NATS (Services) Limited
Financial statements
Year ended 31 March 2019

Company Number: 04129270

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Company Secretary
Richard Churchill-Coleman

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

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 2019.

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' needs.

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

Defence services provide services to the UK MOD. This is mainly through support to Aquila, our joint venture with Thales, which is fulfilling the MOD's Project Marshall[1] contract.

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, which are generally conducted through our subsidiaries, focus on the Asia Pacific and Middle East markets and also targets specific international airports and Air Navigation Service Providers (ANSPs).
Our FerroNATS joint venture with Ferrovial Servicios, provides an ATC service to 13 airports in Spain. Also, we jointly own Searidge Technologies, a Canadian provider of digital tower technology to airports around the world, with NAV CANADA.

[1] A number of explanatory notes are provided on page 62 of this report

In May 2018, we provided capital to our subsidiary NATS (USA) Inc. to enable it to acquire a minority interest in Aireon by investing £51.0m (US$68.75m) in convertible preference stock which is intended to result in an ordinary stock holding of just over 11% by 2021. Aireon provides space-based ATC surveillance from a network of satellites by monitoring ADS-B equipped aircraft. We made this investment as it will enable NATS to shape the future of surveillance services to the benefit of customers and ensure that we play a leading role in the development of this technology. Significantly, Aireon's satellite constellation was successfully completed this year and is now operational, enabling it to be offered as a service to ANSPs.

Review of the year

The company reported revenue of £197.5m (2018: £213.8m) and a profit before tax of £14.5m (2018: £2.5m). Our financial performance is explained in more detail below.

Our ATC service maintained its safety record with no risk-bearing incidents attributable to NATS Services and continued to improve safety performance, as explained below.

We are recognised for our world-class capabilities in managing busy and complex traffic flows and we are being sought out for this capability and our innovation in ATC. This year we secured a 10 year contract at Cardiff and St Athan airports, which strengthens our UK airports service. We are working on two digital tower projects: for London City Airport which will be the first major UK airport to receive such a service - the infrastructure is in place and our Swanwick operation is receiving live video feeds; and a prototype for Singapore's Changi Airport, which is also making good progress. Our Hong Kong subsidiary is also providing air traffic controllers (ATCOs) to the Airport Authority of Hong Kong.

We are now collaborating with McLaren Deloitte on technology to enable us to better understand and predict the impact of operational decisions to maximise available airspace capacity and minimise delay. We believe combining our strengths with experts outside of the traditional aviation industry will enable us to develop innovative tools and services for ourselves, existing and new customers alike.

In April 2019, we were awarded a contract by NAV CANADA to install at Toronto Pearson Airport our intelligent approach system, which dynamically separates arriving aircraft by time instead of distance, which will help improve flight punctuality.

Brexit

The outcome of the European Union (EU) referendum decision and the triggering of Article 50 have 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). However, we are planning on the basis that measures put forward by the UK and the EU will ensure that flights can continue in any Brexit scenario.

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.

The UK Airports service provided ATC services to 13 major UK airports during the year as well as engineering support and airport optimisation services to UK airport operators. Large UK airports fall within the scope of European Single European Sky (SES) regulations but are exempted from disclosure requirements and cost efficiency targets. This is because NATS Services operates in a contestable market and faces competition from other ANSPs and airports using an in-house service.

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 services represent 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 and to provide environmental and engineering services. Our principal competitors in this market include 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 continue to grow our business overseas 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 levels of 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. Our subsidiaries 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. We delivered a safe ATC service this year while we continued to make changes to our operation.

We monitor the internal safety performance of our airports service using the Risk Analysis Tool (RAT[2]) which measures the severity and risk of air traffic events. On a 12-month rolling basis to 31 December 2018, our performance generated a RAT score of 20.1 (per 100,000 flights; 2017: RAT score of 23.0) which was better than our target of 25.0. There was no category A or B Airprox event attributable to NATS Services (2018: nil).

We successfully introduced electronic flight progress strips at Farnborough and Bristol airports. Electronic flight progress strips replace handwritten paper flight strips with multiple touch screen displays. It improves operational efficiency with increased electronic coordination and flight data sharing at the airport.

Also during the year, our airport units have continued to focus on local safety, training and skills development for staff.

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.

In April 2018, the Civil Aviation Authority (CAA) advised the Department for Transport (DfT) that the UK's TANS continue to be subject to market conditions. In its draft proposals for the UK National Performance Plan in February 2019, the CAA indicated that it had not heard any concerns from the EC about its advice. Therefore, it would not be setting cost efficiency or financial incentives for TANS in RP3.

People

One of our priorities for the year was the continuing focus on our people. In particular to ensure our people have the skills required to deliver today's operational service as well as the right mix of capabilities for the future as we develop the technology that drives our operation, and that we manage our people through this change.

Our People and Organisation Strategy aims to attract, retain and reward employees with the talent we need both now and in the future while ensuring that we continue to develop exciting careers and enhance the skills of our current workforce. Our culture must be open, inclusive and supportive to ensure that we remain a high performing organisation as we evolve.

In transforming our operation we will require specific skills, including those in digital and cyber technologies which are highly sought after in the market. We are also developing strategies to meet the needs of the future workforce, such as providing more flexible careers and on line learning opportunities, with career planning activity to ensure we effectively manage replacing skills as long-serving employees retire. This year we re-designed our process for recruiting ATCOs to enable us to meet future traffic growth and effectively manage expected retirements over the next few years. We continue to focus on improving our management of employee relations, with a programme that enhances management capability at all levels, focussing on joint problem solving and dispute avoidance through our conflict resolution approach and training programme. This supports valuable and effective dialogue with our unions ensuring employees have a meaningful voice in the decisions that are taken.

We have also improved our leadership development with particular focus on those identified through our talent process as having growth potential, with targeted, accelerated development and assessment opportunities that will support their future careers and enhanced contribution. Our focus remains to develop leadership capability at all levels.

More broadly, we are continuing to encourage young people to consider careers in aviation. We are a corporate member of the WISE campaign, a network of over 200 companies across different industries taking action to support women in STEM. Finally, we partnered with the Jon Egging Trust charity. Our mutual links to aviation, our passion for inspiring young people around technology and for supporting local communities makes this a great partnership. We are actively participating in the Trust's programmes, which also gives NATS employees the chance to gain new experiences.

Financial review

Profit before tax at £14.5m (2018: £2.5m) was £12.0m higher than last year's result. This mainly reflected improved income from our support to our Aquila joint venture in service of its Project Marshall contract for the MOD, lower staff pension and redundancy costs, and one-off gains on foreign exchange and asset sales. Partly offsetting these factors was the transfer of the Edinburgh Airport ATC contract to another provider at the end of the last financial year.

	£m	£m
2018 profit before tax		**2.5**
Revenue changes		
Airports		
Airport ATC and engineering	(6.3)	
Impact of adopting IFRS 15	(10.1)	
Reduction in airport property charges	(8.1)	
	(24.5)	
Defence services	5.9	
Other	2.3	
		(16.3)
Operating cost changes		
Staff costs	6.9	
Non-staff costs (net of other income):		
Impact of adopting IFRS 15	10.4	
Reduction in airport property charges	8.1	
Other non-staff	1.0	
Depreciation, amortisation and impairment (net of grants)	(0.5)	
Disposal of assets	2.1	
		28.0
Finance cost changes		
Other net finance costs	0.3	
		0.3
2019 profit before tax		**14.5**

Adoption of new International Financial Reporting Standards (IFRSs)

The company adopted IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers* in the year. In both cases, the cumulative effects of initial application have been recognised as adjustments to the balance sheet at 1 April 2018, and the comparative year has not been restated. Further detail on the transitional impact of these standards is described in Note 27. Overall, the adoption of these IFRSs has not had a material impact on the profit before tax for the year:

	As reported under previous accounting standards	Impacts of IFRS 9 and IFRS 15	As reported under IFRS 9 and IFRS 15
	£m	£m	**£m**
Revenue	207.6	(10.1)	**197.5**
Profit before tax	14.2	0.3	**14.5**
Net assets	191.4	0.7	**192.1**

Net assets have increased by £0.7m, mainly reflecting a change in the timing of revenue recognition for an airport ATC contract. In addition, the recovery from airport customers of charges for certain airport facilities and for safety regulation (totalling £10.1m) has been reported within operating costs rather than within revenue, which does not change profit before tax or net assets.

Revenue

Revenue at £197.5m (2018: £213.8m) was £16.3m or 7.6% lower than last year.
UK Airports revenue at £144.8m (2018: £169.3m) was £24.5m lower. In addition to the impact of IFRS 15 of £10.1m (see above), this mainly reflects a reduction in recharges of airport property costs (with no margin impact) and the transfer of the Edinburgh Airport ATC contract to another provider at the end of the last financial year. These factors were partly offset by increases in airport engineering income.
Defence services income at £26.6m (2018: £20.7m) increased by £5.9m, reflecting the performance of our subcontracts relating to the MOD's Project Marshall contract.

Revenue from Other UK business at £13.9m (2018: £12.7m) was £1.2m higher and International revenue at £12.2m (2018: £11.1m) was £1.1m higher.

Operating costs

	2019 £m	2018 £m
Staff costs	**(103.6)**	(110.5)
Non-staff costs	**(80.5)**	(100.0)
Depreciation, amortisation and impairment (net of grants)	**(3.6)**	(3.1)
Profit on disposal of non-current assets	**2.1**	-
Operating costs	**(185.6)**	(213.6)

Operating costs at £185.6m (2018: £213.6m) were £28.0m lower than the prior year.

Staff costs of £103.6m (2018: £110.5m) were 6.2% lower. This mainly reflected a lower accrual rate for the defined benefit pension scheme (see below), a reduction in headcount reflecting the transfer of the Edinburgh Airport contract and lower redundancy costs. These were partly offset by higher pay and employee share scheme costs.

Non-staff costs at £80.5m (2018: £100.0m) were £19.5m lower than the prior year. This mainly reflected the impact of IFRS 15 (see above), a reduction in airport property related charges, the transfer of the Edinburgh Airport ATC contract at the end of the last financial year and a one-off gain on foreign exchange. These were partly offset by the costs of supporting the level of airport engineering contract activity.

