engineering and consultancy income. Service line contribution at £26.8m (2017: £30.2m) was 11.3% lower, mainly reflecting increased staff pay and pension costs.

Defence

	2018	2017
Financial performance:		
Revenue (£m)	20.7	36.2
Service line contribution (£m)	(4.6)	4.9
Capital expenditure (£m)	1.0	0.1
Operational performance:		
Airfields served (no.)	4	4
Significant milestones:		
NATS signed a re-set contract for Project Marshall, setting a new baseline		
RAF Shawbury and Ternhill tower re-fits and commissioned into service		
Seven MOD radio sites commissioned and entered service		
Commission of the ATM equipment relocation project at Aberporth Qinetiq range		

The major source of income for Defence is support provided to the MOD's Project Marshall contract. A new asset provision contract and delivery schedule was agreed with MOD in March and we now expect this element to break-even over its remaining term.

Revenue at £20.7m (2017: £36.2) reflected the schedule challenges facing the asset provision contract. Following a re-assessment of this contract, the loss of £4.6m (2017: £4.9m profit) reflects a reduction in revenue and profit to remove margins recognised in prior years.

Other NATS customers

	2018	2017
Financial performance:		
Revenue (£m)	23.8	24.2
- Other UK business	*12.7*	*13.7*
- International	*11.1*	*10.5*
Service line contribution (£m)	4.8	0.6
- Other UK business	*4.1*	*2.8*
- International	*0.7*	*(2.2)*
Capital expenditure (£m)	1.5	2.5
Operational performance:		
Airports served: Overseas (no.)*	9	9
Secured order value:		
UK contracts (£m)	16.3	34.9
Overseas contracts (£m)	69.1	9.1

* Service provided by our FerroNATS joint venture

Other UK business revenue of £12.7m (2017: £13.7m), mainly from services to wind farm operators, was lower than last year and contributed £4.1m (2017: £2.8m).

International revenues at £11.1m (2017: £10.5m) were £0.6m higher, mainly as a result of revenues from airspace redesign and consultancy contracts. At a contribution level, international activities reported a profit of £0.7m (2017: £2.2m loss). The prior year included costs of developing our business overseas and financing the Dubai subsidiary.

Overseas orders worth £69.1m (2017: £9.1m) were secured this year including a contract to provide air traffic control specialists to the Airport Authority of Hong Kong.

Balance sheet

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

	2018	2017
	£m	£m
Intangible fixed assets	3.9	4.1
Property, plant and equipment	14.3	12.7
Investments	7.6	2.4
Loan to fellow subsidiary	22.5	22.5
Loans to joint ventures (including interest)	19.7	14.9
Other non-current assets	2.6	2.8
Cash	104.0	136.9
Derivatives (net)	(0.3)	(0.4)
Pension scheme surplus/(deficit)	22.8	(71.9)
Deferred tax (liability)/asset	(3.4)	14.0
Other net assets/(liabilities)	16.3	(4.3)
Net assets	210.0	133.7

The increase in net assets in the year mainly reflects an improvement in the funding position of the defined benefit pension scheme, which reported a surplus (see below), as well as retained earnings.

Defined benefit pensions

a. IAS 19 charge and funding position

The cost (including salary sacrifice) of defined benefit pensions at £22.1m (2017: £22.2m) was lower this year even though the company's accrual rate increased to 48.6% (2017: 36.0%) of pensionable pay. The scheme's pensionable payroll reduced significantly as many employees deferred or withdrew from the scheme, for tax reasons or for attractive transfer values, to take up a less costly cash alternative in lieu of a defined benefit pension. The volume of withdrawals (of c£0.2bn; 2017: c£0.1bn) also reduces the cost and risk of the scheme in future.

IAS19 pension surplus	£m
At 1 April 2017	(71.9)
Charge to income statement*	(22.1)
Actuarial gains/(losses):	
- on scheme assets	3.1
- on scheme liabilities	88.2
Employer contributions*	25.5
At 31 March 2018	22.8
Represented by:	
Scheme assets	921.9
Scheme liabilities	(899.1)
Surplus	22.8

* including salary sacrifice

At 31 March 2018, the company's share of the NATS defined benefit scheme was in surplus by £22.8m (2017: £71.9m deficit) as measured under international accounting standards (IAS19) using best estimate assumptions.

The size of the scheme relative to the company, means changes in market conditions can have relatively large impacts on the results and financial position. The real yield on AA corporate bonds used to value pension obligations increased by 20 basis points during the year, which reduced liabilities. Also, the company applied tables of shorter expected life expectancy, based on those that Trustees adopted in their formal valuation at 31 December 2017 (see below), which reduced liabilities.

b. Trustee valuation and 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 Trustees based on the outcome of their formal valuation. This valuation uses a wide range of financial and demographic assumptions for measuring pension liabilities and legislation requires a margin for prudence. As a result, the Trustees' valuation gives a different outcome to the valuation under IAS 19 for the company's financial statements.

The Trustees completed a formal valuation as at 31 December 2017 which reported a funding deficit of £270.4m (NATS Services' economic share of this deficit is c£62m), a reduction of £188.3m from their 2015 valuation: investment returns, deficit contributions and changes in life expectancy offset the impact of lower gilt yields on increasing liabilities. The scheme's actuary also determined that the cost of employee benefits accruing in future was 41.8% of pensionable earnings (excluding salary sacrifice), up from 31.8% in 2015, and contributions will reflect this from January 2020. Trustees have agreed to maintain the recovery plan to repair the deficit by December 2026. This means the company's parent will make deficit contributions of £40.8m and £41.8m in the 2018 and 2019 calendar years and £25.4m from 2020, increasing by 2.37% in each of the following three years. These contributions, with assumed investment out performance, are expected to restore the funding position by December 2026.

NATS Services economic share of these contributions is c23% and will be met from its operating cash flows.

Cash flow

Overall, the company's cash balances decreased by £32.9m in the year to £104.0m (2017: £136.9m).

	2018	2017
	£m	£m
Net cash (outflow)/inflow from operating activitie	**(18.6)**	6.6
Net cash used in investing activities	**(13.3)**	(16.4)
Net cash used in financing activities	**(1.0)**	(1.0)
Decrease in cash and cash equivalents	**(32.9)**	(10.8)
Cash and cash equivalents at end of year	**104.0**	136.9

Net cash from operating activities at (£18.6m outflow) was £25.2m lower than 2017 (2017: £6.6m inflow). This mainly reflected lower cash receipts.

There was a net cash outflow from investing activities of £13.3m (2017: £16.4m) reflecting the investment in Searidge Technologies, loans to the Aquila joint venture and capital investment. Financing cash flows related to dividend payments of £1.0m (2017: £1.0m).

Outlook for 2019

Our results next year will reflect the new revenue recognition standard (IFRS15) which will have minimal impact on profit. Its main effect will be that the recovery of charges from customers for the use of their airport facilities will be netted off operating costs rather than being included in revenue. In addition to this, revenue will reflect the transfer of the Edinburgh contract to another provider. Partly offsetting this will be improved revenue from progress with Project Marshall and our new international contracts, which will also lead to improved profitability overall.

Our priorities for 2019

We set a number of priorities which focus our employees on the year ahead. For 2019 these are to:

- Provide safe and resilient air traffic services from our airports;
- Continue to focus on our people and employee relations; and
- Achieve key milestones to implement digital tower technology at London City and Changi airports.

After these priorities had been communicated to employees, we were awarded a contract to provide the Airport Authority of Hong Kong with air traffic controllers as part of its programme to operate a third runway. This will also be a key focus in 2019.

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 focuses 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. The reputational damage could result in the loss of future contracts and a reduction in revenue.

