NATS (Services) Limited

Financial statements

Year ended 31 March 2021

Company Number: 04129270

Highlights

- **Results:** revenue of £171.6m (2020: £191.9m); a loss before tax of £8.1m (2020: £5.5m).
- **Covid:** the volume of aircraft movements at UK Airports we operate reduced by 74% from pre-pandemic levels reflecting travel restrictions. Our priority was the health and wellbeing of our workforce while maintaining a safe and resilient service for our customers. We have retained the skills and capacity necessary to safely support the recovery of aviation.
- **Safety performance:** there were no risk-bearing airprox[1] attributed to our operation (2020: none).
- **Commercial developments:** Gatwick Airport awarded us a 10-year air traffic control and engineering contract from October 2022.
- **Digital towers:** in spite of Covid, the London City digital tower entered operational service in January 2021.

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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

Our strategy and business model

We provide air traffic control (ATC) and aviation related services to customers in the UK and internationally. We have two very clear strategic objectives, which we have adapted for Covid:

- Protecting the health, safety and wellbeing of our workforce while maintaining a safe and resilient air traffic control service for our airport customers; and
- Win and retain commercial business and explore sound international opportunities as they arise.

Our UK Airports service currently provides ATC to 13 major UK airports (Gatwick Airport will increase this to 14 from October 2022) as well as engineering support and airport optimisation services. We operate in a contestable market and compete with other air navigation service providers (ANSPs) and with airports using an in-house service. To maintain our existing market position, we 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 the digital tower deployed for London City Airport and our intelligent approach system for Toronto Pearson and Amsterdam Schiphol airports, 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 an improved 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.

Our Defence services provide ATC and related engineering services to the UK MOD. This is mainly through support to Aquila, our joint venture with Thales, which is fulfilling the Project Marshall contract. 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.

Our Other UK Business provides UK airline customers and other airspace users, such as windfarm operators, with aeronautical information management, design and data services, consultancy and ATC training.

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 remain on regions 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.

Our investments include: FerroNATS, which provides ATC services to airports in Spain; Searidge Technologies, a Canadian provider of digital tower technology; and a minority interest in Aireon which provides space-based air traffic surveillance. This investment will enable us 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.

Business review

Covid

Managing the impact of Covid and the uncertainty it created was the defining theme of the last financial year and continues to be our focus.

We responded quickly and effectively to restrictions caused by the pandemic, particularly in operational areas and found new ways of working during this period. Our priority has been, and continues to be, keeping our staff and our operation Covid-secure while fulfilling our role in maintaining a safe and resilient essential air traffic control service for our airport customers. Restrictions on air travel to control the pandemic led to a 74% fall in the volume of aircraft movements at the airports to which we provide a service.

We worked closely with our airport customers to align our ATC service with the reduced level of aircraft movements and adjusted our charges accordingly to reflect the cost savings we made. The actions we have taken to maintain a resilient operation, support our customers and reduce our cost base ensure that we are well placed to support the recovery in air travel.

Our workforce

It goes without saying that our first priority following the outbreak of Covid was to protect our workforce. Unlike many businesses for whom staff home working is feasible, our ATC service and related engineering activities cannot be delivered anywhere other than at airport control towers or at airbases. We ensured operational staff working from here could do so under social distancing rules. We also closed all non-critical training and simulations capability and stopped all but essential onsite maintenance and initiated working from home for all non-operational staff enabled by our digital workspace.

We established a Pandemic Working Group chaired by our Chief Medical Officer, Dr Rae Chang, which put in place the necessary arrangements to keep those on site safe and provide guidance and support to those working remotely on how to stay safe. As a result we experienced very few cases of Covid across the workforce but where these did arise staff and managers responded quickly to contain any onward transmission. The Board and Executive also recognised early on the need to support the emotional well-being of our staff, whether at work or at home. We conducted regular wellbeing surveys to enable us to gauge how best to support staff through this challenging period and put in place additional wellbeing services and employee assistance programmes to provide that support. Communication from the Executive team was further enhanced by methods such as Teams

Live events and Yammer chats to ensure staff felt well informed and supported.

Inevitably in the circumstances we also had to re-assess the size of the workforce reducing that in line with demand where possible while preserving our ability to support the recovery in air travel.

Low flight volumes and the reduction in demand for engineering projects resulted in large numbers of staff being furloughed under the job retention scheme, c.50% at the peak, helping us to reduce costs wherever possible. However we also had to overcome the complexity of ensuring that air traffic controllers maintained their validity when combining periods of furlough alongside attendances during a low traffic environment.

After a careful assessment of our future staffing requirements we concluded there was no realistic scenario in which we would need further ab initio trainees until 2022 at the earliest. As a result, unfortunately we had to release a number of trainees. We did help some trainees find new roles within the organisation and we have maintained an outreach programme for those who left so that they can return when demand returns.

We also undertook a voluntary redundancy programme which only applied to non-operational staff to ensure that we preserved the operational staff skills to protect the recovery.

On present forecasts we do not anticipate any significant recruitment until summer 2022 at the earliest.

As restrictions ease, with some signs of what we hope will be a recovery in air travel from this summer, we are well advanced in our plans for more agile ways for staff to balance home and office-based working ahead of the return to office life for non-operational staff.

In the face of the many challenges over the last year, I am immensely grateful to all of our colleagues for the part they have played in maintaining the essential ATC service at our airports and airbases during the pandemic.

Preparing for a recovery in air travel

While it is certainly a positive development that air travel restrictions have started to be lifted albeit to a small number of destinations and to countries in the same phase of the pandemic and vaccination programmes as we are in the UK. Elsewhere a slower roll-out of vaccines and surge of infection rates and new variants means that travel restrictions are likely to continue for some time along with testing and quarantine regimes. In addition a number of logistical issues still need to be addressed such as waiting times at airports for arriving passengers. These factors mean that we cannot be certain of the volume of movements to expect this summer.

However, it is clear from discussions with our customers and other stakeholders that we must not be a brake on any potential recovery of the sector and therefore for this summer we have planned our service to handle movements at up to 75% of 2019 levels, which we believe we will be able to handle with current social distancing measures in place at airport control towers if required. This will ensure we can handle peak demand and provide capacity if and when more destinations are approved, anticipating that airlines will be able to respond to pent up demand very quickly.

Safety performance

Safety is always the Board's highest priority. It is embedded in everything we do throughout our organisation and our purpose and our values reflect our commitment to safety.