Asset depreciation and amortisation charges, net of grants, increased to £3.6m (2018: £3.1m) and included impairment charges of £1.1m.

The company also made a gain of £2.1m from the disposal of some radio mast sites.

Investment income

The company earned £2.6m (2018: £2.3m) from interest on bank deposits, a loan to NERL which was repaid during the year, and loans to joint ventures.

Balance sheet

The company's balance sheet is summarised as follows:

	2019 £m	2018 £m
Intangible fixed assets	**2.6**	3.9
Property, plant and equipment	**18.2**	14.3
Investments	**58.0**	7.6
Loan to fellow subsidiary	-	22.5
Loans to joint ventures (including interest)	**22.5**	19.7
Other non-current assets	**2.5**	2.1
Cash and short term deposits	**83.0**	104.0
Derivatives: net	**(0.1)**	(0.3)
Pension scheme (deficit)/surplus	**(4.7)**	22.8
Deferred tax asset/(liability)	**1.9**	(3.4)
Other net assets	**8.2**	16.8
Net assets	**192.1**	210.0

The decrease in net assets in the year mainly reflects the funding position of the defined benefit pension scheme, which reported a deficit (2018: surplus - see below) as well as retained earnings net of dividends paid in the year.

Defined benefit pensions

The company bears an economic share of the parent company's final salary defined benefit pension scheme. The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on pension arrangements is provided in note 23 to the financial statements.

a. IAS 19 charge and funding position

The cost (including salary sacrifice and past service) of defined benefit pensions at £15.5m (2018: £22.1m) reflected a lower accrual rate of 35.9% (2018: 48.6%) of pensionable pay.

IAS19 pension deficit	£m
At 1 April 2018	22.8
Charge to income statement*	(15.5)
Actuarial gains/(losses):	
- on scheme assets	65.3
- on scheme liabilities	(100.6)
Employer contributions*	23.3
At 31 March 2019	(4.7)
Represented by:	
Scheme assets	1,010.1
Scheme liabilities	(1,014.8)
Deficit	(4.7)

* including salary sacrifice

At 31 March 2019, the company's economic share of the scheme's liabilities exceeded assets by £4.7m (2018: £22.8m surplus) as measured under international accounting standards (IAS19) using best estimate assumptions. The real yield on AA corporate bonds used to value pension obligations decreased by 30 basis points during the year, which increased liabilities by more than the growth in the scheme's assets. The size of the scheme relative to the company means changes in financial market conditions can have relatively large impacts on the results and financial position.

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). The scheme's actuary also determined that the cost of employee benefits accruing in future was 41.8% of pensionable earnings (excluding salary sacrifice) 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 £41.8m in the 2019 calendar year 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 c.23% and will be met from its cash reserves.

Cash flow

	2019 £m	2018 £m
Net cash inflow/(outflow) from operating activities	**14.9**	(18.6)
Net cash used in investing activities	**(43.9)**	(13.3)
Net cash used in financing activities	**(2.0)**	(1.0)
Decrease in cash and cash equivalents	**(31.0)**	(32.9)
Cash and cash equivalents at end of year	**73.0**	104.0

Cash and cash equivalents decreased by £31.0m in the year to £73.0m (2018: £104.0m). Net cash from operating activities at £14.9m was £33.5m higher than the prior year (2018: £18.6m outflow). This mainly reflected lower operating costs, including intercompany payments, and lower pension contributions. There was a net cash outflow from investing activities of £43.9m (2018: £13.3m), which included £51.0m for the investment in the company's US subsidiary to acquire its holding in Aireon. This was part funded by the repayment of an intercompany loan to NERL of £22.5m. The company also made additional loans to its Aquila joint venture of £1.4m (net) and placed £10.0m on short term deposit. The company paid dividends of £2.0m (2018: £1.0m) to its parent.

Performance by customer group

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.

UK Airports

	2019	2018
Financial performance:		
Revenue from customers (£m)	144.4	169.0
Revenue from other sources (£m)	0.4	0.3
Total revenue (£m)	144.8	169.3
Service line contribution (£m)	25.6	26.8
Capital expenditure (£m)	2.1	2.3
Operational performance:		
Airports served: UK (no.)	13	14
Risk-bearing airprox (no.)	nil	nil
Significant milestones:		
Electronic Flight Progress Strips at Farnborough and Bristol Airports		April/Nov
Replacement Voice Communication Equipment at Bristol Airport		May
Installation of ATC Simulator at Heathrow Airport		May
Replacement Instrumented Runway Visual Range Systems at Bristol and Southampton Airports		July/Oct
Heathrow Airport Demand Capacity Balancing		March
London City Digital Tower Factory Acceptance Test and live images relayed to Swanwick Virtual Tower		March
Durham Tees Valley Terma Radar Factory Acceptance Test		March
Glasgow Airports Terma Radar Site Acceptance Test		March

UK Airports maintained its safe service performance during the year and delivered a number of important engineering solutions to customers. In addition to developments discussed above, at Heathrow Airport we completed a demand capacity balancing project which will help the airport to continue to optimise its performance.

Revenue was 14.5% lower at £144.8m (2018: £169.3m) for the reasons explained above, and contribution at £25.6m (2018: £26.8m) was 4.5% lower. Capital expenditure of £2.1m (2018: £2.3m) included the further development of the infrastructure in service of London City Airport's digital tower.

Defence services

	2019	2018
Financial performance:		
Revenue from customers (£m)	26.6	20.7
Revenue from other sources (£m)	-	-
Total revenue (£m)	26.6	20.7
Service line contribution (£m)	1.2	(4.6)
Capital expenditure (£m)	2.5	1.0
Operational performance:		
Airfields served (no.)	4	4
Significant milestones:		
22 MOD radio sites commissioned and entered service		
Three MOD tower sites commissioned and entered service		
Testing the first stage of military flight planning tool upgrade		
Transfer of RAF Woodvale and RAF Barkston Heath ready to commence ATC services from 1 April 2019		

The major source of income for Defence services is support provided to our Aquila joint venture for its Project Marshall contract with the MOD. The service provision elements of this contract are performing as planned and included ATC services to Wattisham Airfield, Netheravon Airfield and AAC Middle Wallop and to Gibraltar Airport in the year. In April 2019 we also commenced services provision at two further airbases: RAF Woodvale and RAF Barkston Heath.

Revenue at £26.6m (2018: £20.7m) reflected progress with the asset provision contract, which faced schedule challenges in the previous year. This year Defence services reported a contribution of £1.2m (2018: £4.6m loss). In the prior year we re-assessed the profitability of the asset provision contract. The outlook for this contract remains break-even.

Other NATS customers

	2019	2018
Financial performance:		
Revenue from customers (£m)	25.8	23.5
Revenue from other sources (£m)	0.3	0.3
Total revenue (£m)	26.1	23.8
- Other UK business	*13.9*	*12.7*
- International	*12.2*	*11.1*
Service line contribution (£m)	6.8	4.8
- Other UK business	*5.8*	*4.1*
- International	*1.0*	*0.7*
Capital expenditure (£m)	1.8	1.5
Operational performance:		
Airports served: Spain (no.)*	13	9
Secured order value:		
UK contracts (£m)	15.0	16.3
Overseas contracts (£m)	1.5	69.1

* Service provided by our FerroNATS joint venture

Other UK business revenue of £13.9m (2018: £12.7m), mainly from services to wind farm operators, was higher than last year and contributed £5.8m (2018: £4.1m). International revenues at £12.2m (2018: £11.1m) were £1.1m higher, representing an increase in assistance to international subsidiaries to support their growth. At a contribution level, international activities reported a profit of £1.0m (2018: £0.7m).

Our priorities for financial year 2019/20 are:

- Provide safe and resilient air traffic services from our airports every day;
- Provide a digital tower air traffic service to London City Airport from Swanwick, and
- Invest in our people by launching a new digital workplace and intranet to improve how we collaborate, communicate and stay connected.

Guy Adams

Commercial Director

Principal risks and uncertainties

The operational complexities inherent in the business leave NATS Services with a number of significant risks to manage. Our risk management process has identified the key risks that the Board believes are likely to have the most significant potential 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. The Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten its business model, future performance, solvency or liquidity. 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 failure of NATS air traffic management control that results in an accident in the air or on the ground would significantly impact NATS Services 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 currently 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 Services 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 checks of system health through structured reviews with evidence-based outcomes. In addition, tactical issues are assessed as a matter of course 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.

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 would be subject to economic regulation. The UK Government has advised the EC that market conditions have been established for RP3. This remains subject to EC endorsement.

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. A detailed review of NATS preparedness for Brexit was undertaken during the year and mitigating plans were developed and are being progressed, including how we support EU nationals employed in the UK and mitigate risks to our supply chain.

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 and staff resourcing

The challenging competitive environment in the UK and overseas may require changes across our organisation. Changes of this nature have the potential to create challenges in employee relations if not managed sensitively, with a corresponding impact on our service performance. Therefore, every effort is being made to continue to build and sustain good employee relations, including joint working groups with union representatives as part of an employee relations improvement project.

A people and organisation strategy is being implemented to ensure we have the right numbers and mix of skills in future to meet our strategic objectives, particularly given the demographic profile of our workforce today.

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 27 June 2019 and signed by order of the Board 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 2019.

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 two interim dividends of £1.0m (£10.00 per share) during the year, totalling £2.0m (2018: £1.0m). The Board recommends a final dividend for the year of £nil (2018: £nil).

In May 2019, the Board approved and the company paid an interim dividend of £1.0m (£10.00 per share) for the year ending 31 March 2020.