As a provider of a safety critical service, safety is the company's highest priority. To further embed our existing safety culture across the organisation and to mitigate safety risk, NATS has developed a Strategy for the Future Safety of Air Traffic Management (ATM) and supports this with a three year rolling Safety Plan. NATS also maintains an explicit Safety Management System. The latter includes investigations and reviews of operational safety 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 its customers 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 through an ISO55001 compliant Asset Management system. 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 the value of the scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the funding deficit and result in significant contributions to fund pension benefits.

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. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of the risk reduction strategies. NATS Services maintains adequate cash reserves to meet its share of pension contributions.

The Trustees have completed a formal valuation as at 31 December 2017. This reported a reduction in the funding deficit but with an increase in the cost of future service benefits. Deficit repair contributions will reduce from 1 January 2020.

The directors monitor the funding position of the scheme. The company's cash reserves, its projected operating cash flows and the long term nature of its airport contracts enable the company to meet the contributions required.

Industry outlook and the impact of Brexit

Poor market and economic conditions and political factors 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.

In the short term, the continuing uncertainty over the UK's decision to leave the EU could affect the demand for air travel. Our core UK Airports business is generally characterised by long term contracts whose revenue is not directly linked to the volume of flights handled at airports.

Economic regulation of UK Terminal Air Navigation Services (TANS)

The UK market for TANS is subject to the market conditions test within the EC SES Regulations. If conditions are not met TANS are subject to economic regulation. CAA's advice to the UK Government is that market conditions have been established for RP3. If this is accepted, it remains subject to EC endorsement.

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, employee 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 has enhanced the physical security of its principal sites and is continuing to enhance its cyber security processes and controls. The company maintains a close liaison with the relevant Home Office Constabularies as well as Government security agencies and departments including security advice from the Centre for the Protection of National Infrastructure (CPNI).

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, including joint working groups with union representatives as part of an employee relations improvement project. A people and organisation strategy has been developed to ensure the company has the right mix of skills to meets our strategic objectives.

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.

Non-financial risks

A number of other non-financial and non-operational risks are described in the non-financial reporting statement presented in the annual report of NATS Holdings Limited.

The Strategic report was approved by the Board of directors on 5 July 2018 and signed on its behalf by:

Richard Churchill-Coleman

Secretary

Report of the directors

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 March 2018.

A review of the company's key business developments in the year and an indication of likely future developments is included in the Strategic report.

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

Dividends

The company paid dividends of £1.0m (£10.00 per share) in the year (2017: £1.0m). The Board recommends a final dividend for the year of £nil (2017: £nil).

In May 2018, the Board approved an interim dividend of £1.0m (£10.00 per share) for the year ending 31 March 2019 which was paid to its parent company in June 2018.

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

Nigel Fotherby

Martin Rolfe

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

The following directors held interests in ordinary shares of NATS Holdings Limited, the company's ultimate parent undertaking at 31 March 2018:

Guy Adams	3,401
Nigel Fotherby	3,101
Martin Rolfe	624

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 employees are held by the company's parent company, NATS Limited (NATS). NATS continues its commitment to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee 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 high visibility with employees 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 with the Trades Unions. Formal arrangements for consultation with employees 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 employees, 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 and responsibility for ensuring compliance with both legal requirements and company policy rests with the Safety Director.

Going concern and subsequent events

The directors' assessment of going concern is explained in note 3 to the financial statements. Details of significant events since the balance sheet date are disclosed in note 27 to the financial statements.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws 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 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 it faces; and
- the 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.

Auditor

A resolution to re-appoint BDO LLP as statutory auditor 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
5 July 2018

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

Opinion

We have audited the financial statements of NATS (Services) Limited ("the company") for the year ended 31 March 2018 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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 complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2018 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Strategic report and the Report of the directors. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Report of the directors.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council’s website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

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.

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
5 July 2018

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

Income statement
for the year ended 31 March

	Notes	2018 £m	2017 £m
Revenue	4	213.8	225.8
Staff costs	7	(110.5)	(103.8)
Services and materials		(48.2)	(51.7)
Repairs and maintenance		(3.6)	(5.1)
Depreciation, amortisation and impairment	6	(3.4)	(2.0)
Other operating charges		(48.2)	(47.4)
Deferred grants released	6	0.3	0.3
Net operating costs		(213.6)	(209.7)
Operating profit	6	0.2	16.1
Investment revenue	8	2.3	1.2
Profit before tax		2.5	17.3
Tax	9	(0.3)	(3.5)
Profit for the year attributable to equity shareholders		2.2	13.8

Statement of comprehensive income
for the year ended 31 March

	Notes	2018 £m	2017 £m
Profit for the year after tax		2.2	13.8
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	23	91.3	(60.7)
Deferred tax relating to items that will not be reclassified	18	(16.3)	10.9
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives	14	0.1	(0.2)
Transfer to income statement on cash flow hedges		-	0.5
Other comprehensive income/(loss) for the year, net of tax		75.1	(49.5)
Total comprehensive income/(loss) for the year attributable to equity shareholders		77.3	(35.7)

Balance sheet
for the year ended 31 March

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	11	3.9	4.1
Property, plant and equipment	12	14.3	12.7
Investments	25	7.6	2.4
Loan to joint ventures	25	19.7	14.9
Deferred tax asset	18	-	14.0
Loan to fellow subsidiary	13	-	22.5
Trade and other receivables	13	2.6	2.8
Retirement benefit asset	23	22.8	-
Derivative financial instruments	14	-	0.1
		70.9	73.5
Current assets			
Loan to fellow subsidiary	13	22.5	-
Trade and other receivables	13	73.4	51.1
Cash and cash equivalents	15	104.0	136.9
Derivative financial instruments	14	0.1	0.2
		200.0	188.2
Total assets		270.9	261.7
Current liabilities			
Trade and other payables	16	(43.3)	(40.1)
Current tax liabilities		(0.1)	(1.3)
Provisions	17	(1.1)	(1.2)
Derivative financial instruments	14	(0.4)	(0.5)
		(44.9)	(43.1)
Net current assets		155.1	145.1
Non-current liabilities			
Trade and other payables	16	(12.2)	(12.8)
Retirement benefit obligations	23	-	(71.9)
Deferred tax liability	18	(3.4)	-
Provisions	17	(0.4)	-
Derivative financial instruments	14	-	(0.2)
		(16.0)	(84.9)
Total liabilities		(60.9)	(128.0)
Net assets		210.0	133.7
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		0.3	0.2
Retained earnings		209.6	133.4
Total equity		210.0	133.7

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 5 July 2018 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	Retained earnings £m	Total £m
At 1 April 2016	0.1	(0.1)	170.4	170.4
Profit for the year	-	-	13.8	13.8
Other comprehensive income/(loss) for the year	-	0.3	(49.8)	(49.5)
Total comprehensive income/(loss) for the year	-	0.3	(36.0)	(35.7)
Dividends paid	-	-	(1.0)	(1.0)
At 31 March 2017	0.1	0.2	133.4	133.7
At 1 April 2017	0.1	0.2	133.4	133.7
Profit for the year	-	-	2.2	2.2
Other comprehensive income for the year	-	0.1	75.0	75.1
Total comprehensive income for the year	-	0.1	77.2	77.3
Dividends paid	-	-	(1.0)	(1.0)
At 31 March 2018	0.1	0.3	209.6	210.0

Cash flow statement
for the year ended 31 March

	Notes	2018 £m	2017 £m
Net cash (outflow)/inflow from operating activities	20	(18.6)	6.6
Cash flows from investing activities			
Interest received on short term investments		0.5	0.7
Purchase of property, plant and equipment and other intangible assets		(6.0)	(6.6)
Investment in subsidiaries		(4.7)	-
Dividends from joint ventures		0.8	-
Loan to joint ventures		(3.9)	(10.5)
Net cash outflow from investing activities		(13.3)	(16.4)
Cash flows from financing activities			
Dividends paid		(1.0)	(1.0)
Net cash outflow from financing activities		(1.0)	(1.0)
Decrease in cash and cash equivalents during the year		(32.9)	(10.8)
Cash and cash equivalents at 1 April		136.9	147.7
Cash and cash equivalents at 31 March		104.0	136.9

1. General information

NATS (Services) Limited (NATS Services) is a private limited 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 14. The nature of the company's operations and its principal activities are set out in the Strategic report and in the Report of the directors.