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 which we use to drive the appropriate safety culture across the business. On a 12-month rolling basis to 31 December 2020, our performance generated a NATS RAT score of 18.2 per 100,000 flights (calendar year 2019: 27.1). This reduction in RAT points largely reflected the reduction in air traffic volumes and fewer events.

We also measure our safety performance over a financial year based on airprox incidents, which are assessed independently by the UK Airprox Board. There were no risk bearing airprox events attributed to our operation in the year (2020: none).

Commercial developments

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.

Gatwick Airport contract

In April 2021 we were awarded a 10-year contract by Gatwick Airport for the provision of airport ATC and engineering services. The contract will start from October 2022 after an 18-month operational transition from the incumbent provider. As the second largest airport in the UK, it goes without saying that this is a very important contract award, but more than that it is a strategic partnership that will see us once again working with Gatwick to support their future growth and development.

This award is definitive evidence of our operational and technological capabilities, value for money and our ability to support airports in recovering from Covid.

London City Airport goes digital

In January 2021 London City became the first major commercial airport in the UK to switch its air traffic control provision from a visual control room based at the airport to a digital tower, which is operated from NATS' Swanwick en route air traffic control centre. This marks a significant achievement for the airport and for our business. In normal times delivering a project of this scale and complexity would have been a significant achievement. That this was delivered during the pandemic makes it even more impressive.

Our contract with the Civil Aviation Authority of Singapore (CAAS) to develop a smart digital tower prototype at Changi Airport has continued to make good progress in the year with the schedule impact due to Covid managed to the satisfaction of the customer. Handling 68.3 million passenger movements in 2019, Changi is trialling the technology with a view to understanding how a smart tower could meet its challenging operational requirements by enhancing air traffic management and the safety of runway and ground operations, and to increase operational efficiencies at the airport. We were able to demonstrate the capability of the prototype during this period of lower traffic volumes.

NATS' digital tower solutions continue to generate interest in the market and to feature as technical requirements in new tenders.

On a related note, our joint venture, Searidge Technologies, won a commercial bid to provide a digital tower for the Hong Kong International Airport Authority. This contract will position them very strongly in the digital tower market for large airports.

Intelligent approach

We are also continuing to work with Toronto Pearson Airport and Amsterdam's Schiphol Airport to deploy our Intelligent Approach system, that dynamically separates arrivals by time instead of distance, thereby cutting headwind delays and improving airport punctuality, although the rate of progress on these was curtailed in light of Covid.

Our role in a sustainable future

Airspace modernisation, particularly around London and the south east where carbon inefficient flight paths and aircraft holding are most prevalent, will play an important part in the industry's decarbonisation plan and will be a focus for us and our customers in the next few years. We welcome the government's pledge of £5.5m to support airport operators with their airspace modernisation projects, which were put on hold due to Covid. This will help to ensure this critical programme of work for the future of UK aviation can start up again.

Covid has fundamentally changed so much in our day to day lives, but the pandemic has not downgraded the imperative of addressing the climate emergency across all areas of our economy and society. We had already, pre-Covid, committed to play our part in aviation's roadmap towards decarbonising aviation by 2050 and that pledge remains. Discussions within the industry and with other stakeholders on the restart of aviation have emphasised using this opportunity to focus on environmental performance and there is no doubt that we have to take specific action to reduce the environmental impact of aviation in the coming decade to avoid our industry becoming socially unacceptable and misaligned with the UK's commitments on climate change.

One of our responses to this challenge has been to put in place programmes and targets that will reduce carbon emissions from operating our business to zero by 2035. Clearly, this will mean a significant shift in emphasis for all of us in the company towards ensuring our day to day activities align with this objective.

When it comes to the operational impact of aviation, zero carbon solutions for flights are still a long way off. In the interim however, we have to be prepared to argue for the best balance between the environment and air traffic capacity. We will further embed safe, sustainable operations at the heart of our service while still meeting the capacity requirements of our customers.

Guy Adams,
Commercial Director

Financial review

The company reported a loss before tax of £8.1m (2020: £5.5m). This was mainly a result of price concession support provided to airport operators, funded in part by operating cost savings.

	£m	£m
2020 loss before tax		(5.5)
Revenue changes		
UK Airports	(23.5)	
Other service lines	3.2	
		(20.3)
Operating cost changes		
Salaries and pensions	5.7	
Job retention scheme grant	6.4	
Voluntary redundancy	(6.9)	
Staff costs		5.2
Expected credit losses	1.0	
Depreciation, amortisation and impairment	0.3	
Other non staff costs	13.6	
		14.9
Impairment of investment in subsidiaries		(1.5)
Net investment income		(0.9)
2021 loss before tax		(8.1)

Revenue

	2021	2020
	£m	£m
Airports	115.9	139.4
Defence	28.8	27.1
Other UK business	15.9	12.7
International	11.0	12.7
Total	171.6	191.9

Overall, revenue at £171.6m (2020: £191.9m) was £20.3m (10.6%) lower than last year. By service line the significant developments were:

Airports: in response to the impact of Covid on our Airport customers we offered price concessions funded in part by operating cost savings. Engineering project income was also lower as airport operators suspended their asset enhancement programmes.

Defence: at £28.8m was £1.7m higher (6.3%), reflecting the performance of the Project Marshall contract. More revenue was recognised for the asset provision contract, reflecting the delivery schedule and the impact of securing a variation to expand the scope of the asset deployment programme.

Other UK business: revenue increased by £3.2m (25.2%) mainly as a result of new contracts secured to provide windfarm developers with mitigations for their impacts on ATC radar data.

International: revenue was £1.7m (13.4%) lower as customers in the Asia Pacific region slowed their capacity enhancement projects in response to Covid and the company's decision to scale back its operations in the Middle East region. Good progress continued to be made in implementing our intelligent approach tool at Toronto International and Amsterdam Schiphol airports.

Operating costs

	2021	2020
	£m	£m
Staff costs	(93.6)	(105.7)
Staff redundancies	(7.6)	(0.7)
Non-staff costs	(62.9)	(77.5)
Depreciation, amortisation and impairment (net of grants)	(7.7)	(8.8)
Impairment of investments in subsidiaries	(9.0)	(7.5)
Profit on disposal of non-current assets	-	0.8
Operating costs	(180.8)	(199.4)

Operating costs were £18.6m lower than the prior year reflecting actions taken to preserve liquidity and support customers and the wider subsequent recovery in aviation.

Staff costs were £12.1m lower and mainly reflected government grants from the Covid job retention scheme and cost savings achieved through pay restraint, the suspension of performance related pay schemes, lower overtime and staff redundancies. In August 2020, we also took early action to re-align our cost base to ensure we are sustainably placed to support the recovery in the aviation sector through a voluntary redundancy programme, which combined with a recruitment freeze has resulted in there being 93 fewer employees at 31 March 2021.