Directors and their interests

The directors of the company 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 2019:

Guy Adams	3,801
Nigel Fotherby	3,501
Martin Rolfe	1,024

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, safety and wellbeing 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 28 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, relating to the company, which is included on the NATS group'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 by order of the Board by:

Richard Churchill-Coleman
Secretary
27 June 2019

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 2019 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 2019 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 2019 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
27 June 2019

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	2019 £m	2018* £m
Revenue	4	197.5	213.8
Staff costs	7	(103.6)	(110.5)
Services and materials		(23.7)	(48.2)
Repairs and maintenance		(7.6)	(3.6)
Depreciation, amortisation and impairment	6	(3.9)	(3.4)
Profit on disposal of non-current assets		2.1	-
Other operating charges		(49.2)	(48.2)
Deferred grants released	6	0.3	0.3
Net operating costs		(185.6)	(213.6)
Operating profit	6	11.9	0.2
Investment income	8	2.6	2.3
Profit before tax		14.5	2.5
Tax	9	(1.7)	(0.3)
Profit for the year attributable to equity shareholders		12.8	2.2

Statement of comprehensive income
for the year ended 31 March

	Notes	2019 £m	2018* £m
Profit for the year after tax		12.8	2.2
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	23	(35.3)	91.3
Deferred tax relating to items that will not be reclassified	18	6.2	(16.3)
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives	14	0.2	0.1
Transfer to income statement on cash flow hedges		(0.2)	-
Deferred tax relating to items that may be reclassified	18	(0.1)	-
Other comprehensive (loss)/income for the year, net of tax		(29.2)	75.1
Total comprehensive (loss)/income for the year attributable to equity shareholders		(16.4)	77.3

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

Balance sheet
for the year ended 31 March

	Notes	2019 £m	2018 £m
Non-current assets			
Intangible assets	11	2.6	3.9
Property, plant and equipment	12	18.2	14.3
Investments	25	58.0	7.6
Loan to joint ventures	25	21.1	19.7
Deferred tax asset	18	1.9	-
Trade and other receivables	13	2.5	2.1
Retirement benefit asset	23	-	22.8
		104.3	70.4
Current assets			
Loan to joint ventures	25	1.4	-
Loan to fellow subsidiary	13	-	22.5
Trade and other receivables	13	70.8	73.9
Cash and cash equivalents	15	73.0	104.0
Short term investments	15	10.0	-
Derivative financial instruments	14	0.2	0.1
		155.4	200.5
Total assets		259.7	270.9
Current liabilities			
Trade and other payables	16	(46.6)	(43.3)
Current tax liabilities		(0.6)	(0.1)
Provisions	17	(1.0)	(1.1)
Derivative financial instruments	14	(0.3)	(0.4)
		(48.5)	(44.9)
Net current assets		106.9	155.6
Non-current liabilities			
Trade and other payables	16	(13.7)	(12.2)
Retirement benefit obligations	23	(4.7)	-
Deferred tax liability	18	-	(3.4)
Provisions	17	(0.7)	(0.4)
		(19.1)	(16.0)
Total liabilities		(67.6)	(60.9)
Net assets		192.1	210.0
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		0.2	0.3
Retained earnings		191.8	209.6
Total equity		192.1	210.0

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 27 June 2019 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 2017 (as previously stated)	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 (as previously stated)	0.1	0.3	209.6	210.0
At 1 April 2018 (as previously stated)	0.1	0.3	209.6	210.0
Adjustment on initial application of IFRS 9 (see note 27)	-	-	-	-
Adjustment on initial application of IFRS 15 (see note 27)	-	-	0.5	0.5
At 1 April 2018 (as restated for IFRS 9 and IFRS 15)	0.1	0.3	210.1	210.5
Profit for the year	-	-	12.8	12.8
Other comprehensive loss for the year	-	(0.1)	(29.1)	(29.2)
Total comprehensive loss for the year	-	(0.1)	(16.3)	(16.4)
Dividends paid	-	-	(2.0)	(2.0)
At 31 March 2019	0.1	0.2	191.8	192.1

Cash flow statement
for the year ended 31 March

	Notes	2019 £m	2018 £m
Net cash inflow/(outflow) from operating activities	20	14.9	(18.6)
Cash flows from investing activities			
Interest received on short term investments		0.6	0.5
Purchase of property, plant and equipment and other intangible assets		(5.2)	(6.0)
Proceeds of disposal of property, plant and equipment		0.1	-
Changes in short term investments		(10.0)	-
Investment in subsidiaries		(51.0)	(4.7)
Dividends from joint ventures		0.8	0.8
Repayment of loan to fellow subsidiary		22.5	-
Loans to joint ventures		(1.7)	(3.9)
Net cash outflow from investing activities		(43.9)	(13.3)
Cash flows from financing activities			
Dividends paid		(2.0)	(1.0)
Net cash outflow from financing activities		(2.0)	(1.0)
Decrease in cash and cash equivalents during the year		(31.0)	(32.9)
Cash and cash equivalents at 1 April		104.0	136.9
Cash and cash equivalents at 31 March		73.0	104.0

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 15. 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. Basis of preparation and accounting policies

The financial statements have been prepared on the going concern basis, as explained on page 32, and in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). 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 issued by the International Accounting Standards Board (IASB).

Accounting standards adopted in the year

The company has adopted the requirements of IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers* from 1 April 2018. The impact of these standards is set out in note 27.

In addition, the company has adopted IFRIC 22: *Foreign Currency Transactions and Advance Consideration,* an interpretation to a standard, which had no material impact on the financial statements.

Other new and amended standards and Interpretations issued by the IASB have not resulted in any material impact on the financial statements of the company.

Future accounting developments

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 16: *Leases*
- IFRS 3 (amendments): *Definition of a Business*
- IFRS 9 (amendments): *Prepayment Features with Negative Compensation and Clarification regarding the modification of financial liabilities*
- IAS 1 and IAS 8 (amendments): *Definition of Material*
- IAS 19 (amendments): *Plan Amendment, Curtailment or Settlement*
- IAS 28 (amendments): *Long-term Interests in Associates and Joint Ventures*
- IFRIC 23: *Uncertainty over Income Tax Treatments*

IFRS 16: *Leases* has an effective date for annual periods beginning on or after 1 January 2019 and will be adopted by the company from 1 April 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17: *Leases*. Lessees will recognise a right of use asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The company expects to adopt the standard using a modified retrospective approach where the fair value of right of use assets and the lease liabilities are equal in value on initial application, and comparatives are not restated.

As at 31 March 2019, the company has non-cancellable operating lease commitments of £10.5m as disclosed in note 21. We expect 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 effect of adoption of IFRS 16 at 1 April 2019 is expected to recognise right of use assets of c.£5.6m and lease liabilities of c.£5.8m, and for prepayments and accruals to decrease by c.£0.2m. 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 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 Public Private Partnership (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 and fair value basis. The principal accounting policies adopted are set out below.

Revenue recognition

Revenue is recognised from the transfer of goods or services at an amount that the company expects to be entitled to in exchange for those goods or services. Revenue is recognised based on the satisfaction of performance obligations, which are characterised by the transfer of control over a product or service to a customer. Revenue excludes amounts collected on behalf of third parties.

For the comparative year, revenue was measured at the fair value of the consideration received or receivable. Revenue from the rendering of services was recognised when the outcome could be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date and in accordance with airport contracts and other contracts. Revenue for the sale of goods was recognised when the goods were delivered and title passed.

UK airports

The company provides ATC, engineering support and airport optimisation services to UK airport customers. Each of these services represents a distinct performance obligation, but with a consistent pattern of delivery over the life of the contract. Revenue for these services is recognised over time (as the customer consumes all of the benefits provided by the company as the company performs) and on a time lapse basis.

Variable consideration for traffic volume risk sharing and service performance incentives is recognised in the financial year in which the service is provided.

Defence services

The company provides ATC, asset provision and engineering maintenance services under the MOD's Project Marshall contract to the Aquila joint venture. These are separate contracts priced on a standalone basis, using a cost plus a margin approach. The ATC and engineering maintenance services represent distinct performance obligations. The asset provision contract contains two performance obligations. In each case, revenue is recognised over time.

Other UK business

The company provides other services to UK customers including consultancy, training and information. These contracts can contain multiple deliverables that are considered distinct. The transaction price is allocated to each performance obligation based on stand-alone selling prices. Where the transaction price is not directly observable, the prices are estimated based on a cost plus margin. Revenue is recognised in line with costs incurred or labour hours expended for work performed to date, as a proportion of the estimated total contract costs.

International

The company provides ATC and related services (including consultancy, engineering, training and information services) to overseas customers. Revenue is recognised as for similar services described above.

Income from other sources

Rental income from operating leases is recognised on a straight-line basis over the relevant lease term.

Dividend income is recognised when a shareholder's rights to receive payment has been established.

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.

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 customers who receive common products or services. Operating segment 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.

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 as adjusted by post-acquisition changes in the company's share of the net assets of the associate or joint venture, 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.

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 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 CAA 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. Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent re-measurement depends on the company's business model for managing the financial asset and its cash flow characteristics.

The company has financial assets at amortised cost. The company does not have financial assets at fair value through the profit or loss or at fair value through other comprehensive income. Detailed disclosures are set out in notes 13 to 16.

Financial assets:

Amortised cost

These assets arise principally from the provision of goods and services to customers (such as loans and trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process, the probability of the non-payment of trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, such provisions are recorded in a separate provision account with the loss being recognised in the income statement.

On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

In the prior year, impairment losses on trade receivables were recognised using allowance accounts. When a trade receivable was considered irrecoverable, it was written off against the allowance account, any subsequent recoveries were credited to the allowance account. Changes in the allowance account were recognised in the income statement.

Impairment provisions for other receivables are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether at each reporting date, there has been a significant increase in credit risk since initial recognition of the financial asset.
For those financial assets where the credit risk has not increased significantly since initial recognition, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

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 or loss' or 'other financial liabilities'.

Fair value through the profit or loss

Financial liabilities at fair value through the profit or 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.

As permitted under IFRS 9, the company has elected to continue to apply the existing hedge accounting requirements of IAS 39 for its cash flow hedges until a new macro hedge accounting standard is implemented by the IASB.

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 group's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The group 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 group 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 2019.

4. Revenue

The company has recognised the following revenue in the income statement:

	2019 £m	2018* £m
Revenue from contracts with customers	196.8	213.2
Revenue from other sources: rental and sub-lease income	0.7	0.6
Total revenue	197.5	213.8
Investment income (see note 8)	2.6	2.3
	200.1	216.1

a) Revenue disaggregated by operating segment

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, aligned with our customers: UK Airports, Defence services, Other UK Business and International, and the products and services provided to each.

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), profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy and relocation costs. 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 services	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.