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

2. Accounting policies

The following accounting policies have been applied consistently both in 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 31. 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.

In the current year, the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are effective for accounting periods beginning on or after 1 January 2017.

IAS 7 (amendments): *Disclosure Initiative*

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

The application of these amendments has not resulted in any material impact on the financial statements of the company.

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 19 (amendments): *Plan Amendment, Curtailment or Settlement*

IAS 28 (amendments): *Long-term Interests in Associates and Joint Ventures*

IFRIC 22: *Foreign Currency Transactions and Advance Consideration*

IFRIC 23: *Uncertainty over Income Tax Treatments*

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 effective for reporting periods beginning on or after 1 January 2018. The standard is expected to have one main impact on the company, being the adoption of the expected loss impairment model in assessing the level of impairment provision required for trade and contract receivables.

The company expects to recognise lifetime expected credit losses (i.e. losses arising from default over the life of a financial instrument) for its loans and receivables. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses. Based on initial reviews, the adoption of this standard is unlikely to have a material impact and therefore at the date of initial application, any adjustment will be reflected in retained earnings.

IFRS 15: *Revenue from Contracts with Customers* will replace IAS 18: *Revenue* and IAS 11: *Construction Contracts*, and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements.

The standard is effective for annual periods beginning on or after 1 January 2018. The directors will adopt the standard in the financial statements for the year ending 31 March 2019 and expect to apply the standard retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at 1 April 2018.

The company has undertaken a detailed assessment of the impact of the standard by reviewing major contracts from each source of revenue. The assessment has identified one material change to revenue recognition under IFRS 15: the recognition of recharges to airport customers of property related costs and safety regulation charges.

The major part of the company's revenue is derived from service contracts which include performance obligations which are satisfied over time, as customers simultaneously receive and consume the benefits provided by the company's performance as the company performs, or which include enforceable rights to payment for performance completed to date. These revenues mainly relate to UK Airport ATC contracts.

UK Airport services include variable consideration for traffic volume risk sharing and service performance incentives. Under existing accounting standards, variable consideration is recognised as services are provided.

A number of UK Airport ATC contracts require the company to rent the airport control tower building from the airport operator and to recover the property costs through the fee charged to the airport operator for ATC services.

The fees for recovering property costs amounted to £17.0m for 2017/18 and are expected to be £6.7m for 2018/19. For reporting under IAS 18 for 2017/18, the recovery of these costs is recognised as revenue. Under IFRS 15 the provision of the air traffic control tower is not considered to be distinct from the provision of ATC services. For 2018/19 these fees will be reported as an offset against rental charges in operating costs. This change has no impact on the company's result or its retained earnings on the initial application of IFRS 15.

The company also recharges to airport customers the cost of the CAA's safety regulation charges for those airports. The fees for recovering these costs amounted to £2.8m for 2017/18 and are expected to be £2.7m for 2018/19. For reporting under IAS 18 for 2017/18, the recovery of these costs is recognised as revenue. Under IFRS 15, the company is not satisfying a performance obligation in the provision of this service, and, for 2018/19, the fees will be reported as an offset against the CAA's safety regulation charges in operating costs. This change has no impact on the company's result or its retained earnings on the initial application of IFRS 15.

IFRS 16: *Leases* specifies how a company 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.

As at 31 March 2018, the company has non-cancellable operating lease commitments of £62.2m as disclosed in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the company will recognise an increase to total property, plant and equipment and a corresponding liability in respect of these leases, unless they qualify for exemption as low value or short-term leases upon the application of IFRS 16.

The company's preliminary assessment is that as at 31 March 2020, property, plant and equipment is likely to increase by c.£20m and lease liabilities by c.£20m.

Over the life of leased assets, there will be no profit impact from adopting IFRS 16 but profit will vary between financial years as interest charges on finance leases are higher at the beginning of the lease term and reduce as the lease principal is repaid. Profit before tax for the year ending 31 March 2020 is expected to be c.£0.1m lower following adoption of this standard.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the company's financial statements. The estimated impact assumes we adopt the modified retrospective approach, with the right of use asset equal to the lease liability. The company will continue to assess the impact and as a result the above preliminary assessment is subject to change. The standard is effective for annual periods beginning on or after 1 January 2019. The directors do not intend to apply the standard earlier and have not yet assessed the transition accounting method to be used upon adoption.

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 (ICSA) 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 and 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 group's Executive team, which is considered to be the chief operating decision maker. An operating segment represents a service line organised by customer who receive common products or services. Operating segments' operating results are reviewed regularly by the 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. Further information is provided in note 5.

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

impairment 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:

- 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.

Government grants and other grants
Government grants relating to property, plant and equipment are treated as deferred income and released 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 (and are reported on the face of the income statement).

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.

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 until ready for use. 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 fair value less costs of disposal 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 Limited.

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 (No.2) Act 2015 which was enacted on 18 November 2015, the corporation tax rate was reduced to 19% with effect from 1 April 2017. Under the Finance Act 2016, the corporation tax rate will be reduced to 17% 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 at 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.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into 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 company's 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, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 13 to 16.

Financial assets

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

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

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

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

The company has financial assets in the categories of other 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 3 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 accruals 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 foreign exchange contracts to hedge these exposures. These are disclosed in notes 14 and 15 to the accounts.

Under IFRS derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The use of financial derivatives is governed by the company's policies approved by the Board of directors, 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 (in the Hedge reserve) 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 the income statement.

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 affect 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 and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Long term contracts

The company is fulfilling a number of long term contracts, including providing support to its Aquila joint venture which is undertaking Project Marshall. In assessing the amount of revenue to be recognised in respect of these contracts, judgements are made on the extent of contract completion and the proportion that costs incurred to date bear to the estimated total costs of the contract.

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 2018.

4. Revenue

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

	2018 £m	2017 £m
UK Airports	169.3	165.4
Defence	20.7	36.2
Other UK Business	12.7	13.7
International	11.1	10.5
	213.8	225.8
Investment revenue (see note 8)	2.3	1.2
	216.1	227.0

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

5. 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 or services to our customers: UK Airports, Defence, 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)/credits, redundancy and relocation costs and any 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 of each operating segment:

UK Airports	The provision of air traffic control, engineering support and airport optimisation services to UK airport customers.
Defence	The provision of air traffic control, engineering support and other services to the UK MOD and to our joint venture for the UK MOD's Marshall contract.
Other UK business	Other services provided to UK customers including: 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.

Segment information about these activities is presented below.

Revenue

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

	2018			2017		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
UK Airports	157.0	12.3	169.3	153.3	12.1	165.4
Defence	20.4	0.3	20.7	35.8	0.4	36.2
Other UK Business	7.3	5.4	12.7	9.0	4.7	13.7
International	7.7	3.4	11.1	7.6	2.9	10.5
	192.4	21.4	213.8	205.7	20.1	225.8

Intercompany revenue includes revenue for services to NATS (En Route) plc of £18.0m (2017: £17.2m), NATS Services DMCC of £nil (2017: £0.3m) and NATS Services (Asia Pacific) Pte. Limited of £3.4m (2017: £2.6m).