Non-staff costs were £14.6m lower as a result of lower direct costs in support of Engineering contracts, lower travel costs and professional fees. Impairment of investment in subsidiaries of £9.0m (2020: £7.5m) reflected a reduction in an assessment of the company's subsidiary NATS (USA) Inc's equity holding of Aireon LLC equity investment based on the company's plans and growth prospects in light of Covid.

Investment income

The company earned £1.4m (2020: £2.2m) from interest on bank deposits and joint venture loans and a dividend from FerroNATS.

Balance sheet

	2021 £m	2020 £m
Intangible fixed assets	5.5	4.5
Property, plant and equipment	12.6	15.7
Right-of-use assets	3.5	3.6
Investments	41.5	50.5
Pension scheme (deficit)/surplus	(6.6)	48.9
Loans to joint ventures (including interest)	4.9	18.4
Deferred tax asset/(liability)	3.0	(7.6)
Other non-current assets	3.1	1.8
Cash and short term deposits	89.1	79.4
Lease liabilities	(3.7)	(3.6)
Other assets (net)	10.8	10.9
Net assets	163.7	222.5

The decrease in net assets in the year mainly reflects the change from a surplus to a deficit in the IAS19 funding position of the defined benefit pension scheme, which reported a deficit of £6.6m (2020: surplus £48.9m- see below) and the net loss for the year.

Defined benefit pensions (see note 26)

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.

a. IAS 19 charge and funding position

The cost (including salary sacrifice and past service) of defined benefit pensions at £14.8m (2020: £16.9m) reflected a lower accrual rate of 38.2% (2020: 42.1%) of pensionable pay.

IAS19 pension deficit	£m
At 1 April 2020	48.9
Charge to income statement*	(14.8)
Actuarial gains/(losses):	
- on scheme assets	87.4
- on scheme liabilities	(149.7)
Employer contributions*	21.6
At 31 March 2021	(6.6)
Represented by:	
Scheme assets	1,078.6
Scheme liabilities	(1,085.2)
Deficit	(6.6)

* including salary sacrifice

At 31 March 2021, under international accounting standards (IAS19) using best estimate assumptions, the company's economic share of the scheme's liabilities exceeded assets by £6.6m (2020: £48.9m surplus). The real yield on AA corporate bonds used to value RPI-linked pension obligations fell by 75 basis points during the year, which increased liabilities by more than the rise in asset values. 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). Contributions have reflected this from January 2020 as well as a recovery plan agreed with Trustees which aims to repair the deficit by December 2026. During the year the company's parent made deficit contributions of £25.6m (2020: £37.7m). NATS Services share is c.23% and will be met from its cash reserves. The Trustees are conducting a formal valuation at 31 December 2020, the outcome of which is not yet known.

Cash flow

	2021	2020
	£m	£m
Net cash inflow/(outflow) from operating activities	0.6	(0.4)
Net cash generated from investing activities	20.3	1.3
Net cash used in financing activities	(1.2)	(4.5)
Increase/(decrease) in cash and cash equivalents	19.7	(3.6)
Cash and cash equivalents at end of year	89.1	69.4

Cash and cash equivalents increased by £19.7m in the year to £89.1m (2020: £69.4m). There was a net cash inflow from operating due to lower operating cost payments, more than offsetting lower cash receipts. Investing activities generated £20.3m following net repayments of joint venture loans.

Net cash used in financing activities included lease payments and the company paying no dividends to its parent in the year (2020: £2.0m).

Alistair Borthwick

Chief Financial Officer

Principal risks and uncertainties

The Board of NATS Services takes the management of risk very seriously, paying particular attention to key risk areas. Many of the company's risks are common to the NATS group.

NATS Services applies the NATS group's system for the identification, evaluation and management of emerging and principal risks. This system is embedded within the company's management, business planning and reporting processes, accords with the Code, and is aligned with the ISO 31000 risk management standard. Detailed risk identification, assessment, and control mapping is carried out at business unit, departmental, and executive levels and is recorded and measured in a structured and controlled enterprise-wide database. Risks are mapped against risk appetite and tolerance statements which have been agreed by the Board. Risk update reports are submitted to the NATS Executive team which address changes in risk, risk tolerance, business controls and the progress of mitigating actions associated with NATS' risks. Regular reviews are also carried out by the NATS group's Audit, Safety and Transformation Committees in accordance with their remits.

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks and the risk management processes and mitigations in place on a six monthly basis. In addition, monthly Executive reports to the Board identify by exception any changes in inherent or residual 'top risks' particularly if the change means a risk falls outside agreed appetite.

Safety risks remain a priority for the business and as such are considered at every Board meeting in addition to the regular six-month review.

Our risk management framework 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 risk exposure and has undertaken a robust assessment of those that would threaten its business model, future performance, solvency or liquidity.

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. NATS processes categorise risks according to their linkage to strategic objectives. The risks outlined are the most important safety, strategic, operational, transformation and financial risks currently facing the company in seeking to achieve its strategic objectives (other risk categories assessed by the Board are commercial, governance, legal and compliance risks). 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.

These risks, including the impact of Covid and risks to our finances are reflected in and have been considered in assessing going concern in note 3 of the financial statements.

Safety: the risk of the business contributing to an aircraft accident

A failure of NATS air traffic management controls 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 maintains a Strategy for the Future Safety of ATM to 2030 and an Implementation 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. The impact of the Covid pandemic has been analysed to understand and manage the hazards. Key issues identified are i) managing the safety of the operation during periods of very low traffic volume by maintaining controller vigilance, ii) managing the skills competency of controllers and engineers to ensure a safe operation as traffic volumes recover and iii) adjusting the operation for traffic patterns and densities which may have changed significantly. Work has also been done to ensure that safety accountabilities continue to be fully covered following the redundancy programme.

Strategy: economic regulation of UK Terminal Air Navigation Services (TANS)

The UK market for TANS is subject to CAA's assessment of market contestability. If conditions are not met TANS would be subject to economic regulation. The CAA and the UK Government advised that market conditions had been established for the period 2020 to 2024.

Operational: business continuity

A catastrophic event has the potential to disrupt the ATC operation and its ability to resume a safe service to an acceptable performance level within a pre-defined period.

Resilience is considered for people, operational technical systems and facilities using NATS incident management processes to assess timely and effective responses. The NATS resilience policy programme assesses, documents and tests resilience capability in order to prevent and mitigate such disruptions. Also, NATS Services engages regularly with its customers on contingency facilities, which are the responsibility of the customer.