	2019			2018*		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Revenue from contracts with customers						
UK Airports	131.7	12.7	144.4	156.7	12.3	169.0
Defence services	26.1	0.5	26.6	20.4	0.3	20.7
Other UK Business	8.2	5.4	13.6	7.0	5.4	12.4
International	6.3	5.9	12.2	7.7	3.4	11.1
Total revenue from contracts with customers	172.3	24.5	196.8	191.8	21.4	213.2
Revenue from other sources						
UK Airports	0.4	-	0.4	0.3	-	0.3
Other UK Business	0.3	-	0.3	0.3	-	0.3
	0.7	-	0.7	0.6	-	0.6
Total revenue	173.0	24.5	197.5	192.4	21.4	213.8

Intercompany revenue includes revenue for services to NATS (En Route) plc of £18.6m (2018: £18.0m), NATS Services (Asia Pacific) Pte. Limited of £4.6m (2018: £3.4m), and NATS Services (Hong Kong) Limited of £1.3m (2018: £nil).

b) Revenue disaggregated by timing of recognition

	2019			2018*		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Over time						
Revenue from contracts with customers	171.0	24.5	195.5	191.3	21.4	212.7
Revenue from other sources	0.7	-	0.7	0.6	-	0.6
	171.7	24.5	196.2	191.9	21.4	213.3
At a point in time						
Revenue from contracts with customers	1.3	-	1.3	0.5	-	0.5
	1.3	-	1.3	0.5	-	0.5
	173.0	24.5	197.5	192.4	21.4	213.8

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

4. Revenue (continued)

c) Revenue disaggregated by geographical area

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

	2019			2018*		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Revenue from contracts with customers						
United Kingdom	165.3	18.6	183.9	182.7	18.0	200.7
Other European countries	1.7	-	1.7	2.6	-	2.6
Countries in Asia	5.2	5.9	11.1	6.4	3.4	9.8
Countries in North America	0.1	-	0.1	-	-	-
Countries in Oceania	-	-	-	0.1	-	0.1
Total revenue from contracts with customers	172.3	24.5	196.8	191.8	21.4	213.2
Revenue from other sources						
United Kingdom	0.7	-	0.7	0.6	-	0.6
	173.0	24.5	197.5	192.4	21.4	213.8

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.

Information about major customers

Included in revenues arising from UK Airports are revenues of £51.9m (2018: £58.0m) which arose from the company's largest customer.

d) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 13 and 16. Significant changes in the contract assets and the contract liabilities balances during the year are as follows:

	Contract assets 2019 £m	Contract liabilities 2019 £m
At 1 April (as previously reported)	19.2	(19.5)
Opening contract assets transferred to trade and other receivables	(14.8)	-
Additional contract asset balances recognised at the balance sheet date	16.9	-
Opening contract liabilities which have now been recognised as revenue	-	6.6
Increases due to cash received, excluding amounts recognised as revenue during the year	-	(7.4)
At 31 March	21.3	(20.3)

Contract assets and contract liabilities are included within "trade and other receivables" and "trade and other payables" respectively on the face of the balance sheet. The majority of contracts in the UK Airports service lines are service contracts that do not result in a contract asset or liability position at each reporting date. Other contracts (including consultancy, engineering, training and information services) may result in a contract asset or liability because the cumulative payments received from customers at each balance sheet date does not necessarily equal the amount of revenue recognised on these contracts.

e) Revenue recognised from performance obligations satisfied in previous periods

For the year ended 31 March 2019, no revenue was recognised for performance obligations satisfied in previous periods.

f) Remaining performance obligations

For the majority of contracts, the company has a right to consideration from the customer in an amount that corresponds directly to the value to the customer of the company's performance completed to date, or the contract has an original duration of one year or less. For such contracts, the practical expedient in paragraph 121 of IFRS 15 applies.

For the remaining contracts, the amount of revenue that will be recognised in future periods in relation to performance obligations that are partially satisfied at 31 March 2019 is approximately as follows:

	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
UK Airports	14.8	0.9	-	-	15.7
Defence services	0.4	-	-	-	0.4
Other UK Business	0.8	0.4	-	-	1.2
International	2.1	-	-	-	2.1
	18.1	1.3	-	-	19.4

The amounts disclosed above do not include variable consideration which is constrained.

As permitted under the transitional provisions in IFRS 15, no comparative information for the year ended 31 March 2018 is disclosed.

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

5. Operating segments: Operating profit

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:

	2019 £m	2018 £m
UK Airports	25.6	26.8
Defence services	1.2	(4.6)
Other UK Business	5.8	4.1
International	1.0	0.7
Service line contribution	33.6	27.0
Costs not directly attributed to service lines:		
Depreciation, amortisation and impairment (net of deferred grants released)	(3.5)	(3.1)
Impairment of investment in NATS (USA) Inc.	(0.1)	-
Profit on disposal of non-current assets	2.1	-
Employee share scheme (costs)/credits	(0.5)	0.6
Redundancy and relocation costs	(1.2)	(2.7)
Foreign exchange gain	1.9	-
Other costs not directly attributed to service lines	(20.4)	(21.6)
Operating profit	11.9	0.2

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:

	2019			2018		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	107.4	90.1	197.5	142.2	71.6	213.8
Costs (net)	(95.7)	(89.9)	(185.6)	(132.3)	(81.3)	(213.6)
Operating profit	11.7	0.2	11.9	9.9	(9.7)	0.2

Non-current asset additions

Additions to non-current assets presented by service line are: UK Airports £2.1m (2018: £2.3m), Defence services £2.5m (2018: £1.0m), and Other UK Business £1.8m (2018: £1.5m).

Geographical segments

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £59.3m (2018: £8.6m) which the company holds in overseas entities (see note 25). These investments have been established to enable the company to undertake business abroad or to hold foreign equity investments.

6. Operating profit for the year

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

	2019 £m	2018 £m
CAA regulatory charges for safety regulation at airports	0.1	2.9
Voluntary redundancy costs	1.0	3.2
Staff relocation costs (net of credits for revisions to estimates) following site closures	0.2	(0.5)
Depreciation of property, plant and equipment	2.1	1.6
Amortisation of intangible assets	0.7	0.7
Impairment of internally generated intangible assets	1.0	1.1
Impairment of investment in NATS (USA) Inc.	0.1	-
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.

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 costs is a £0.2m gain (2018: £nil).

Transactions with group companies

	2019 £m	2018 £m
Charges for seconded staff under the terms of the MSA provided by NATS Limited (see below)	104.4	111.5
Charges for services provided by NATS Limited	2.5	2.4
Charges for services provided by NATS (En Route) plc	25.9	25.7
Charges for services provided by NATS Solutions Limited	4.0	4.0
Charges for services provided by NATS Services DMCC	1.9	1.8
Charges for services provided by NATS Services (Asia Pacific) Pte. Limited	0.4	0.2

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 and NATS Services (Hong Kong) Limited provide 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

	2019 £m	2018 £m
Salaries and staff costs were as follows:		
Wages and salaries	75.6	76.9
Social security costs	9.0	9.0
Pension costs (note 7b)	19.8	25.6
	104.4	111.5
Less: amounts capitalised	(0.8)	(1.0)
	103.6	110.5

Wages and salaries include a charge of £1.0m (2018: £3.2m) for redundancy, share based payment charges, other allowances and holiday pay.

b) Pension costs

	2019 £m	2018 £m
Defined benefit pension scheme costs (note 23)	15.5	22.1
Defined contribution pension scheme costs	4.3	3.5
	19.8	25.6

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

c) Staff numbers

	2019 No.	2018 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	451	471
Air traffic service assistants	112	129
Engineers	124	133
Others	217	218
	904	951

8. Investment income

	2019 £m	2018 £m
Dividends from investments	0.8	0.8
Interest on bank deposits	0.6	0.3
Interest receivable from intercompany loans	-	0.2
Other interest receivable	1.2	1.0
	2.6	2.3

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

9.Tax

	2019 £m	2018* £m
Corporation tax		
Current tax	0.8	(0.8)
Adjustments in respect of prior year - UK taxation	0.1	-
Foreign taxation	-	0.1
Double taxation relief prior year adjustment	-	(0.1)
	0.9	(0.8)
Deferred tax (see note 18)		
Origination and reversal of temporary timing differences	2.0	1.1
Adjustments in respect of prior year	(1.2)	-
	0.8	1.1
	1.7	0.3

Corporation tax is calculated at 19% (2018: 19%) 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:	2019 £m		2018* £m	
Profit on ordinary activities before tax	14.5		2.5	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2018: 19%)	2.8	19.0%	0.5	19.0%
Tax effect of change in corporation tax rate from 19% to 17% (2018: 19% to 17%)	(0.1)	(0.7%)	-	-
Tax effect of prior year adjustments - current tax	0.1	0.7%	-	-
Tax effect of prior year adjustments - deferred tax	(1.2)	(8.2%)	-	-
Other permanent differences	0.2	1.6%	(0.1)	(3.5%)
Dividends from joint ventures	(0.1)	(0.7%)	(0.1)	(3.5%)
Tax charge for year at an effective tax rate of 11.7% (2018: 12.0%)	1.7	11.7%	0.3	12.0%
Deferred tax credit/(charge) taken directly to equity (see note 18)	6.1		(16.3)	

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

10. Dividends

	2019 £m	2018 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of £10.00 per share (2018: £10.00 per share)	1.0	1.0
Second interim dividend of £10.00 per share (2018: £nil per share)	1.0	-
	2.0	1.0

In May 2019, the Board approved and the company paid an interim dividend for the year ending 31 March 2020 of £10.00 per share (totalling £1.0m).