5. Operating 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:

	2018 £m	2017 £m
UK Airports	26.8	30.2
Defence	(4.6)	4.9
Other UK Business	4.1	2.8
International	0.7	(2.2)
Service line contribution	27.0	35.7
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(3.1)	(1.7)
Employee share scheme credits	0.6	0.5
Redundancy and relocation costs	(2.7)	(0.3)
Other costs not directly attributed to service lines	(21.6)	(18.1)
Operating profit	0.2	16.1

Other costs not directly attributed to service lines include corporate costs providing central support functions.

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:

	2018			2017		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	142.2	71.6	213.8	143.9	81.9	225.8
Costs (net)	(132.3)	(81.3)	(213.6)	(125.1)	(84.6)	(209.7)
Operating profit	9.9	(9.7)	0.2	18.8	(2.7)	16.1

Non-current asset additions

Additions to non-current assets presented by service line are: UK Airports £2.3m (2017: £3.9m), Defence £1.0m (2017: £0.1m), Other UK Business £1.5m (2017: £2.5m) and International £nil (2017: £nil).

Geographical segments

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

	Revenue	
	2018 £m	2017 £m
United Kingdom	201.3	217.2
Other European Countries	2.6	2.6
Countries in Asia	9.8	5.9
Countries in Oceania	0.1	0.1
	213.8	225.8

Revenue is attributed to countries on the basis of the customer's country of domicile. Individual countries have not been shown where revenue from these countries of domicile are less than 5% of total revenue.

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £8.6m (2017: £2.3m) which the company holds in overseas entities (see note 25). These investments have been established to enable the company to undertake business abroad.

Information about major customers

Included in revenues arising from UK Airports are revenues of £58.0m (2017: £56.9m) which arose from the company's largest customer.

6. Operating profit for the year

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

	2018 £m	2017 £m
CAA regulatory charges for safety regulation at airports	2.9	2.7
Voluntary redundancy costs	3.2	0.9
Depreciation of property, plant and equipment	1.6	1.5
Amortisation of intangible assets	0.7	0.5
Impairment of internally generated intangible assets	1.1	-
Deferred grants released	(0.3)	(0.3)
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 such fees 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.

A portion of the company's costs are denominated in foreign currencies and are cash flow hedged. Included in operating profit is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating profit is £nil (2017: loss of £0.5m).

Transactions with group companies

	2018 £m	2017 £m
Charges for services provided by NATS Limited	2.4	2.4
Charges for services provided by NATS (En Route) plc	25.7	25.4
Charges for services provided by NATS Solutions Limited	4.0	3.5
Charges for services provided by NATS Services DMCC	1.8	2.4
Charges for services provided by NATS Services (Asia Pacific) Pte. Limited	0.2	0.1
Waiver of loan provided to NATS Services DMCC	-	1.1

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 Solutions Limited provides support services to NATS Services for air traffic control at military airfields. NATS Services (Asia Pacific) Pte. Limited provides support to NATS Services contracts in the Asia Pacific region and NATS Services DMCC provides support to NATS Services contracts in the Middle East.

7. Staff costs

a) Staff costs

	2018 £m	2017 £m
Salaries and staff costs were as follows:		
Wages and salaries	76.9	71.2
Social security costs	9.0	8.6
Pension costs (note 7b)	25.6	24.9
	111.5	104.7
Less: amounts capitalised	(1.0)	(0.9)
	110.5	103.8

Wages and salaries include a charge of £3.2m (2017: £0.5m charge) for redundancy, share based payment charges, other allowances and holiday pay. Pension costs include £nil (2017: £0.4m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

b) Pension costs

	2018 £m	2017 £m
Defined benefit pension scheme costs (note 23)	22.1	22.2
Defined contribution pension scheme costs	3.5	2.7
	25.6	24.9

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

c) Staff numbers

	2018 No.	2017 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	471	467
Air traffic service assistants	129	133
Engineers	133	133
Others	218	213
	951	946

8. Investment revenue

	2018 £m	2017 £m
Dividends from investments	0.8	-
Interest on bank deposits	0.3	0.4
Interest receivable from intercompany loans	0.2	0.2
Other interest receivable	1.0	0.6
	2.3	1.2

Dividends from investments represents a dividend received from our joint venture FerroNats. Other interest receivable represents interest accrued on the loan to our joint ventures, Aquila and Searidge.

9. Tax

	2018 £m	2017 £m
Corporation tax		
Current tax	(0.8)	2.2
Adjustments in respect of prior year - UK taxation	-	0.1
Non UK taxation	0.1	0.1
Double taxation relief prior year adjustment	(0.1)	(0.1)
	(0.8)	2.3
Deferred tax (see note 18)		
Origination and reversal of temporary timing differences	1.1	1.2
Adjustments in respect of prior year	-	0.1
Effects of tax rate change on opening balance	-	(0.1)
	1.1	1.2
	0.3	3.5

Corporation tax is calculated at 19% (2017: 20%) 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:	2018 £m		2017 £m	
Profit on ordinary activities before tax	2.5		17.3	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2017: 20%)	0.5	19.0%	3.5	20.0%
Tax effect of change in corporation tax rate from 19% to 17% (2017: 20% to 17%)	-	0.0%	(0.1)	(0.5%)
Tax effect of prior year adjustments - current tax	-	-	0.1	0.5%
Tax effect of prior year adjustments - deferred tax	-	-	0.1	0.5%
Other permanent differences	(0.1)	(3.5%)	-	-
Employee share scheme award of partnership and matching shares	-	-	(0.1)	(0.5%)
Dividends from joint ventures	(0.1)	(3.5%)	-	-
Tax charge for year at an effective tax rate of 12.0% (2017: 20.0%)	0.3	12.0%	3.5	20.0%
Deferred tax (charge)/credit taken directly to equity (see note 18)	(16.3)		10.9	

10. Dividends

	2018 £m	2017 £m
Amounts recognised as dividends to equity shareholders in the year:		
Interim dividend of £10.00 per share (2017: £10.00 per share)	1.0	1.0

In May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of £10.00 per share (totalling £1.0m), which was paid to its parent company in June 2018.

11. Intangible assets

	Operational software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 2016	4.5	2.0	1.2	7.7
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	-	1.8	1.8
Transfers during the year	-	0.2	(0.2)	-
At 31 March 2017	4.5	2.2	2.9	9.6
Additions internally generated	-	-	0.2	0.2
Additions externally acquired	-	0.5	0.8	1.3
Disposals during the year	-	(1.1)	-	(1.1)
Transfers during the year	-	1.6	(1.5)	0.1
At 31 March 2018	4.5	3.2	2.4	10.1
Accumulated amortisation				
At 1 April 2016	4.0	1.0	-	5.0
Charge for the year	0.2	0.3	-	0.5
At 31 March 2017	4.2	1.3	-	5.5
Charge for the year	0.1	0.6	-	0.7
Impairment provision recognised in income statement	-	1.1	-	1.1
Disposals during the year	-	(1.1)	-	(1.1)
At 31 March 2018	4.3	1.9	-	6.2
Carrying amount				
At 31 March 2018	0.2	1.3	2.4	3.9
At 31 March 2017	0.3	0.9	2.9	4.1
At 1 April 2016	0.5	1.0	1.2	2.7

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 2016	0.1	4.9	30.6	2.9	1.5	40.0
Additions during the year	-	-	0.1	-	4.5	4.6
Disposals during the year	-	-	(1.0)	(0.1)	-	(1.1)
Other transfers during the year	-	-	0.1	-	(0.1)	-
At 31 March 2017	0.1	4.9	29.8	2.8	5.9	43.5
Additions during the year	-	-	1.0	-	2.3	3.3
Other transfers during the year	-	-	3.5	-	(3.6)	(0.1)
At 31 March 2018	0.1	4.9	34.3	2.8	4.6	46.7
Accumulated depreciation and impairment						
At 1 April 2016	0.1	4.8	22.7	2.8	-	30.4
Provided during the year	-	0.1	1.4	-	-	1.5
Disposals during the year	-	-	(1.0)	(0.1)	-	(1.1)
At 31 March 2017	0.1	4.9	23.1	2.7	-	30.8
Provided during the year	-	-	1.5	0.1	-	1.6
At 31 March 2018	0.1	4.9	24.6	2.8	-	32.4
Carrying amount						
At 31 March 2018	-	-	9.7	-	4.6	14.3
At 31 March 2017	-	-	6.7	0.1	5.9	12.7
At 1 April 2016	-	0.1	7.9	0.1	1.5	9.6

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of £1.1m (2017: £nil) were made in respect to non-operational software.