The company reviewed the robustness of its service and continuity plans following the outbreak of Covid, which is being managed under NATS business continuity incident management procedures. The potential risk of operational staff absences due to the pandemic was mitigated initially by the lower traffic volumes, before strict social distancing measures, separate rosters and absence tracking measures could be implemented. NATS is closely monitoring air travel demand and is proactive in managing the risks associated with the return to higher levels of traffic. The company is doing this while working closely with the Department for Transport and key stakeholders including the CAA, airlines and airports.

Operational: systems security

A malicious cyber-attack could affect the integrity, availability or resilience of NATS operational ATC and business IT systems adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny.

NATS seeks to mitigate the risk through robust security controls, including identity and access management and security patching, staff training, security monitoring and incident management.

The risk has elevated slightly since Covid due to home working and is being managed by increased and focussed vigilance including raising staff awareness of cyber threats. Close working relationships are maintained between NATS and the UK's security services, including the National Cyber Security Centre to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: employee relations

Employee relations if not managed sensitively could have a significant impact on our service performance. Therefore, every effort is made to continue to build and sustain good employee relations, including joint working groups with union representatives as part of an employee relations project.

The impact of Covid on the workforce and the company's financial position has required more dialogue with trades unions on a range of challenging issues, including staff redundancies and the Redeployment and Redundancy Agreement. At the point of publication we are in dispute with our main trade unions on these matters which could ultimately lead to a ballot for industrial action by the unions. The company has made a number of proposals all of which have been rejected by union officials. The company remains ready to have constructive discussions in order to resolve the points of dispute.

Financial: defined benefit pension scheme

Adverse movements in the value of 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 Trustees are undertaking a formal valuation as at 31 December 2020, reflecting market conditions at that date.

The scheme was closed to new entrants in 2009, pensionable pay rises are capped through an agreement with our trades unions 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 risk reduction strategies. NATS Services maintains adequate cash reserves to meet its share of pension contributions. 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.

Financial: other 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 18.

Non-financial risks

A number of other non-financial and non-operational risks are described in the Responsible business section of the annual report of NATS Holdings Limited.

Our stakeholders	Why are they important to us?	How do we engage and have regard to their views in our decisions?
CUSTOMERS	A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for our services, our staffing and capital investment.	When bidding for airport and other contracts we tender our cost effective and innovative solutions. We engage with airport operators to deliver improvements for airlines and therefore the travelling public. We have engaged since Covid on the scope of our services and support to our customers. We also engaged with a wider stakeholder group to ensure a coordinated industry re-start after the lifting of travel restrictions.
WORKFORCE	Our ATC service and infrastructure depends on the skill and professionalism of our workforce. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	Through our Working Together partnership the NATS executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. ATC training has been a focus of discussions since Covid, as well as mental health and wellbeing, and workforce diversity. Through the pandemic the group's CEO and executive communicated regularly to the workforce via our intranet and to senior leaders in bi-monthly virtual meetings. The NATS Board receives a monthly report from the CEO which includes workforce matters and employee relations. We operate a Just Safety culture, enabling staff to raise safety matters and the company maintains a whistleblowing facility. Every few years we conduct an employee opinion survey.
REGULATOR:	Our regulator ensures we provide our services in accordance with international safety standards and assesses the contestability of the UK market for airport ATC services.	The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA's economic regulator assesses the contestability of the UK's airport ATC market.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	NATS' Chief Executive maintains a regular dialogue with the Department for Transport. The government engages on matters of aviation policy, including travel restrictions relating to Covid and airspace modernisation.
SHAREHOLDERS	We are a wholly owned subsidiary within the NATS group. Our decisions have regard to the group's ultimate shareholders as well as the parent company. These parties provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which it expects a return.	The Board meets with the group's ultimate shareholders twice a year. The NATS Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise and CO_2 emissions. Our ATC service can help mitigate some environmental impacts. We are a significant employer where our UK operations are based. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035.	Airspace changes must follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. Communities generally identify noise, tranquillity, fuel emissions, local air quality and other quality of life concerns. We work with communities affected by flights below 7,000ft at an early stage of any change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement. In addition, we engage on joint projects, hold supplier conferences and supplier workshops. Our joint interests are an open and constructive relationship based on fair terms, good contractual performance and high standards of business conduct.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

The directors act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, to the long-term success of the business, the way we work with a large number of important stakeholders, and the importance of maintaining high standards of business conduct and have regard to the impact of the company's operations on the community and the environment.

The Board takes account of the views and interests of a wide range of stakeholders, when making its decisions, and balances different stakeholder perspectives. Inevitably it is not possible to achieve outcomes which meet the interests of all stakeholders.

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 16 to 17. The tables below illustrate how the Board had regard to section 172(1) in the key decisions it made of strategic importance in its response to Covid.

The Board's regard to the workforce in its decision-making

Since the outbreak of Covid the safety and wellbeing of staff has been the Board's priority. The company employs 869 staff and engages with 20 contractors. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe resilient service to customers and the public day to day. The NATS Board expanded the terms of reference of the Safety committee to include oversight of occupational health and staff wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, workforce matters.

Protecting staff and the operation: site access restricted to essential staff with others home working; critical facilities identified for safety, hygiene and maintenance activities including control rooms and airport towers, engineering systems and key sites including data centres, radars, masts and towers; social distancing measures implemented in line with government guidance, alignment of operational staffing levels with traffic volumes.

Engaging with the workforce: the NATS group's CEO, CFO and HR director consultation with trades unions on the impact of Covid on the company and the need for cost reductions, staff furloughing, the suspension of the 2020 pay award, voluntary redundancies, termination of contract staff and air traffic controller training. Trades unions sought clarity on the restoration of pay, assurances on no compulsory redundancies, raised concerns on the treatment and prospects for trainee air traffic controllers, the renegotiation of redundancy terms and maintaining the certification of operational staff in light of low traffic levels.

Health and wellbeing: occupational health professionals communicated government guidance to the workforce and established processes for monitoring internal cases for the Board; regular wellbeing surveys to gauge mental health of workforce and communication of comprehensive internal and external support mechanisms;

Planning for recovery: consultation on new ways of working, including more agile use of estates; measures to prepare for the recovery in air traffic volumes.