11. Intangible assets

	Operational software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 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
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.5	1.5	2.0
Disposals during the year	(0.5)	(1.1)	-	(1.6)
Transfers during the year	-	0.1	(1.8)	(1.7)
At 31 March 2019	4.0	2.7	2.2	8.9
Accumulated amortisation				
At 1 April 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
Charge for the year	0.2	0.5	-	0.7
Impairment provision recognised in income statement	-	0.8	0.2	1.0
Disposals during the year	(0.5)	(1.1)	-	(1.6)
At 31 March 2019	4.0	2.1	0.2	6.3
Carrying amount				
At 31 March 2019	-	0.6	2.0	2.6
At 31 March 2018	0.2	1.3	2.4	3.9
At 1 April 2017	0.3	0.9	2.9	4.1

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

12. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 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
Additions during the year	-	0.5	1.5	-	2.3	4.3
Disposals during the year	-	-	(1.8)	-	-	(1.8)
Other transfers during the year	-	-	2.9	-	(1.2)	1.7
At 31 March 2019	0.1	5.4	36.9	2.8	5.7	50.9
Accumulated depreciation and impairment						
At 1 April 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
Provided during the year	-	-	2.1	-	-	2.1
Disposals during the year	-	-	(1.8)	-	-	(1.8)
At 31 March 2019	0.1	4.9	24.9	2.8	-	32.7
Carrying amount						
At 31 March 2019	-	0.5	12.0	-	5.7	18.2
At 31 March 2018	-	-	9.7	-	4.6	14.3
At 1 April 2017	-	-	6.7	0.1	5.9	12.7

The company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year a total impairment charge of £1.0m (2018: £1.1m) was made, including £0.8m (2018: £1.1m) in respect of non-operational software and £0.2m (2018: £nil) of the provision relating to assets in the course of construction at 31 March 2019.

13. Financial and other assets

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

Trade and other receivables

	2019 £m	2018* £m
Non-current		
Receivable from customers gross (nil provision for impairment)	1.6	-
Prepayments	0.9	1.3
Accrued income	-	0.8
	2.5	2.1
Current		
Loan to fellow subsidiary - interest bearing (NATS (En Route) plc)	-	22.5
Receivable from customers gross	25.8	25.9
Less: provision for impairment	(0.1)	(0.1)
	25.7	25.8
Amounts recoverable under contracts	1.6	1.0
Contract spare parts	0.5	0.5
Contract assets	21.3	-
Other debtors	2.3	-
Prepayments	3.2	4.6
Amounts due from fellow subsidiary (NATS (En Route) plc)	-	9.9
Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited)	13.3	8.6
Amounts due from subsidiary undertaking (NATS Services DMCC)	0.5	-
Amounts due from subsidiary undertaking (NATS (USA) Inc.)	0.5	0.5
Amounts due from subsidiary undertaking (NATS (Hong Kong) Limited)	1.9	-
Accrued income	-	23.0
	70.8	73.9

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

13. Financial and other assets (continued)

Under IFRS 15, income not yet invoiced relating to revenue from contracts with customers is included within receivable from customers. Income not yet invoiced from other sources is included within other debtors. Under previous accounting standards, these balances were disclosed within accrued income.

Contract assets, which are all current, are expected to transfer to receivables from customers by 31 March 2020.

The average credit period taken on sales of services is 33 days (2018: 33 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.1m (2018: £0.1m).

Movement in the impairment provision

	2019 £m	2018* £m
Balance at the beginning of the year (as previously stated)	0.1	0.4
Adjustment on initial application of IFRS 9 (see note 27)	-	-
Balance at the beginning of the year (as restated for IFRS 9)	0.1	0.4
Decrease in allowance recognised in the income statement	-	(0.2)
Foreign exchange movement in the year	-	(0.1)
Balance at the end of the year	0.1	0.1

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of the trade receivables and contract assets have been considered. Based on this trade receivables and contract assets have been grouped into two separate groups as they are considered to have different credit risk characteristics: UK Airports, Defence services and Other UK Business, and International. Two matrices based on the days past due have been used to summarise the historic loss patterns. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for the contract assets.

At 31 March 2019 the lifetime expected loss provision for trade receivables and contract assets is as follows:

	Receivables - months past due						
	Current	1 month	2-3 months	4-6 months	>6 months	In administration	Total
UK Airports, Defence services and Other UK Business service lines							£m
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount (£m)	40.9	1.4	0.1	0.3	-	-	42.7
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-
International service line							£m
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount (£m)	5.4	0.4	0.1	-	-	0.1	6.0
Lifetime expected credit loss (£m)	-	-	-	-	-	0.1	0.1
Total expected credit losses	-	-	-	-	-	0.1	0.1

Non-current trade and other receivables consist mainly of discounts paid to UK Airport customers that are being released against billed revenue over the remaining life of the airport ATC contract. Of these amounts £0.6m will be released by 31 March 2021, £0.8m by 31 March 2024 and £0.2m by 31 March 2025. None of those receivables has been subject to a significant increase in credit risk since initial recognition and there are no non-current receivable lifetime expected credit losses.

As at 31 March 2019, trade receivables of £0.1m (2018: £0.1m) had lifetime expected credit losses of the full value of the receivables.

There are no receivables in the allowance for doubtful debts which are in administration, receivership or liquidation (2018: £nil).

At 31 March 2018, NATS Services provided unsecured loans totalling £22.5m to NERL. This loan was 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, up to the point of repayment, was 1.2% (2018: 1.2%).

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 £174.2m (2018: £215.8m).

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

14. Derivative financial instruments

Fair value of derivative financial instruments

	2019 £m	2018 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.2	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.3)	(0.4)

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:

	2019 £m	2018 £m
Financial assets:		
Financial assets at amortised cost		
Loans and receivables, excluding prepayments and contract spare parts	91.2	111.8
Cash and cash equivalents and short term investments	83.0	104.0
	174.2	215.8
Derivative financial instruments		
In designated hedge accounting relationships	0.2	0.1
	174.4	215.9
Financial liabilities:		
Liabilities at amortised cost		
Trade and other payables	(35.6)	(33.0)
Derivative financial instruments		
In designated hedge accounting relationships	(0.3)	(0.4)
	(35.9)	(33.4)

Liabilities at amortised cost include balances for trade and other payables (excluding contract liabilities, deferred income of £1.7m (2018: £22.0m) and VAT of £2.7m (2018: £0.5m)) 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 2019.

Market risk

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

15. Financial instruments (continued)

Foreign currency risk management

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

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

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

	Assets		Liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
Euro	0.9	0.5	(1.4)	(1.2)
Canadian dollar	1.8	1.4	-	(0.5)
Hong Kong dollar	-	0.1	-	-
Kuwaiti dinar	0.3	0.3	-	-
Norwegian krone	-	0.2	-	-
Philippine peso	0.4	0.4	-	-
Qatari riyal	1.1	0.9	-	-
Singapore dollar	2.2	2.0	(0.1)	(0.1)
Swedish krona	0.3	-	(0.3)	-
Thai baht	3.7	4.2	(0.1)	(0.1)
UAE dirham	1.2	1.3	-	-
US dollar	1.7	1.1	(0.4)	(0.4)
	13.6	12.4	(2.3)	(2.3)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £5.4m at 31 March 2019 (2018: £2.1m) in euro, Canadian dollars, Kuwaiti dinar, Qatari riyal, Singapore dollars, Swedish krona, Thai baht, UAE dirham and US dollars. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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	2019 Impact £m	2018 Impact £m
Euro	(0.7)	(0.9)
Canadian dollar	(0.2)	(0.2)
Norwegian krone	-	(0.1)
Philippine peso	(0.1)	(0.1)
Qatari riyal	(0.1)	(0.1)
Singapore dollar	-	0.2
Swedish krona	-	(0.1)
Thai baht	(0.4)	0.2
UAE dirham	(0.1)	(0.1)
US dollar	(0.2)	(1.5)
	(1.8)	(2.7)

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

15. Financial instruments (continued)

Forward foreign exchange contracts

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

The following contracts were outstanding at year end:

	2019				2018		
			Average exchange rate				Average exchange rate
Euro sold	£m	€m		Euro sold	£m	€m	
0-90 days	-	-	-	0-90 days	0.2	0.2	0.7586
91-365 days	5.8	6.6	0.8853	91-365 days	-	-	-
	5.8	6.6	0.8853		0.2	0.2	0.7586
Euro bought	€m	£m		Euro bought	€m	£m	
0-90 days	6.1	5.2	0.8639	0-90 days	10.1	9.0	0.8935
91-365 days	8.6	7.6	0.8889	91-365 days	1.0	0.9	0.9089
> 365 days	-	-	-	> 365 days	0.2	0.2	0.9048
	14.7	12.8	0.8760		11.3	10.1	0.8942
Canadian dollar bought	C$m	£m		Canadian dollar bought	C$m	£m	
0-90 days	-	-	-	0-90 days	0.3	0.2	1.6984
91-365 days	0.4	0.2	1.9855	91-365 days	0.7	0.4	1.8471
> 365 days	-	-	-	> 365 days	0.4	0.2	1.9855
	0.4	0.2	1.9855		1.4	0.8	1.8444
Norwegian krone sold	£m	NOKm		Norwegian krone sold	£m	NOKm	
0-90 days	-	-	-	0-90 days	0.2	1.6	10.4125
91-365 days	-	-	-	91-365 days	0.2	1.6	10.4251
	-	-	-		0.4	3.2	10.4188
Norwegian krone bought	NOKm	£m		Norwegian krone bought	NOKm	£m	
0-90 days	1.1	0.1	11.0369	0-90 days	3.3	0.3	11.4569
> 365 days	-	-	-	> 365 days	5.6	0.5	11.2597
	1.1	0.1	11.0369		8.9	0.8	11.3324
Singapore dollar sold	£m	SGDm		Singapore dollar sold	£m	SGDm	
0-90 days	1.2	2.1	1.7840	0-90 days	1.2	2.1	1.8414
91-365 days	1.1	2.1	1.8428	91-365 days	1.5	2.8	1.8202
> 365 days	-	-	-	> 365 days	1.1	2.1	1.8428
	2.3	4.2	1.8129		3.8	7.0	1.8333
Swedish krona bought	SEKm	£m		Swedish krona bought	SEKm	£m	
0-90 days	1.3	0.1	11.1058	0-90 days	2.7	0.2	11.2320
91-365 days	3.3	0.3	11.0590	91-365 days	3.3	0.3	11.1875
> 365 days	-	-	-	> 365 days	4.7	0.4	11.0723
	4.6	0.4	11.0723		10.7	0.9	11.1478
Thai baht sold	£m	THBm		Thai baht sold	£m	THBm	
0-90 days	-	-	-	0-90 days	5.8	259.2	44.4514
	-	-	-		5.8	259.2	44.4514
US dollar bought	$m	£m		US dollar bought	$m	£m	
0-90 days	-	-	-	0-90 days	17.0	12.1	1.4066
91-365 days	1.1	0.8	1.3675	91-365 days	1.5	1.1	1.3502
> 365 days	-	-	-	> 365 days	1.1	0.8	1.3675
	1.1	0.8	1.3675		19.6	14.0	1.3998

At 31 March 2019, the aggregate amount under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.2m unrealised gain (2018: unrealised gain of £0.3m). 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 2019 or 31 March 2018 and therefore was not exposed to any interest rate risk on borrowings.