13. Financial and other assets

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

	2018 £m	2017 £m
Non-current		
Loan to fellow subsidiary - interest bearing (NATS (En Route) plc)	-	22.5
Trade and other receivables		
Contract spare parts	0.5	0.5
Prepayments	1.3	1.1
Accrued income	0.8	1.2
	2.6	2.8
Current		
Loan to fellow subsidiary - interest bearing (NATS (En Route) plc)	22.5	-
Trade and other receivables		
Receivable from customers (gross)	25.9	20.6
Allowance for doubtful debts	(0.1)	(0.4)
	25.8	20.2
Amounts recoverable under contracts	1.0	0.8
Prepayments	4.6	5.2
Amounts due from fellow subsidiary (NATS (En Route) plc)	9.9	1.2
Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited)	8.6	5.1
Amounts due from subsidiary undertaking (NATS Services DMCC)	-	1.1
Amounts due from subsidiary undertaking (NATS (USA) Inc.)	0.5	0.5
Accrued income	23.0	17.0
	73.4	51.1

The average credit period taken on sales of services is 33 days (2017: 33 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.1m (2017: £0.4m). 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.

13. Financial and other assets (continued)

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

	2018 £m	2017 £m
31-90 days	3.1	-
> 365 days	-	0.1
	3.1	0.1

Movement in the allowance for doubtful debts

	2018 £m	2017 £m
Balance at the beginning of the year	0.4	0.3
Decrease in allowance recognised in the income statement	(0.2)	-
Foreign exchange movement in the year	(0.1)	0.1
Balance at the end of the year	0.1	0.4

In determining the recoverability of a trade receivable the company considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

There are no receivables in the allowance for doubtful debts which are in administration, receivership or liquidation (2017: £nil).

Ageing of impaired receivables

	2018 £m	2017 £m
> 365 days	0.1	0.4

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

At 31 March 2018, NATS Services provided unsecured loans totalling £22.5m to NERL (2017: £22.5m). These loans were repaid on 31 May 2018. The loan carried interest at a rate equal to six month LIBOR plus an agreed margin. The interest rate applicable in the year was 1.2% (2017: 0.9%).

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, excluding prepayments and contract spare parts, would be £215.8m (2017: £221.4m).

14. Derivative financial instruments

Fair value of derivative financial instruments

	2018 £m	2017 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	0.1
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	0.2
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.4)	(0.5)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	(0.2)

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

15. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern, 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:

	2018 £m	2017 £m
Financial assets		
Loans and receivables, excluding prepayments and contract spare parts	111.8	84.5
Cash and cash equivalents and short term investments	104.0	136.9
Derivative financial instruments in designated hedge accounting relationships	0.1	0.3
	215.9	221.7
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.4)	(0.7)
Other financial liabilities at amortised cost	(33.0)	(32.7)
	(33.4)	(33.4)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding deferred income of £22.0m (2017: £18.7m) and VAT of £0.5m (2017: £1.5m)) 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 at least 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 2018.

Market risk

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

Foreign currency risk management

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Euro	0.5	0.9	(1.2)	(1.3)
Canadian dollar	1.4	0.3	(0.5)	-
Hong Kong dollar	0.1	-	-	-
Kuwaiti dinar	0.3	0.1	-	-
Norwegian krone	0.2	0.1	-	(0.2)
Philippine peso	0.4	0.4	-	-
Qatari riyal	0.9	0.4	-	-
Singapore dollar	2.0	1.2	(0.1)	-
Swedish krona	-	0.4	-	(0.6)
Thai baht	4.2	1.6	(0.1)	(0.2)
UAE dirham	1.3	0.4	-	-
US dollar	1.1	1.2	(0.4)	(1.1)
	12.4	7.0	(2.3)	(3.4)

15. Financial instruments (continued)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £2.1m at 31 March 2018 (2017: £2.2m) in euro, Canadian dollars, Kuwaiti dinar, Qatari riyal, Thai baht and UAE dirham. 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.

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	2018 Impact £m	2017 Impact £m
Euro	(0.9)	(1.1)
Canadian dollar	(0.2)	(0.1)
Norwegian krone	(0.1)	-
Philippine peso	(0.1)	-
Qatari riyal	(0.1)	-
Singapore dollar	0.2	(0.1)
Swedish krona	(0.1)	-
Thai baht	0.2	0.4
UAE dirham	(0.1)	-
US dollar	(1.5)	(0.1)
	(2.7)	(1.0)

The company's sensitivity to foreign currencies has increased. In particular, the company's sensitivity to the US dollar has increased during the year, reflecting a net increase in US dollar denominated forward contracts. Exposure to other currencies has remained fairly constant. NATS Services believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Forward foreign exchange contracts

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

The following contracts were outstanding at year end:

	2018				2017		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-90 days	0.2	0.2	0.7586	0-90 days	0.6	0.7	0.8209
91-365 days	-	-	-	91-365 days	0.5	0.6	0.8200
> 365 days	-	-	-	> 365 days	0.1	0.2	0.7586
	0.2	0.2	0.7586		1.2	1.5	0.8123
Euro bought	€m	£m		Euro bought	€m	£m	
0-90 days	10.1	9.0	0.8935	0-90 days	0.4	0.4	0.8201
91-365 days	1.0	0.9	0.9089	91-365 days	12.2	10.7	0.8784
> 365 days	0.2	0.2	0.9048	> 365 days	1.3	1.1	0.9132
	11.3	10.1	0.8942		13.9	12.2	0.8797
Canadian dollar bought	C$m	£m		Canadian dollar bought	C$m	£m	
0-90 days	0.3	0.2	1.6984	0-90 days	-	-	-
91-365 days	0.7	0.4	1.8471	91-365 days	0.4	0.2	1.9936
> 365 days	0.4	0.2	1.9855	> 365 days	0.8	0.4	1.9876
	1.4	0.8	1.8444		1.2	0.6	1.9896
Norwegian krone sold	£m	NOKm		Norwegian krone sold	£m	NOKm	
0-90 days	0.2	1.6	10.4125	0-90 days	0.1	1.3	11.1126
91-365 days	0.2	1.6	10.4251	91-365 days	0.1	1.2	11.1105
	0.4	3.2	10.4188		0.2	2.5	11.1115
Norwegian krone bought	NOKm	£m		Norwegian krone bought	NOKm	£m	
0-90 days	3.3	0.3	11.4569	0-90 days	1.4	0.1	11.7480
> 365 days	5.6	0.5	11.2597	> 365 days	1.5	0.1	11.7395
	8.9	0.8	11.3324		2.9	0.2	11.7437

15. Financial instruments (continued)

Forward foreign exchange contracts (continued)