The Board's regard to other stakeholders in its response to Covid

Following the outbreak of Covid, the NATS Board established a committee to oversee the company's response and have regard to the interests of key stakeholders as well as safeguard the company's interests through the pandemic period to secure the long term interests of the company's members and stakeholders. This committee receives updates and monitors measures taken to protect the company's workforce and ensure ATC service resilience. It also reviews scenarios of air traffic volumes, liquidity projections and options for cost saving actions and risks.

As air traffic control is a critical part of the UK's national infrastructure and given the scale of impact of Covid on the aviation sector, the company and the Board have engaged with a broad range of stakeholders though this crisis. The following is a brief summary of the Board's engagement with different stakeholders:

Customers: following the initial outbreak of the pandemic and government restrictions to control its spread the executive team engaged on the measures NATS was taking in the UK and overseas to ensure ATC service safety and resilience, actions to reduce the cost base and customer priorities for its subsequent recommencement. The company engaged with airport customers on changes to the price and scope of contracts which the Board had approved, extended the settlement period for charges and passed on direct cost savings.

Recognising the challenge of ramping up our operation as travel restrictions lifted, we engaged with customers and government about the measures needed for a successful restart including clarity and advance notice about how restrictions and regulations would be lifted.

Shareholders: the company's Board has engaged regularly with that of the parent company, providing more granular reports and forward-looking information. The Board did not approve a dividend after considering the loss for the year, the uncertain recovery from Covid and the need to support customers by extending the period for recovering the company's revenue shortfall

Suppliers: the company has worked closely with suppliers to understand the resilience of the supply chain and support for the company's critical facilities. Suppliers have supported measures to improve the company's working capital.

The Strategic report was approved by the Board of directors on 9 July 2021 and signed by order of the Board by:

R C-Col

Richard Churchill-Coleman, Secretary

Governance framework

Introduction

NSL was formed as part of the NATS group's Public Private Partnership (PPP) in December 2000. A key element of the NATS group's governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA).

The SPA sets out the relative responsibilities of the signatories and, in particular, requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA.

The Board and Directors

Ultimate responsibility for the governance of NSL rests with the Board of NATS Holdings Limited (NHL), which provides strategic direction and leadership and is responsible for ensuring that the NATS group is run safely, efficiently, effectively and legally, with appropriate internal controls to safeguard shareholders' investment and group assets, ensuring it delivers value to shareholders and fulfils its wider role as a provider of critical national infrastructure. For this reason, the NSL Board adheres to the UK Corporate Governance Code.

NSL's Board plays an important leadership role in promoting the desired culture of the organisation. Through governance activities in the year it monitored and input to key aspects of culture including:

- the highest governance and ethical standards reflecting the aspirations of the PPP;
- a prominent safety culture through 'Just Culture' reflecting the company's purpose of advancing aviation and keeping the skies safe;
- consultation with customers on service performance, capital investment and plans for RP3;
- a cost efficient, service oriented and commercially smart organisation, requiring best in class performance of its workforce and partners; and
- diversity and inclusion and fair treatment of its workforce, valuing the contributions of Trades Unions.

As at the date of approval of the accounts, the NSL Board comprised 3 directors, as follows:

Executive Directors

- Chief Executive Officer (CEO);
- Chief Financial Officer (CFO); and
- Commercial Director.

Non-Executive Directors

There are no statutory Non-Executive Directors or a Chair of NSL however, under the PPP structure the Non-Executive Directors of NHL have reserved rights and powers in respect of certain aspects of the NSL business and, as such, provide an independent challenge and oversight for the Executive Directors.

Changes to the Directors

From 1 April 2020 to the date of approval of the accounts, there were no changes to the directors.

Access to legal and professional advice

All directors have access to the advice and services of the Legal Director, Richard Churchill-Coleman, who acts as Secretary to the Board. If necessary, in furtherance of their duties, directors may take independent professional advice at the company's expense.

Board meetings

The NATS group has nested board meetings with NSL Board meetings taking place as part of the NHL meetings. The NSL Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met ten times. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to review the company's performance.

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The company applied the principles of the Corporate Governance Code 2018 from 1 April 2020, to the extent considered appropriate by the Board. A number of the principles and provisions in the Code are not relevant to the partnership nature of NATS' ownership and the principal areas where the company did not comply are summarised below.

Provision 3: Engagement with major shareholders

Within the PPP structure NSL is a wholly owned subsidiary of NATS Limited which is in turn a wholly owned subsidiary of NHL. There are no institutional or public shareholders. The NHL Board's Chair has regular discussions with the group's shareholders in addition to the formal shareholder meetings.

Report of the directors

The directors present their annual report on the affairs of the company, together with the financial statements and the auditor's report for the year ended 31 March 2021.

The Governance report is set out on pages 16 and 17 and forms part of this report.

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

Information about the use of financial instruments is given in note 18 to the financial statements.

Dividends

The company has paid no dividends in the year (2020: £2.0m). The Board recommends a final dividend for the year of £nil (2020: £nil).

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

Alistair Borthwick

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 2021:

Guy Adams	3,801
Martin Rolfe	1,024

None of the directors have, or have 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).

Employee engagement

The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board through a designated non-executive director. 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 directors encourage the involvement of employees in the company's performance through the All-Employee Share Ownership Plan. Following the outbreak of Covid, the directors had regard to the health and well-being of employees and consulted on and implemented adjustments to the working environment, including social distancing measures and home working, to protect the workforce and the company's operation. The CEO, CFO and the Commercial Director maintain high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where they talk to them about current business issues and take questions in an open and straightforward manner. As a result of Covid travel restrictions, regular updates to staff were provided through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. 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. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

The company's pay policy is explained in the Remuneration Committee report of NATS Holdings' Annual Report and Accounts.

The company 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.

The company 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.

The company 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.

Business relationships

We explain on pages 14 and 15 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern and subsequent events

The directors' assessment of going concern is explained in note 3 to the financial statements. Subsequent events since the balance sheet date are disclosed in note 30 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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 auditors are 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 auditors are aware of that information.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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 IFRS 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

At the meeting to approve the financial statements, the Board resolved to re-appoint BDO LLP as statutory auditor.

Approved by the Board of directors and signed by order of the Board by:

Richard Churchill-Coleman, Secretary
9 July 2021

Independent auditor's report to the members of NATS (Services) Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NATS (Services) Limited ("the Company") for the year ended 31 March 2021 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.

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 international accounting standards in conformity with the requirements of the Companies Act 2006, 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 2021 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Strategic report and the Governance report other than our auditor’s report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

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

- the information given in the Strategic report and the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors’ report have been prepared in accordance with applicable legal requirements.

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 or the Directors’ report.