15. Financial instruments (continued)

Economic interest rate exposure

The company held cash and short term deposits as follows:

2019

Currency	Cash Amount £m	Cash Economic interest rate %	Cash Average maturity days	Short term deposits Amount £m	Short term deposits Economic interest rate %	Short term deposits Average maturity days	Total Amount £m
Sterling	67.6	0.8	26	10.0	1.0	128	77.6
Euro	0.2	-	1	-	-	-	0.2
Canadian dollar	0.3	-	1	-	-	-	0.3
Kuwaiti dinar	0.3	-	1	-	-	-	0.3
Qatari riyal	0.6	-	1	-	-	-	0.6
Singapore dollar	1.1	-	1	-	-	-	1.1
Swedish krona	0.3	-	1	-	-	-	0.3
Thai baht	0.9	-	1	-	-	-	0.9
UAE dirham	0.5	-	1	-	-	-	0.5
US dollar	1.2	-	1	-	-	-	1.2
	73.0			10.0			83.0

2018

Currency	Cash Amount £m	Cash Economic interest rate %	Cash Average maturity days	Short term deposits Amount £m	Short term deposits Economic interest rate %	Short term deposits Average maturity days	Total Amount £m
Sterling	101.9	0.5	21	-	-	-	101.9
Euro	0.2	-	3	-	-	-	0.2
Canadian dollar	0.2	-	3	-	-	-	0.2
Kuwaiti dinar	0.3	-	3	-	-	-	0.3
Qatari riyal	0.2	-	3	-	-	-	0.2
Thai baht	0.5	-	3	-	-	-	0.5
UAE dirham	0.7	-	3	-	-	-	0.7
	104.0			-			104.0

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 loan to NERL are as follows:

Currency	2019 Intercompany loan Amount £m	2019 Economic interest rate %	2019 Weighted average time for which rate is fixed days	2018 Intercompany loan Amount £m	2018 Economic interest rate %	2018 Weighted average time for which rate is fixed days
Sterling	-	-	-	22.5	1.2	183

The loan was repaid on 31 May 2018.

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.

	2019 Impact £m	2018 Impact £m
Cash at bank and short term deposits (2019: £83.0m, 2018: £104.0m)	0.8	1.0
Intercompany loans (2019: £nil, 2018: £22.5m)	-	0.2
	0.8	1.2

15. Financial instruments (continued)

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):

	2019			2018		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAAm	5	37.3	45.0	4	52.2	50.2
AA-	3	32.5	39.2	3	29.2	28.0
A	-	-	-	1	14.0	13.5
A-	1	7.5	9.0	1	7.5	7.2
BBB+	1	5.7	6.8	1	1.1	1.1
		83.0	100.0		104.0	100.0

The deposits of £5.7m (2018: £1.1m) 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 2019 (31 March 2018: 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 of £0.1m (2018: £0.1m) are due in over five years.

Fair value measurements

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

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

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

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

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

	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.2	-	0.2	-	0.1	-	0.1
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.3)	-	(0.3)	-	(0.4)	-	(0.4)

There were no transfers between individual levels in the year.

15. Financial instruments (continued)

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:

	2019 £m	2018* £m
Current		
Trade payables	3.0	2.8
Other payables	3.7	1.7
Contract liabilities	7.8	-
Amounts due to parent company	15.2	17.5
Amounts due to fellow subsidiary undertaking (NATS (En Route) plc)	2.9	-
Amounts due to subsidiary undertakings	0.3	0.7
Accruals and deferred income (including deferred grants)	13.7	20.6
	46.6	43.3
Non-current		
Other payables	0.1	0.1
Contract liabilities	12.5	-
Accruals and deferred income (including deferred grants)	1.1	12.1
	13.7	12.2
	60.3	55.5

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 29 days (2018: 25 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

* The company has chosen not to restate comparatives on adoption of IFRS 15. See note 27.

17. Provisions

	Total £m
At 1 April 2018	1.5
Additional provision in the year	0.5
Utilisation of provision	(0.3)
At 31 March 2019	1.7

	2019 £m	2018 £m
Amounts due for settlement within 12 months	1.0	1.1
Amounts due for settlement after 12 months	0.7	0.4
	1.7	1.5

Other provisions represent the best estimate of other liabilities. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

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 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
At 1 April 2018	(0.2)	3.9	(0.3)	3.4
(Credit)/charge to income	(0.5)	1.5	(0.2)	0.8
(Credit)/charge to equity	-	(6.2)	0.1	(6.1)
At 31 March 2019	(0.7)	(0.8)	(0.4)	(1.9)

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:

	2019 £m	2018 £m
Deferred tax liabilities	-	(3.9)
Deferred tax assets	1.9	0.5
	1.9	(3.4)

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 2018 and 31 March 2019	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	2019 £m	2018 £m
Operating profit from continuing operations	11.9	0.2
Adjustments for:		
Depreciation of property, plant and equipment	2.1	1.6
Amortisation of intangible assets	0.7	0.7
Impairment charges	1.0	1.1
Impairment of investment in NATS (USA) Inc.	0.1	-
Deferred grants released	(0.3)	(0.3)
Profit on disposal of non-current assets	(2.1)	-
Adjustment for pension funding	(7.8)	(3.4)
Operating cash flows before movements in working capital	5.6	(0.1)
Increase in amounts recoverable under contracts	(0.6)	(0.2)
Decrease/(increase) in trade and other receivables	3.1	(10.8)
Increase in trade, other payables and provisions	4.3	2.5
Increase/(decrease) in amounts due to other group undertakings	3.0	(8.7)
Cash generated from operations	15.4	(17.3)
Tax paid	(0.5)	(1.3)
Net cash inflow/(outflow) from operating activities	14.9	(18.6)

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

	2019	2018
	£m	£m
Capital commitments contracted but not provided for in the accounts	1.2	3.0
Minimum lease payments under operating leases recognised in the income statement	3.0	14.0

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

	2019	2018
	£m	£m
Within one year	2.6	10.4
In the second to fifth years inclusive	4.7	33.9
After five years	3.2	17.9
	10.5	62.2

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, NATS Services (Asia Pacific) Pte.Limited, NATS Services (Hong Kong) Limited, and NATS Services LLC 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 assets at 31 March 2019 of £3,551 (2018: £160 net liabilities). NATS Services DMCC had net assets at 31 March 2019 of £0.3m (2018: £0.2m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2019 of £6.7m (2018: £4.8m). NATS Services (Hong Kong) Limited had net assets at 31 March 2019 of £0.3m (2018: £nil). NATS Services LLC had net assets at 31 March 2019 of £0.3m (2018: £0.2m).

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.

NATS Services has provided a parent guarantee for all of the obligations of NATS (USA) Inc. to Aireon LLC in relation to its status as member of Aireon LLC.

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 2019 was £8.2m (2018: £7.6m).

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 2019	No. employee shares outstanding at 31 March 2018
Date of share awards		
Free share awards		
21 September 2001	45,158	51,178
20 October 2003	40,204	45,706
10 September 2004	64,437	75,237
11 January 2008	49,749	56,569
18 September 2009	56,200	66,400
Partnership shares		
1 March 2011	49,340	58,105
26 September 2012	67,044	79,877
30 May 2014	76,790	84,245
31 October 2016	90,810	99,609
31 October 2018	122,831	-
Matching shares		
1 March 2011	48,988	58,553
26 September 2012	65,844	79,277
30 May 2014	76,790	84,245
31 October 2016	90,810	99,609
31 October 2018	122,831	-
	1,067,826	938,610
Dividend shares issued on 28 June 2005	5,158	5,948
Total employee shares in issue at 31 March	1,072,984	944,558

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

	Movement in the no. of shares during the year ended 31 March 2019	Movement in the no. of shares during the year ended 31 March 2018
Balance at 1 April	944,558	1,140,813
Granted during the year	252,862	-
Forfeited during the year	(6,288)	(2,080)
Exercised during the year	(105,099)	(184,583)
Staff transfers between group companies	(13,049)	(9,592)
Balance at 31 March	1,072,984	944,558

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2019 the price of an employee share was valued at £3.90 (2018: £3.40). A valuation at 30 June 2018 valued the shares at £3.75. The liability for the employee shares at 31 March 2019 was £3.6m (2018: £3.1m) included in amounts due to parent company. The income statement includes a charge of £0.5m (2018: £0.6m credit). The payments made to employees for the shares they exercised during the year was £0.4m (2018: £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 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 2019 employer contributions of £2.8m (2018: £2.3m), excluding employee salary sacrifice contributions of £1.5m (2018: £1.2m), represented 15.6% of pensionable pay (2018: 15.2%).

The defined contribution scheme had 312 members at 31 March 2019 (2018: 302).

Defined benefit scheme

NATS Limited (formerly National Air Traffic Services 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 the CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises six employer (NATS and CAA) and six member-nominated trustees, as well as an independent chair.

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 pay were limited to a maximum increase in the retail price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners (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 pay 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 pay (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, increasing to 41.7% payable from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £40.8m in the 2018 calendar year and will pay £41.8m in 2019. From 1 January 2020 to 31 December 2023, deficit recovery contributons 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 at £2.3m per year. NSL's 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 NSL. 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 £23.3m (2018: £25.5m). This amount included £2.0m (2018: £2.3m) 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 58.0% (2018: 55.3%) of pensionable salaries.

Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries: NERL and NSL, 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 2020 is £23.2m, 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.