	2018				2017		
Philippine peso sold	£m	PHPm	Average exchange rate	Philippine peso sold	£m	PHPm	Average exchange rate
91-365 days	-	-	-	91-365 days	0.3	21.3	63.4464
Singapore dollar sold	£m	SGDm					
0-90 days	1.2	2.1	1.8414				
91-365 days	1.5	2.8	1.8202				
> 365 days	1.1	2.1	1.8428				
	3.8	7.0	1.8333				
Swedish krona bought	SEKm	£m		Swedish krona bought	SEKm	£m	
0-90 days	2.7	0.2	11.2320	0-90 days	2.1	0.2	11.1031
91-365 days	3.3	0.3	11.1875	91-365 days	4.2	0.4	11.0746
> 365 days	4.7	0.4	11.0723	> 365 days	-	-	-
	10.7	0.9	11.1478		6.3	0.6	11.0841
Thai baht sold	£m	THBm		Thai baht sold	£m	THBm	
0-90 days	5.8	259.2	44.4514	0-90 days	1.7	73.9	44.5600
91-365 days	-	-	-	91-365 days	2.7	123.1	45.1515
> 365 days	-	-	-	> 365 days	1.3	62.2	45.9100
	5.8	259.2	44.4514		5.7	259.2	45.1597
US dollar bought	$m	£m		US dollar bought	$m	£m	
0-90 days	17.0	12.1	1.4066	0-90 days	0.4	0.3	1.3525
91-365 days	1.5	1.1	1.3502	91-365 days	0.2	0.1	1.3592
> 365 days	1.1	0.8	1.3675	> 365 days	-	-	-
	19.6	14.0	1.3998		0.6	0.4	1.3549

At 31 March 2018, the aggregate amount under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.3m unrealised gain (2017: unrealised gain of £0.2m). 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 2018 or 31 March 2017 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2018 Amount £m	2018 Economic interest rate %	2018 Average maturity days	2017 Amount £m	2017 Economic interest rate %	2017 Average maturity days
Sterling	101.9	0.5	21	134.7	0.3	14
Euro	0.2	-	3	0.6	-	3
Canadian dollar	0.2	-	3	0.2	-	3
Kuwaiti dinar	0.3	-	3	-	-	3
Norwegian krone	-	-	-	0.1	-	3
Qatari riyal	0.2	-	3	0.2	-	3
Swedish krona	-	-	-	0.4	-	3
Thai baht	0.5	-	3	-	-	-
UAE dirham	0.7	-	3	-	-	-
US dollar	-	-	3	0.7	-	3
	104.0			136.9		

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

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

Currency	2018 Intercompany loan Amount £m	2018 Economic interest rate %	2018 Weighted average time for which rate is fixed days	2017 Intercompany loan Amount £m	2017 Economic interest rate %	2017 Weighted average time for which rate is fixed days
Sterling	22.5	1.2	183	22.5	0.9	183

These loans were repaid on 31 May 2018.

15. Financial instruments (continued)

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.

	2018 Impact £m	2017 Impact £m
Cash at bank and short term deposits (2018: £104.0m, 2017: £136.9m)	1.0	1.4
Intercompany loans (2018: £22.5m, 2017: £22.5m)	0.2	0.2
	1.2	1.6

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 AAAm rated liquidity funds.

The tables below set out the investment limits that are applied to each institution based on its credit rating:

Rating (Standard & Poor's)	Limit per Institution £m
AAA & AAAm	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):

	2018			2017		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAAm	4	52.2	50.2	4	69.1	50.5
AA-	3	29.2	28.0	1	24.4	17.8
A	1	14.0	13.5	3	29.5	21.5
A-	1	7.5	7.2	1	7.5	5.5
BBB+	1	1.1	1.1	1	6.4	4.7
		104.0	100.0		136.9	100.0

The deposits of £1.1m (2017: £6.4m) with a BBB+ rated institution were held in various current accounts that are not subject to the above investment limits.

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 2018 (31 March 2017: uncommitted overdraft of £1.0m undrawn).

Trade and other payables classed as current, including current tax liabilities, are expected to mature within one year. Non-current trade and other payables (excluding deferred income of £12.1m (2017: £12.8m)) are due in over five years.

15. Financial instruments (continued)

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).

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.1	-	0.1	-	0.3	-	0.3
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.4)	-	(0.4)	-	(0.7)	-	(0.7)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

The fair value of a 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.

Forward foreign exchange contracts are financial instruments held at fair value. These fair values have been determined based on available market information at the balance sheet date and 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 other 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:

	2018 £m	2017 £m
Current		
Trade payables	2.8	4.6
Other payables	1.7	3.4
Amounts due to parent company	17.5	16.0
Amounts due to subsidiary undertakings	0.7	0.2
Accruals and deferred income (including deferred grants)	20.6	15.9
	43.3	40.1
Non-current		
Other payables	0.1	-
Accruals and deferred income (including deferred grants)	12.1	12.8
	12.2	12.8
	55.5	52.9

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 25 days (2017: 39 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Provisions

	Total £m
At 1 April 2017	1.2
Additional provision in the year	0.8
Utilisation of provision	(0.5)
At 31 March 2018	1.5

	2018 £m	2017 £m
Amounts due for settlement within 12 months	1.1	1.2
Amounts due for settlement after 12 months	0.4	-
	1.5	1.2

Provisions represent the best estimate of liabilities, including property related costs and onerous contracts. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

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	Other £m	Total £m
At 1 April 2016	(0.6)	(3.0)	(0.7)	(4.3)
Charge to income	0.2	0.8	0.2	1.2
Credit to equity	-	(10.9)	-	(10.9)
At 31 March 2017	(0.4)	(13.1)	(0.5)	(14.0)
At 1 April 2017	(0.4)	(13.1)	(0.5)	(14.0)
Charge to income	0.2	0.7	0.2	1.1
Charge to equity	-	16.3	-	16.3
At 31 March 2018	(0.2)	3.9	(0.3)	3.4

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:

	2018 £m	2017 £m
Deferred tax liabilities	(3.9)	-
Deferred tax assets	0.5	14.0
	(3.4)	14.0

19. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2017 and 31 March 2018	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	2018 £m	2017 £m
Operating profit from continuing operations	0.2	16.1
Adjustments for:		
Depreciation of property, plant and equipment	1.6	1.5
Amortisation of intangible assets	0.7	0.5
Impairment losses	1.1	-
Deferred grants released	(0.3)	(0.3)
Adjustment for pension funding	(3.4)	(4.2)
Operating cash flows before movements in working capital	(0.1)	13.6
Increase in contract work in progress	(0.2)	(0.2)
Increase in trade and other receivables	(10.8)	(5.5)
Increase in trade, other payables and provisions	2.5	9.7
Decrease in amounts due to other group undertakings	(8.7)	(8.9)
Cash generated from operations	(17.3)	8.7
Tax paid	(1.3)	(2.1)
Net cash (outflow)/inflow from operating activities	(18.6)	6.6

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

21. Financial commitments

	2018 £m	2017 £m
Capital commitments contracted but not provided for in the accounts	3.0	2.4
Minimum lease payments under operating leases recognised in the income statement	14.0	14.3

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:

	2018 £m	2017 £m
Within one year	10.4	13.0
In the second to fifth years inclusive	33.9	5.2
After five years	17.9	5.3
	62.2	23.5

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 2018 of £160 (2017: £283). NATS Services DMCC had net assets at 31 March 2018 of £0.2m (2017: £0.2m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2018 of £4.8m (2017: £2.5m). NATS Services LLC had net assets at 31 March 2018 of £0.2m (2017: £0.3m).

NATS Services has provided a parent company guarantee to the MOD to secure the performance by Aquila of its obligations under the Project Marshall contract.

NATS Services has provided a parent company guarantee to the sellers of shares in Searidge Technologies Inc., to secure the performance by NATS (Services) Canada Inc. under the Share Purchase Agreement for any contingent consideration relating to those shares.

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 2018 was £7.6m (2017: £6.8m).