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included:

- Obtaining an understanding of the legal and regulatory framework that the company operates in, focussing on those laws and regulations that had a significant effect on the financial statements or that had a fundamental effect on the operations of the company, including the Companies Act 2006, International Financial Reporting Standards and relevant tax legislation.
- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge

    - of any actual, suspected or alleged fraud; and
    - challenging assumptions made by management in their significant accounting estimates.
- Discussing among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Identifying and testing journal entries, in particular those journal entries considered most susceptible to fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on 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.

DocuSigned by:
Chris Pooles
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Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom
9 July 2021

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	2021 £m	2020 £m
Revenue	4	171.6	191.9
Staff costs	7	(93.6)	(105.7)
Staff redundancies	7	(7.6)	(0.7)
Services and materials		(17.8)	(20.4)
Repairs and maintenance		(3.5)	(5.3)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(8.0)	(9.1)
Impairment of investments in subsidiaries	6, 28	(9.0)	(7.5)
Change in expected credit losses	15	0.3	(0.7)
Other operating charges		(41.9)	(51.1)
Profit on disposal of non-current assets		-	0.8
Deferred grants released	6	0.3	0.3
Net operating costs		(180.8)	(199.4)
Operating loss	6	(9.2)	(7.5)
Investment income	8	1.4	2.2
Finance costs	9	(0.3)	(0.2)
Loss before tax		(8.1)	(5.5)
Tax	10	(0.2)	(0.6)
Loss for the year attributable to equity shareholders		(8.3)	(6.1)

Statement of comprehensive income
for the year ended 31 March

	Notes	2021 £m	2020 £m
Loss for the year after tax		(8.3)	(6.1)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	26	(62.3)	47.7
Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme	21	11.9	(9.0)
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		(0.1)	0.1
Transfer to income statement on cash flow hedges		-	(0.4)
Other comprehensive (loss)/income for the year, net of tax		(50.5)	38.5
Total comprehensive (loss)/income for the year attributable to equity shareholders		(58.8)	32.4

Balance sheet
at 31 March

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	12	5.5	4.5
Property, plant and equipment	13	12.6	15.7
Right-of-use assets	14	3.5	3.6
Investments	28	41.5	50.5
Loan to joint ventures	28	3.3	16.8
Retirement benefit asset	26	-	48.9
Deferred tax asset	21	3.0	-
Trade and other receivables	15	3.1	1.8
		72.5	141.8
Current assets			
Loan to joint ventures	28	1.6	1.6
Trade and other receivables	15	66.9	73.4
Current tax asset		-	0.1
Cash and cash equivalents	18	89.1	69.4
Short term investments	18	-	10.0
Derivative financial instruments	17	-	0.1
		157.6	154.6
Total assets		230.1	296.4
Current liabilities			
Trade and other payables	19	(37.9)	(49.3)
Current tax liabilities		-	-
Lease liabilities	16	(1.2)	(1.2)
Provisions	20	(0.7)	(0.1)
Derivative financial instruments	17	(0.1)	(0.1)
		(39.9)	(50.7)
Net current assets		117.7	103.9
Non-current liabilities			
Trade and other payables	19	(14.3)	(11.3)
Retirement benefit obligations	26	(6.6)	-
Deferred tax liability	21	-	(7.6)
Lease liabilities	16	(2.5)	(2.4)
Provisions	20	(3.1)	(1.9)
		(26.5)	(23.2)
Total liabilities		(66.4)	(73.9)
Net assets		163.7	222.5
Equity			
Called up share capital	22	0.1	0.1
Hedge reserve		(0.1)	-
Retained earnings		163.7	222.4
Total equity		163.7	222.5

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 9 July 2021 signed on its behalf by:

Martin Rolfe
Chief Executive

Alistair Borthwick
Chief Financial Officer

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 2019	0.1	0.2	191.8	192.1
Loss for the year	-	-	(6.1)	(6.1)
Other comprehensive (loss)/income for the year	-	(0.2)	38.7	38.5
Total comprehensive (loss)/income for the year	-	(0.2)	32.6	32.4
Dividends paid	-	-	(2.0)	(2.0)
At 31 March 2020	0.1	-	222.4	222.5
At 1 April 2020	0.1	-	222.4	222.5
Loss for the year	-	-	(8.3)	(8.3)
Other comprehensive loss for the year	-	(0.1)	(50.4)	(50.5)
Total comprehensive loss for the year	-	(0.1)	(58.7)	(58.8)
Dividends paid	-	-	-	-
At 31 March 2021	0.1	(0.1)	163.7	163.7

Cash flow statement
for the year ended 31 March

	Notes	2021 £m	2020 £m
Net cash inflow/(outflow) from operating activities	23	0.6	(0.4)
Cash flows from investing activities			
Interest received on short term investments		0.2	0.6
Purchase of property, plant and equipment and other intangible assets		(4.7)	(7.3)
Proceeds of disposal of property, plant and equipment		-	2.3
Transfers from short term investments		10.0	-
Dividends from joint ventures		0.7	0.5
Loans to joint ventures		(6.2)	(16.7)
Repayments of loans to joint ventures		20.3	21.9
Net cash inflow from investing activities		20.3	1.3
Cash flows from financing activities			
Principal paid on lease liabilities		(1.0)	(2.3)
Interest paid on lease liabilities		(0.2)	(0.2)
Dividends paid		-	(2.0)
Net cash outflow from financing activities		(1.2)	(4.5)
Increase/(decrease) in cash and cash equivalents during the year		19.7	(3.6)
Cash and cash equivalents at 1 April		69.4	73.0
Cash and cash equivalents at 31 March		89.1	69.4

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 2. 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 41, and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB). Following the UK's departure from the EU, for the financial year ending 31 March 2022 the financial statements will be prepared in accordance with IFRS and IFRIC adopted by the UK.

Accounting standards adopted in the year

The company has adopted the requirements of the following amendments to standards in the year, the adoption of these amendments has not had a material impact on the disclosures in the financial statements:

- IFRS 16 (amendments): *COVID-19-Related Rent Concessions;* effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the Covid pandemic.
- IFRS 3 (amendments): *Definition of a Business;* the definition of a business in IFRS 3: *Business Combinations* has been amended in order to help companies determine whether a transaction should be accounted for as a business combination or as an asset acquisition. This is likely to result in more acquisitions being accounted for as asset acquisitions.
- IAS 1 and IAS 8 (amendments): *Definition of Material;* the definition of material has been amended in IAS 1: *Presentation of Financial Statements* and IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and should be considered when deciding what information should be included in financial statements. The amendments were issued to align the definition of material across the IFRS standards and to clarify certain aspects of the definition.