An actuarial valuation for IAS19 purposes was carried out at 31 March 2019 (based on 31 December 2018 membership data). 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:

	2019	2018	2017
RPI inflation	3.10%	3.00%	3.10%
CPI inflation	2.00%	1.90%	2.00%
Increase in:			
- salaries	2.00%	1.90%	2.00%
- deferred pensions	3.10%	3.00%	3.10%
- pensions in payment	3.10%	3.00%	3.10%
Discount rate for net interest expense	2.45%	2.65%	2.55%

The mortality assumptions have been drawn from actuarial tables 97% S2PMA light and 102% S2PFA light (2018: 97% S2PMA light and 102% S2PFA light) with future improvements in line with CMI 2016 (2018: CMI 2016) projections for male/female members, subject to a long term improvement of 1.5% p.a (2018: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.0 years and a female pensioner is 29.6 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (46), 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 have taken and continue to review 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. As discussed further below, the Scheme has implemented a liability driven investment programme to partially protect the funding position from changes in inflation. Furthermore, some of the scheme's assets (such as equities) are real in nature and so provide some additional 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 10.3%/increase by 12.0%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.6%/decrease by 10.1%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 2.6%/decrease by 2.5%
Rate of mortality	1 year increase in life expectancy	Increase by 3.3%

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

The directors consider that the criteria for recognition of a pension surplus under IFRIC 14 were 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:

	2019 £m	2018 £m
Current service cost	(15.8)	(20.1)
Past service cost	(0.2)	-
Net interest expense	0.9	(1.5)
Administrative expenses	(0.4)	(0.5)
Components of defined benefit costs recognised within operating profit	(15.5)	(22.1)

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

	2019 £m	2018 £m
Return on plan assets (excluding amounts included in net interest expense)	65.3	3.1
Actuarial gains and losses arising from changes in financial assumptions	(90.3)	45.7
Actuarial gains and losses arising from changes in demographic assumptions	-	34.7
Actuarial gains and losses arising from experience adjustments	(10.3)	7.8
	(35.3)	91.3

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

	2019 £m	2018 £m
Present value of defined benefit obligations	(1,014.8)	(899.1)
Fair value of scheme assets	1,010.1	921.9
(Deficit)/surplus in scheme	(4.7)	22.8

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

	2019 £m	2018 £m
At 1 April	(899.1)	(1,189.2)
Current service cost	(15.8)	(20.1)
Past service cost	(0.2)	-
Interest expense on defined benefit scheme obligations	(23.5)	(27.1)
Actuarial gains and losses arising from changes in financial assumptions	(90.3)	45.7
Actuarial gains and losses arising from changes in demographic assumptions	-	34.7
Actuarial gains and losses arising from experience adjustments	(10.3)	7.8
Benefits paid	24.4	249.1
At 31 March	(1,014.8)	(899.1)

The average duration of the scheme's liabilities at the end of the year is 21.6 years (2018: 22.1 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2019 £m	2018 £m
Active members	448.5	406.9
Deferred members	142.3	106.3
Pensioners	424.0	385.9
	1,014.8	899.1

23. Retirement benefit schemes (continued)

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

	2019 £m	2018 £m
At 1 April	921.9	1,117.3
Interest income on scheme assets	24.4	25.6
Return on plan assets (excluding amounts included in net interest expense)	65.3	3.1
Contributions from sponsoring company	23.3	25.5
Benefits paid	(24.4)	(249.1)
Administrative expenses	(0.4)	(0.5)
At 31 March	1,010.1	921.9

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

	2019 £m	2018 £m
Cash and cash equivalents	6.7	31.7
Equity instruments		
- UK	-	27.2
- Europe	-	7.4
- North America	-	21.8
- Japan	-	3.0
- Pacific (excluding Japan)	-	8.4
- Emerging markets	30.8	26.9
- Global	172.4	182.8
	203.2	277.5
Bonds		
- Fixed Income	345.9	224.5
- Index-linked gilts over 5 years	328.5	286.6
	674.4	511.1
Other investments		
- Property	52.3	50.5
- Hedge funds	47.7	45.9
- Private equity funds	26.7	25.9
	126.7	122.3
Derivatives		
- Futures contracts	(0.9)	(20.7)
	1,010.1	921.9

The scheme assets do not include any investments in the equity or debt instruments of 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. During 2018 it was agreed to further increase the level of hedging of interest rates and inflation to 65%, 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.

During 2018, NATS and the Trustees also agreed changes to the asset allocation to make the portfolio more efficient by reducing the overall level of risk whilst continuing to support the valuation assumptions agreed for the 2017 funding valuation and therefore having no impact on the level of contributions payable. This included a reduction in the allocation to equities in favour of a more diversified portfolio with a higher allocation to liquid debts.

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 2019 was £89.7m (2018: £28.7m).

24. Related party transactions

The NATS group has four shareholders - the Crown, The Airline Group Limited (AG), LHR Airports Limited and the NATS Employee Sharetrust Limited. During the year transactions with the Crown have taken place with the Meteorological Office, the Department for Transport (DfT) and the Ministry of Defence (MOD). In addition there have been transactions with LHR Airports Limited.

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, 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 2019	Year ended 31 March 2018	Year ended 31 March 2019	Year ended 31 March 2018
	£m	£m	£m	£m
LHR Airports Limited	55.5	59.2	0.4	8.3
Ministry of Defence (MOD)	0.1	0.2	-	-
Department for Transport (DfT)	-	0.1	-	-
Meteorological Office	-	-	0.2	0.4
FerroNATS Air Traffic Services SA	0.4	0.4	-	-
Aquila Air Traffic Management Services Limited	25.3	16.0	0.1	0.2
Searidge Technologies Inc	0.1	-	0.9	0.9

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2019	Year ended 31 March 2018	Year ended 31 March 2019	Year ended 31 March 2018
	£m	£m	£m	£m
LHR Airports Limited	10.3	6.0	-	-
Ministry of Defence (MOD)	-	-	-	-
Department for Transport (DfT)	-	-	-	-
Meteorological Office	-	-	0.2	0.1
FerroNATS Air Traffic Services SA	-	-	-	-
Aquila Air Traffic Management Services Limited	2.4	0.8	-	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 4 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 (2018: £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 £352,000 (2018: £290,000). The number of directors paid by the company during the year was one (2018: one). The director participates in a pension salary sacrifice arrangement. Contributions which were paid, in 2019, 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 £1,000 and contributions from the company of £5,000, totalled £6,000.

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.

	2019	2018
	£m	£m
Short term employee benefits	0.8	1.2
Post-employment benefits	0.1	-
	0.9	1.2

25. Subsidiaries, joint ventures and associates

Movements in the carrying value of subsidiaries and joint ventures

	Subsidiary undertakings			Joint ventures		Total
	NATS (USA) Inc. £m	NATS (Services) Canada Inc. £m	NATS Services (Asia Pacific) Pte. Limited £m	FerroNATS Air Traffic Services SA £m	Aquila Air Traffic Management Services Limited £m	£m
Cost						
At 1 April 2018	-	5.2	0.1	2.2	0.1	7.6
Investments during the period	51.0	-	-	-	-	51.0
Impairment charge	(0.1)	-	-	-	-	(0.1)
Capital reduction	-	(0.5)	-	-	-	(0.5)
At 31 March 2019	50.9	4.7	0.1	2.2	0.1	58.0

The company also holds investments in the share capital of the following subsidiary undertakings: NATSNav Limited, NATS Solutions Limited, and NATS Services DMCC. These shareholdings were the same at the beginning and the end of the financial year. NATS Services (Hong Kong) Limited was incorporated on 4 April 2018.

Subsidiaries

The company's principal subsidiaries at 31 March 2019 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 Services (Hong Kong) Limited, *31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong*	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
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.

NATS (USA) Inc.

On 16 May 2018, NATS (Services) Limited made an investment of £51.0m (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 9.1% of Aireon LLC, a limited liability company incorporated in Delaware USA which is developing a space-based air traffic surveillance system. During the year a new company was created, Aireon Holdings LLC, which now owns 100% of Aireon LLC. At the same time NATS (USA) Inc's holdings in Aireon LLC were transferred to identical holdings in Aireon Holdings LLC. The investment is intended to result in fully diluted ordinary interests with voting rights of 11.1% by 2 January 2021. NATS is entitled to appoint one of the eleven Board members. The NATS (Services) Limited's investment in NATS (USA) Inc. was greater than its net assets and resulted in an impairment charge of £0.1m in the year.

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.

On 26 April 2018 there was a capital reduction in NATS (Services) Canada Inc. of CAD$0.7m (£0.5m) which related to unpaid share capital.

The financial transactions with these subsidiaries have been disclosed in note 4 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, NATS Services (Hong Kong) Limited, and NATS Services LLC, please refer to note 21 for further details.

25. Subsidiaries, joint ventures and associates (continued)

Joint ventures and associates

The company held interests in two joint ventures, FerroNATS and Aquila, as at 31 March 2019. 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 13 airports across Spain.

NATS Services received a dividend of €0.8m (£0.8m) from FerroNATS in the year (2018: €0.9m, £0.8m).

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 £1.4m net (2018: £2.8m) from the company. At 31 March 2019, the loan (including interest) outstanding was £21.1m (2018: £18.6m).

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

Searidge Technologies Inc. (Searidge)

On 26 April 2017, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. Searidge investment is a joint venture with NAVCanada. 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$0.4m (£0.2m) (2018: CAD$2.0m, £1.1m). At 31 March 2019, the loan, including interest, outstanding was CAD$2.5m (£1.4m) (2018: 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 2019. 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. Changes in accounting policies

As indicated in note 2 above, the company has adopted IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers*, which results in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company has chosen not to restate the comparative year.

a) IFRS 9: *Financial Instruments*

IFRS 9 has replaced IAS 39: *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and liabilities, (ii) impairment for financial assets and (iii) general hedge accounting. The adoption of IFRS 9 has not had an impact on the company's approach to hedge accounting. The impact on the company is in relation to the impairment of trade receivables and contract assets as detailed below.

In relation to the impairment of financial assets measured at amortised cost (such as trade and other receivables), IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the company to account for expected losses and changes in those expected losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, It is no longer necessary for a credit event to have occurred before credit losses are recognised.