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:

	No. employee shares outstanding at 31 March 2018	No. employee shares outstanding at 31 March 2017
Date of share awards		
Free share awards		
21 September 2001	51,178	58,402
20 October 2003	45,706	51,471
10 September 2004	75,237	86,037
11 January 2008	56,569	67,460
18 September 2009	66,400	81,200
Partnership shares		
1 March 2011	58,105	73,773
26 September 2012	79,877	120,459
30 May 2014	84,245	92,420
31 October 2016	99,609	107,857
Matching shares		
1 March 2011	58,553	74,073
26 September 2012	79,277	120,459
30 May 2014	84,245	92,420
31 October 2016	99,609	107,857
	938,610	1,133,888
Dividend shares issued on 28 June 2005	5,948	6,925
Total employee shares in issue at 31 March	944,558	1,140,813

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

	Movement in the no. of shares during the year ended 31 March 2018	Movement in the no. of shares during the year ended 31 March 2017
Balance at 1 April	1,140,813	1,057,989
Granted during the year	-	222,518
Forfeited during the year	(2,080)	(2,622)
Exercised during the year	(184,583)	(153,671)
Staff transfers between group companies	(9,592)	16,599
Balance at 31 March	944,558	1,140,813

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2018 the price of an employee share was valued at £3.40 (2017: £3.95). A valuation at 30 June 2017 valued the shares at £3.30. The liability for the employee shares at 31 March 2018 was £3.1m (2017: £4.2m) included in amounts due to parent company. The income statement includes a credit of £0.6m (2017: £0.5m). The payments made to employees for the shares they exercised during the year was £0.6m (2017: £0.6m).

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 scheme was established on 1 April 2009 for staff who joined from that date. The assets of the scheme are held separately from those of the company in funds under the control of a board of Trustees.

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company operates a number of contribution structures. 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 2018 employer contributions of £2.3m (2017: £1.8m), excluding employee salary sacrifice contributions of £1.2m (2017: £0.9m), represented 15.2% of pensionable salaries (2017: 14.8%).

The defined contribution scheme had 302 members at 31 March 2018 (2017: 241).

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 requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises six employer (NATS and CAA) and six member-nominated trustees, as well as an independent chairman.

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

During 2013 the parent company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on 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 2017 and used the projected unit credit method. The assumptions which have the most significant effect on the liabilities assess at the valuation and hence the contribution requirement are those relating to the rate of return on investments, the rate of increase in salaries, the rate of increase in pensions and life expectancy.

The market value of the NATS' section's assets as at 31 December 2017 was £4,540.4m. 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 £270.4m, corresponding to a funding ratio of 94.4%.

The 2017 valuation showed that, based on long-term financial assumptions, the contribution rate required to meet the future benefit accrual was 47.6% of pensionable salaries (41.8% employers and 5.8% employees). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

Following the 2017 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2026. Under the schedule of contributions, normal contributions will continue to be paid at 31.8% until 31 December 2019 and paid at 41.7% from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £39.9m in the 2017 calendar year, and will pay £40.8m in 2018 and £41.8m in 2019. From 1 January 2020 to 31 December 2023 deficit recovery contributions will be paid at £25.4m in 2020 and increase annually by 2.37% for 2021 to 2023. No contributions will be paid in 2024. Further deficit recovery contributions will be paid in 2025 and 2026 of £2.3m per year. NATS Services' share of deficit recovery contributions is c. 23%.

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.

During the year the company paid cash contributions to the scheme of £25.5m (2017: £26.4m). This amount included £2.3m (2017: £2.9m) 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 55.3% (2017: 43.6%) of pensionable salaries.

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 estimated contributions expected to be paid by the company to the scheme during the financial year ending 31 March 2019 is £23.6m, including salary sacrifice contributions estimated at £2.0m.

23. Retirement benefit schemes (continued)

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 2017, 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.

If an accounting valuation reveals a surplus at the balance sheet date, this is recognised in full to the extent that it can be realised in full by the company.

The Trustees' funding assessment carried out as at 31 December 2017 was updated to 31 March 2018 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:

	2018	2017	2016
RPI inflation	3.00%	3.10%	2.90%
CPI inflation	1.90%	2.00%	1.80%
Increase in:			
- salaries	1.90%	2.00%	1.80%
- deferred pensions	3.00%	3.10%	2.90%
- pensions in payment	3.00%	3.10%	2.90%
Discount rate for net interest expense	2.65%	2.55%	3.65%

The mortality assumptions have been drawn from actuarial tables 97% S2PMA light and 102% S2PFA light (2017: 95% S2PMA light and 93% S2PFA light) with future improvements in line with CMI 2016 (2017: CMI 2014) projections for male/female members, subject to a long term improvement of 1.5% p.a (2017: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.9 years and a female pensioner is 29.5 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 30.2 years and for females to 30.9 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 10.2%/increase by 11.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.7%/decrease by 10.2%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.0%/decrease by 2.8%
Rate of mortality	1 year increase in life expectancy	Increase by 3.2%

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.

The directors consider that the criteria for recognition of the pension surplus under IFRIC 14 are met.

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:

	2018 £m	2017 £m
Current service cost	(20.1)	(21.4)
Past service cost	-	(0.4)
Net interest expense	(1.5)	(0.1)
Administrative expenses	(0.5)	(0.3)
Components of defined benefit costs recognised within operating profit	(22.1)	(22.2)

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

	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest expense)	3.1	238.5
Actuarial gains and losses arising from changes in financial assumptions	45.7	(327.1)
Actuarial gains and losses arising from changes in demographic assumptions	34.7	25.7
Actuarial gains and losses arising from experience adjustments	7.8	2.2
	91.3	(60.7)

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

	2018 £m	2017 £m
Present value of defined benefit obligations	(899.1)	(1,189.2)
Fair value of scheme assets	921.9	1,117.3
Surplus/(deficit) in scheme	22.8	(71.9)

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

	2018 £m	2017 £m
At 1 April	(1,189.2)	(944.2)
Current service cost	(20.1)	(21.4)
Past service cost	-	(0.4)
Interest expense on defined benefit scheme obligations	(27.1)	(32.5)
Actuarial gains and losses arising from changes in financial assumptions	45.7	(327.1)
Actuarial gains and losses arising from changes in demographic assumptions	34.7	25.7
Actuarial gains and losses arising from experience adjustments	7.8	2.2
Benefits paid	249.1	108.5
At 31 March	(899.1)	(1,189.2)

The average duration of the scheme's liabilities at the end of the year is 22.1 years (2017: 24.9 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2018 £m	2017 £m
Active members	406.9	645.9
Deferred members	106.3	146.9
Pensioners	385.9	396.4
	899.1	1,189.2

23. Retirement benefit schemes (continued)

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

	2018 £m	2017 £m
At 1 April	1,117.3	928.8
Interest income on scheme assets	25.6	32.4
Return on plan assets (excluding amounts included in net interest expense)	3.1	238.5
Contributions from sponsoring company	25.5	26.4
Benefits paid	(249.1)	(108.5)
Administrative expenses	(0.5)	(0.3)
At 31 March	921.9	1,117.3

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

	2018 £m	2017 £m
Cash and cash equivalents	31.7	13.4
Equity instruments		
- UK	27.2	86.2
- Europe	7.4	24.6
- North America	21.8	70.2
- Japan	3.0	9.9
- Pacific (excluding Japan)	8.4	27.8
- Emerging markets	26.9	88.1
- Global	182.8	165.2
	277.5	472.0
Bonds		
- Corporate bonds	196.8	193.7
- Index-linked gilts over 5 years	286.6	299.6
	483.4	493.3
Other investments		
- Property	50.5	49.7
- Hedge funds	45.9	44.4
- Global tactical asset allocation	27.7	26.9
- Private equity funds	25.9	28.8
	150.0	149.8
Derivatives		
- Futures contracts	(20.7)	(11.2)
	921.9	1,117.3

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 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 the CAA on the implications for customers. The strategy will aim to maintain an appropriate balance between the potential impact on contributions and the reduction in volatility of return-seeking assets, and therefore reduced investment risk.