Future accounting developments

At the date of authorisation of these financial statements, the following amendments 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 7, IFRS 9, IAS 39 (amendments): *Interest Rate Benchmark Reform;* Phases 1 and 2 of the interest rate benchmark (IBOR) reform amendments is now effective and relates to changes to IAS 39: *Financial Instruments: Recognition and Measurement*, IFRS 9: *Financial Instruments* and IFRS 7: *Financial Instruments: Disclosures* (effective from 1 January 2021)

- IAS 16 (amendments): *Property, Plant and Equipment – Proceeds Before Intended Use* (effective on or after 1 January 2022)
- IAS 37 (amendments): *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract* (effective on or after 1 January 2022)
- IFRS 3 (amendments): *Business Combinations* (effective on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018 – 2020 (effective on or after 1 January 2022)
- IAS 1 (amendments): *Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current* (effective on or after 1 January 2023)
- IAS 1 (amendments): *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective on or after 1 January 2023)
- IAS 8 (amendments): *Accounting Policies, Changes in Accounting Estimates and Errors* (effective on or after 1 January 2023)
- IFRS 17: *Insurance Contracts* (effective on or after 1 January 2023)

The company is currently assessing the impact of these new accounting amendments but does not expect that their adoption 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.

The company entered into a Management Services Agreement with NATS on 25 July 2001. On 1 October 2009, this agreement was amended so that all relevant secondment obligations are now set out in an Inter-company Secondment Agreement (ISA). This agreement is the basis for the provision by NATS of personnel to the company. In addition, an Inter-company Trading Agreement is the basis for the provision of central services by NATS to NATS Services. The cost of central services is recharged based on 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 Inter-company Trading Agreement (ICTA) on 25 July 2001 (amended 16 December 2014) 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 Inter-company Agreement 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. A contract asset is recognised to reflect the group's entitlement to consideration for work completed but not invoiced at the reporting date and a contract liability is recognised to reflect amounts invoiced for performance obligations not completed at the reporting date. Revenue excludes amounts collected on behalf of third parties.

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 using the work output approach.

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 based upon costs incurred for work performed to date, as a proportion of the estimated total contract costs.

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, impairment of investments in subsidiaries 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.

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: 3-20 years;
- Furniture, fixtures and fittings: 5-15 years; and
- Vehicles: 5-10 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).

Government grants received in the year for the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job

Retention Scheme have been included within staff costs. There are no unfulfilled conditions or contingencies attached to these grants.

Leases

Where a contract provides the right to control the use of an asset for a period of time in exchange for consideration, the contract is accounted for as a lease. In order for lease accounting to apply, an assessment is made at the inception of the contract that considers whether:

- the lessee has the use of an identified asset, which entitles it to the right to obtain substantially all of the economic benefits that arise from the use of the asset; and
- the lessee has the right to direct the use of the asset, either through the right to operate the asset or by predetermining how the asset is used.

Measurement at inception

At the lease commencement date the lessee will recognise:

- a lease liability representing its obligation to make lease payments, and;
- an asset representing its right to use the underlying leased asset (a right-of-use asset).

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease, or if not available an incremental borrowing rate. Future lease payments will include fixed payments or variable lease payments that depend on an index or rate (initially measured at the rate at the commencement date). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term.

The right-of-use asset is initially measured at cost, which comprises the amount initially recognised as the lease liability, lease payments made at or before the commencement date, initial direct costs incurred, and the amount of any provision for estimated costs to be incurred at the end of the lease to restore the site to the required condition stipulated in the lease (dilapidations provision) less any lease incentives received.

For contracts that both convey a right to the lessee to use an identified asset and require services to be provided to the lessee by the lessor, the lessee has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, or account separately for, any services provided by the supplier as part of the contract.

Ongoing measurement

Subsequent to initial measurement, the lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding, reduced for lease payments made and are adjusted for any reassessment of the lease as the result of a contract modification. Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or asset life if it is shorter.

When the lessee revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lease extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- In all other cases where the renegotiated terms increase the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Short term, low-value leases and expired leases

The company applies recognition exemptions for short term leases and leases of low-value items which are accounted for on a straight-line basis over the lease term.

The company has leases that have expired and have not yet been renewed, 'holding over leases'. These leases have no lease liability and therefore a right-of-use asset is not recognised for these leases. The annual rent for these properties is charged to profit and loss in the period to which it relates.

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, including software, 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, intangible and right-of-use assets

At each balance sheet date, the company reviews the carrying amounts of its tangible, intangible and right-of-use 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 (AESOP) 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, within wages and salaries.

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 current tax assets off 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.

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 26. 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 in 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 15 to 19.

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.

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 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, trade and other payables 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 17 and 18 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 company's policies approved by the Board of directors, which provides written principles on the use of financial derivatives. The company documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity (in the hedge reserve) and the ineffective portion is recognised immediately in the income statement. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recycled to the income statement in the same period in which the hedged item affects the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net income or expense for the period.

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

3. Critical judgements and key sources of estimation uncertainty

Going concern and estimation uncertainties arising from Covid

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 18 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 Covid pandemic and the government protection measures to curtail its spread, such as travel restrictions and social distancing rules, is having a significant impact on the UK economy and the demand for air travel which has a direct impact on the demand for the company's air traffic control services.

Given the current uncertainty and the variety of outcomes still possible related to the course of the pandemic, and its adverse impact on the economy and the demand for air travel, the company has considered a wide range of factors related to its future performance and financial position. These include: the economic outlook and the recovery in demand for air travel; future cash flows; the feasibility and effectiveness of planned cost savings and deferral of capital investment and the extent of further support from government measures. The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long term contracts. Following an assessment of these factors and having regard to the impact of a range of scenarios and reverse stress tests, 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 2021.

Retirement benefits (see note 26)

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. At 31 March 2021 the funding position of the scheme reported in the financial statements was a deficit of £6.6m.
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 26 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 (see notes 15 and 19)

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. Such judgements are reviewed regularly and may change over the course of a contract, impacting operating results in future periods should a reassessment of contract completion and costs to complete be made.

Leases (see notes 14 and 16)

Determining the lease term

The lease term determined by the lessee comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Specific lease term judgements have been taken in relation to airport equipment leases that have primary, secondary and tertiary periods. The lease term assumed is the period for which the company is reasonably certain to exercise the option to extend, being the period the lessee expects to use the asset in delivery of air navigation services.