The company has trade receivables and contract assets that are subject to IFRS 9's new expected credit loss model across all of its service lines. The company has revised its impairment methodology under IFRS 9. The impact of the change in impairment methodology on the company's retained earnings and equity is disclosed below.

As at 1 April 2018, the directors of the company reviewed and assessed the company's existing trade receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of these at the date they were initially recognised. This has not resulted in a change in the credit loss allowance, from that previously reported, as at 1 April 2018.

The company applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

In order to measure the expected credit losses, the risk characteristics of the trade receivables and contract assets have been considered and a matrix based on the days past due used to summarise the historic loss patterns. The contract assets relate to unbilled work in progress and have substantially the same credit risk characteristics as the trade receivables for the same types of contracts. The company has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for the contract assets. For contract assets, the assessment of expected credit loss rates is made separate from, and following, the assessment of risks of contract performance.

The impairment allowance reflects the risk profile of the International receivables. The loss allowance as at 1 April 2018 was determined as follows for both trade receivables and contract assets:

As at 1 April 2018:	Receivables - months past due						
	Current	1 month	2-3 months	4-6 months	>6 months	In administration	Total
UK Airports, Defence services and Other UK Business service lines							£m
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount (£m)	36.5	4.5	-	0.2	-	-	41.2
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-
International service line							£m
Expected credit loss rate (%)	0.2%	0.4%	0.4%	1.0%	1.1%	100.0%	
Gross carrying amount (£m)	5.7	0.3	2.7	0.2	0.1	0.1	9.1
Lifetime expected credit loss (£m)	-	-	-	-	-	0.1	0.1
Total expected credit losses (£m)	-	-	-	-	-	0.1	0.1

Impact of application of IFRS 9 for the year ended 31 March 2019

The loss allowance remained unchanged during the year ended 31 March 2019. This would also have been the case under IAS 39.

b) IFRS 15: *Revenue from Contracts with Customers*

IFRS 15 has replaced IAS 18: *Revenue* and IAS 11: *Construction Contracts* as well as various Interpretations previously issued by the IFRS Interpretations Committee. The main impact of IFRS 15 are 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 IAS 18, variable consideration was recognised as services were provided. Under IFRS 15 the treatment remains unchanged, traffic volume risk sharing and service performance incentives are recognised as the services are provided to the extent it is assessed that there is no risk of reversal.

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

The fees for recovering property costs amounted to £17.0m for the year ended 31 March 2018 (2017/18) and £7.4m for the year ended 31 March 2019 (2018/19). For reporting under IAS 18, the recovery of these costs was 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 have been reported as an offset against rental charges in operating costs. This change in presentation 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. Fees for recovering these costs amounted to £2.8m for the year ended 31 March 2018 and £3.0m for 31 March 2019. For reporting under IAS 18 for the year ended 31 March 2018, the recovery of these costs was recognised as revenue. Under IFRS 15, the group is not satisfying a performance obligation in the provision of this service and, for the year ended 31 March 2019, the fees will be 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.

27. Changes in accounting policies (continued)

b) IFRS 15: *Revenue from Contracts with Customers* (continued)

Other impacts

Other impacts arising from the adoption of IFRS 15 were to: a) accelerate the recognition of revenue relating to a UK Airport ATC contract, resulting in the recognition of £0.9m (net of tax) in retained earnings and a increase in revenue for the year ended 31 March 2019 of £0.4m; and b) the allocation of the transaction price of the Project Marshall asset provision contract to the performance obligations in the contract, which resulted in a reduction in retained earnings of £0.4m (net of tax) and a decrease in revenue for the year ended 31 March 2019 of £0.1m.

Transition

The company has taken advantage of the following transitional exemption: when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations, the company has considered the aggregate effect of all contract modifications made before 1 April 2018.

The company has chosen not to restate comparatives on adoption of IFRS 15 and, therefore, this change has been reflected at the date of initial application (i.e. 1 April 2018), and presented in the statement of changes in equity for the year ended 31 March 2019.

c) Adjustments to retained earnings on initial application at 1 April 2018

The following table shows the adjustments to retained earnings and to financial statement line items made on initial application of IFRS 9 and IFRS 15:

	Explanatory notes	Carrying amount at 31 March 2018 as previously reported under IAS 18 and IAS 39 £m	Reclassification £m	Remeasurements £m	Carrying amount at 1 April 2018 under IFRS 9 and IFRS 15 £m	Adjustment to retained earnings on initial application at 1 April 2018 £m
Trade and other receivables						
Non-current						
Receivable from customers (gross)	(i) (ii)	-	0.8	1.1	1.9	1.1
Accrued income	(ii)	0.8	(0.8)	-	-	-
Current						
Receivable from customers (gross)	(ii)	25.9	3.3	-	29.2	-
Provision for impairment of trade receivables		(0.1)	-	-	(0.1)	-
Contract assets	(ii) (iii)	-	19.7	(0.5)	19.2	(0.5)
Accrued income	(ii)	23.0	(23.0)	-	-	-
Trade and other payables						
Non-current						
Contract liabilities	(ii)	-	(10.7)	-	(10.7)	-
Accruals and deferred income	(ii)	(12.1)	10.7	-	(1.4)	-
Current						-
Contract liabilities	(ii)	-	(8.8)	-	(8.8)	-
Other payables	(ii)	(1.7)	(0.2)	-	(1.9)	-
Accruals and deferred income	(ii)	(20.6)	9.0	-	(11.6)	-
Current tax liabilities	(v)	(0.1)	-	(0.1)	(0.2)	(0.1)
						0.5

d) Impact of application of IFRS 9 and IFRS 15 for the year ended 31 March 2019

The following table shows the financial statement line items as they would have been shown under previous accounting standards and the effect of adjustments necessary to give the balances under IFRS 9 and IFRS 15. Financial statement lines items not shown below have not been impacted by the adoption of IFRS 9 and IFRS 15.

Income statement

	Explanatory notes	Under previous accounting standards £m	Effect of reporting under IFRS 9 and IFRS 15 £m	As reported under IFRS 9 and IFRS 15 £m
Revenue	(i) (iii) (iv)	207.6	(10.1)	197.5
Operating costs	(iv)	(196.0)	10.4	(185.6)
Operating profit		11.6	0.3	11.9
Investment income		2.6	-	2.6
Profit before tax		14.2	0.3	14.5
Tax	(v)	(1.6)	(0.1)	(1.7)
Profit for the year attributable to equity shareholders		12.6	0.2	12.8

Explanatory notes to tables c) and d):

(i) the change in timing of recognition of revenue from UK Airport contracts, as explained under b) above.
(ii) the reclassification of balances previously reported from accrued income to trade receivables, contract assets and other receivables; and from deferred income to other payables or contract liabilities.
(iii) the change in timing of recognition of Defence services revenue relating to the asset provision part of the Project Marshall contract, as explained under b) above. Under IFRS 15, the company recognises revenue based on two distinct performance obligations.
(iv) the change in recognition of UK Airports revenue relating to property costs and safety regulation charges, as explained under b) above.
(v) the tax impact of the adjustments in (i) - (iv).

27. Changes in accounting policies (continued)

d) Impact of application of IFRS 9 and IFRS 15 for the year ended 31 March 2019 (continued)

Balance sheet

	Explanatory notes	Under previous accounting standards £m	Effect of reporting under IFRS 9 and IFRS 15 £m	As reported under IFRS 9 and IFRS 15 £m
Non-current assets				
Trade and other receivables				
- Receivable from customers (gross)	(ii)	-	1.6	1.6
- Accrued income	(ii) (iv)	1.6	(1.6)	-
- Other trade and other receivables		0.9	-	0.9
Trade and other receivables		2.5	-	2.5
Other non-current assets		101.8	-	101.8
		104.3	-	104.3
Current assets				
Trade and other receivables				
- Receivable from customers (gross)	(ii)	22.7	3.1	25.8
- Provision for impairment of trade receivables		(0.1)	-	(0.1)
- Contract assets	(ii)	-	21.3	21.3
- Accrued income	(i) (ii) (iii)	23.5	(23.5)	-
- Other trade and other receivables		23.8	-	23.8
Trade and other receivables		69.9	0.9	70.8
Other current assets		84.6	-	84.6
Total assets		258.8	0.9	259.7
Current liabilities				
Trade and other payables				
- Contract liabilities	(ii)	-	(7.8)	(7.8)
- Accruals and deferred income (including deferred grants)	(ii)	(21.5)	7.8	(13.7)
- Other trade and other payables		(25.1)	-	(25.1)
Trade and other payables		(46.6)	-	(46.6)
Current tax liabilities	(v)	(0.4)	(0.2)	(0.6)
Other current liabilities		(1.3)	-	(1.3)
		(48.3)	(0.2)	(48.5)
Net current assets		106.2	0.7	106.9
Non-current liabilities				
Trade and other payables				
- Contract liabilities	(ii)	-	(12.5)	(12.5)
- Accruals and deferred income (including deferred grants)	(ii)	(13.6)	12.5	(1.1)
- Other trade and other payables		(0.1)	-	(0.1)
Trade and other payables		(13.7)	-	(13.7)
Other non-current liabilities		(5.4)	-	(5.4)
Total liabilities		(67.4)	(0.2)	(67.6)
Net assets		191.4	0.7	192.1
Equity				
Called up share capital		0.1	-	0.1
Hedge Reserve		0.2	-	0.2
Retained earnings	(i) (iii) (v)	191.1	0.7	191.8
Total equity		191.4	0.7	192.1

Explanatory notes to table d):

(i) the change in timing of recognition of revenue from UK Airport contracts, as explained under b) above.
(ii) the reclassification of balances previously reported from accrued income to trade receivables, contract assets and other receivables; and from deferred income to other payables or contract liabilities.
(iii) the change in timing of recognition of Defence services revenue relating to the asset provision part of the Project Marshall contract, as explained under b) above. Under IFRS 15, the company recognises revenue based on two distinct performance obligations.
(iv) the change in recognition of UK Airports revenue relating to property costs and safety regulation charges, as explained under b) above.
(v) the tax impact of the adjustments in (i) - (iv).

28. Events after the reporting period

In May 2019, the Board approved and the company paid an interim dividend for the year ending 31 March 2020 of £10.00 per share (totalling £1.0m).

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.