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

The actual return on scheme assets for the year ended 31 March 2018 was £28.7m (2017: £270.9m).

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, The Pension Protection Fund, Thomas Cook Airlines Limited, TUI 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 or the company 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.

Transactions between the company and its joint ventures, which are related parties, are disclosed below.

Trading transactions

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

	Sales		Purchases	
	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m	£m	£m
LHR Airports Limited	59.2	54.1	8.3	8.0
Ministry of Defence (MOD)	0.2	0.5	-	-
Department for Transport (DfT)	0.1	-	-	-
Meteorological Office	-	-	0.4	0.2
FerroNATS Air Traffic Services SA	0.4	0.6	-	-
Aquila Air Traffic Management Services Limited	16.0	31.0	0.2	-
Searidge Technologies Inc	-	-	0.9	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m	£m	£m
LHR Airports Limited	6.0	7.4	-	-
Ministry of Defence (MOD)	-	-	-	-
Department for Transport (DfT)	-	-	-	-
Meteorological Office	-	-	0.1	-
FerroNATS Air Traffic Services SA	-	-	-	-
Aquila Air Traffic Management Services Limited	0.8	1.7	0.2	-
Searidge Technologies Inc	-	-	-	-

The company also entered into transactions with its parent, fellow subsidiary and subsidiary undertakings. Sales to these related parties are disclosed in note 5 and purchases in note 6. Amounts owed by and to these related parties are shown in note 13 and note 16 respectively.

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 (2017: £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 £290,000 (2017: £355,000). The number of directors paid by the company during the year was one (2017: one). The director participates in a pension salary sacrifice arrangement. Contributions which were paid, in 2018, to a defined benefit pension scheme via salary sacrifice have been deducted from this remuneration figure. Contributions to the defined benefit pension scheme, including salary sacrificed by the director of £7,000 and contributions from the company of £57,000, totalled £64,000.

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 their executive management teams.

	2018	2017
	£m	£m
Short term employee benefits	1.2	1.5
Post-employment benefits	-	0.2
Termination benefits	-	0.2
	1.2	1.9

25. Subsidiaries, joint ventures and associates

The company's principal subsidiaries at 31 March 2018 were:

Name of company	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
Direct holding:				
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite based navigation	100%	England and Wales	United Kingdom
NATS Services (Asia Pacific) Pte. Limited, *3 Raffles Place, #06-01 Bharat Building, Singapore 048617*	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services DMCC, *Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates*	ATM consultancy	100%	UAE	UAE
NATS (USA) Inc., *The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States*	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc, *100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada*	Digital airport air traffic services	100%	Canada	Canada
Indirect holding:				
NATS Services LLC, *PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman*	ATM consultancy	70%	Oman	Oman

The investment in NATS Services LLC is held by NATS Services DMCC.
* The registered office address of the entities registered in England and Wales is: 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom

On 26 April 2017, NATS (Services) Limited incorporated a 100% subsidiary entity, NATS (Services) Canada Inc. On the same day, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. (Searidge).

The financial transactions with these subsidiaries have been disclosed in note 5 and note 6 as appropriate and the balances due from/to these subsidiaries are disclosed in notes 13 and 16 as appropriate.

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

The company held interests in two joint ventures, FerroNATS and Aquila, as at 31 March 2018. Its subsidiary entities, NATSNav Limited and NATS (Services) Canada Inc. held interests in European Satellite Services Provider SAS and Searidge Technologies Inc. respectively. Details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares	Country of incorporation
European Satellite Services Provider SAS, *18, Avenue Edouard Belin - BPI 02, 31 401 Toulouse Cedex 9, France*	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA, *Calle Principe de Vergara, 135, 28002, Madrid, Spain*	Airport air traffic services	28 January 2011	50%	Spain
Aquila Air Traffic Management Services Limited, *2 Dashwood Lang Road, The Bourne Business Park, Addlestone, Surrey, KT15 2NX, United Kingdom*	Asset provision and ATM services to UK MOD	9 October 2014	50%	United Kingdom
Searidge Technologies Inc, *19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada*	Digital airport air traffic services	26 April 2017	50%	Canada

European Satellite Services Provider SAS (ESSP)

In September 2008, the company's subsidiary entity, NATSNav Limited acquired 16.67% of the issued share capital of ESSP for a cash consideration of €0.2m (£0.1m).

ESSP is a corporate entity providing satellite based services to the European Commission.

FerroNATS Air Traffic Services SA (FerroNATS)

In January 2011, the company acquired 50% of the issued share capital of FerroNATS for a cash consideration of €0.1m (£0.1m). Since then, the company has purchased additional share capital for a cash consideration of €2.6m (£2.1m), maintaining a 50% holding of the issued share capital. FerroNATS is a joint venture with Ferrovial Servicios SA. FerroNATS provides air traffic control services at nine airports across Spain.

NATS Services received a dividend of €0.9m (£0.8m) from FerroNATS in the year (2017: £nil).

Aquila Air Traffic Management Services Limited (Aquila)

In October 2014, the company acquired 50% of the issued share capital of 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 £2.8m (2017: £10.6m) from the company. At 31 March 2018, the loan (including interest) outstanding was £18.6m (2017: £14.9m).

Guarantees provided in respect of Aquila are disclosed in note 21.

25. Subsidiaries, joint ventures and associates (continued)

NATS (Services) Canada Inc.

On 26 April 2017, the company established, and invested CAD$ 8.6m (£5.2m) in, a Canadian subsidiary, NATS (Services) Canada Inc. The subsidiary was established in order to invest in Searidge Technologies Inc. The Searidge investment is a 50% joint venture with NAVCanada.

Searidge Technologies Inc. (Searidge)

On 26 April 2017, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. Searidge works with airports around the world, providing technology that helps reduce delays, increase efficiency, and overall safety. This includes the delivery of digital tower solutions, which see air traffic controllers managing aircraft from remote facilities instead of in traditional airport towers.

During the year, Searidge drew down loan finance of CAD$2.0m (£1.1m). At 31 March 2018, the loan, including interest, outstanding was CAD$2.0m (£1.1m).

Guarantees provided in respect of Searidge are disclosed in note 21.

NATS Services has not presented summarised financial information relating to the year ended 31 March 2018. The summary financial information relating to the above joint ventures and associates is presented in the NATS Holdings Limited consolidated accounts.

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 Limited 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

On 4 April 2018, NATS Services established a Hong Kong subsidiary, NATS Services (Hong Kong) Limited to provide air traffic control consultancy services in Hong Kong.

On 16 May 2018, NATS (Services) Limited made a further investment of £51m (US$68.75m) in its wholly owned subsidiary, NATS (USA) Inc. On the same day NATS (USA) Inc., invested the proceeds to acquire convertible preferred interests with voting rights of 9.143% of Aireon LLC, a limited liability company incorporated in Delaware USA which is developing a space-based air traffic surveillance system. The investment is intended to result in fully diluted ordinary interests with voting rights of 11.111% by 2 January 2021. NATS is entitled to appoint one of the eleven Board members.

On 31 May 2018, NATS (En Route) plc repaid the interest-bearing inter-company loan of £22.5m from NATS (Services) Limited.

On 31 May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of £10.00 per share (totalling £1.0m), which was paid to its parent company in June 2018.

1 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 ensure that this capability keeps pace with modern regulatory demands and Single European Sky standards.

2 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.