4. Revenue

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

	2021 £m	2020 £m
Revenue from contracts with customers	171.4	191.5
Other revenue: rental and sub-lease income	0.2	0.4
Total revenue	171.6	191.9
Investment income (see note 8)	1.4	2.2
	173.0	194.1

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.

	2021			2020		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Revenue from contracts with customers						
UK Airports	102.5	13.4	115.9	126.4	12.9	139.3
Defence services	28.0	0.8	28.8	25.7	1.4	27.1
Other UK Business	10.9	4.8	15.7	7.5	4.9	12.4
International	8.3	2.7	11.0	7.6	5.1	12.7
Total revenue from contracts with customers	149.7	21.7	171.4	167.2	24.3	191.5
Other revenue: rental and sub-lease income						
UK Airports	-	-	-	0.1	-	0.1
Other UK Business	0.2	-	0.2	0.3	-	0.3
	0.2	-	0.2	0.4	-	0.4
Total revenue	149.9	21.7	171.6	167.6	24.3	191.9

Intercompany revenue includes revenue for services to NATS (En Route) plc of £19.0m (2020: £19.2m), NATS Services (Asia Pacific) Pte. Limited of £2.2m (2020: £3.8m), NATS Services (Hong Kong) Limited of £0.5m (2020: £1.2m) and NATS Services DMCC £nil (2020: £0.1m).

4. Revenue (continued)

b) Revenue disaggregated by timing of recognition

	2021			2020		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Over time						
Revenue from contracts with customers	148.7	21.7	170.4	165.7	24.3	190.0
Other revenue: rental and sub-lease income	0.2	-	0.2	0.4	-	0.4
	148.9	21.7	170.6	166.1	24.3	190.4
At a point in time						
Revenue from contracts with customers	1.0	-	1.0	1.5	-	1.5
	1.0	-	1.0	1.5	-	1.5
	149.9	21.7	171.6	167.6	24.3	191.9

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:

	2021			2020		
	External £m	Intercompany £m	Total £m	External £m	Intercompany £m	Total £m
Revenue from contracts with customers						
United Kingdom	140.4	19.0	159.4	158.1	19.2	177.3
Other European countries	6.8	-	6.8	3.1	-	3.1
Countries in Asia	1.4	2.7	4.1	2.7	5.1	7.8
Countries in North America	1.1	-	1.1	3.3	-	3.3
Total revenue from contracts with customers	149.7	21.7	171.4	167.2	24.3	191.5
Other revenue: rental and sub-lease income						
United Kingdom	0.2	-	0.2	0.4	-	0.4
	149.9	21.7	171.6	167.6	24.3	191.9

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 £33.7m (2020: £47.1m) 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 15 and 19. Significant changes in the contract assets and the contract liabilities balances during the year are as follows:

	Contract assets		Contract liabilities	
	2021 £m	2020 £m	2021 £m	2020 £m
At 1 April	23.1	21.3	(20.0)	(20.3)
Opening contract assets transferred to trade and other receivables	16.9	(17.3)	-	-
Cumulative catch-up adjustments	(18.3)	(0.5)	-	(0.6)
Additional contract asset balances recognised at the balance sheet date	-	19.6	-	-
Opening contract liabilities which have now been recognised as revenue	-	-	7.9	5.7
Increases due to cash received, excluding amounts recognised as revenue during the year	-	-	(6.8)	(4.8)
At 31 March	21.7	23.1	(18.9)	(20.0)

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 line 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 2021, no revenue was recognised for performance obligations satisfied in previous periods (2020: £nil).

4. Revenue (continued)

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 is approximately as follows:

	2021				
	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	4.2	0.8	0.9	-	5.9
Defence services	16.5	1.1	-	-	17.6
Other UK Business	0.9	0.8	0.8	2.3	4.8
International	4.1	0.1	-	-	4.2
	25.7	2.8	1.7	2.3	32.5

	2020				
	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	7.5	6.8	7.9	8.3	30.5
Defence services	20.4	3.2	0.7	-	24.3
Other UK Business	0.9	0.4	1.1	3.5	5.9
International	3.6	0.8	-	-	4.4
	32.4	11.2	9.7	11.8	65.1

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

5. Operating segments

Operating loss

Service line contribution represents the revenue and costs which are directly attributed to a service line.

A reconciliation of service line contribution to loss before tax is provided below:

	2021 £m	2020 £m
UK Airports	20.2	24.1
Defence services	1.4	1.2
Other UK Business	7.7	5.7
International	2.2	(1.4)
Service line contribution	31.5	29.6
Costs not directly attributed to service lines:		
Depreciation, amortisation and impairment (net of deferred grants released)	(7.7)	(8.8)
Impairment of investment in NATS (USA) Inc.	(9.0)	(2.8)
Impairment of investment in NATS (Services) Canada Inc.	-	(4.7)
Profit on disposal of non-current assets	-	0.8
Employee share scheme (costs)/credits	(0.4)	0.8
Redundancy and relocation costs	(7.6)	(1.0)
Other costs not directly attributed to service lines	(16.0)	(21.4)
Investment income	1.4	2.2
Finance costs	(0.3)	(0.2)
Loss before tax	(8.1)	(5.5)

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

5. Operating segments (continued)

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:

	2021			2020		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	98.0	73.6	171.6	126.1	65.8	191.9
Costs (net)	(95.6)	(85.2)	(180.8)	(122.6)	(76.8)	(199.4)
Operating loss	2.4	(11.6)	(9.2)	3.5	(11.0)	(7.5)

Non-current asset additions

Additions to non-current assets (including additions to right-of-use assets) presented by service line are: UK Airports £4.7m (2020: £3.9m), Defence services £0.7m (2020: £2.7m), Other UK Business £0.3m (2020: £0.3m) and International £nil (2020: £0.1m).

Geographical segments

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £43.0m (2020: £52.0m) which the company holds in overseas entities (see note 28). These investments have been established to enable the company to undertake business abroad or to hold foreign equity investments.

6. Operating loss for the year

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

	2021 £m	2020 £m
CAA regulatory charges for safety regulation at airports	0.1	0.1
Voluntary redundancy costs	7.6	0.7
Staff relocation costs (net of credits for revisions to estimates) following site closures	-	0.3
Amortisation of intangible assets (note 12)	0.3	0.3
Impairment of intangible assets (note 12)	-	0.2
Depreciation of property, plant and equipment (note 13)	2.6	2.5
Impairment of property, plant and equipment (note 13)	3.7	4.1
Depreciation of right-of-use assets (note 14)	1.2	1.8
Impairment of right-of-use assets (note 14)	0.2	0.2
Impairment of investment in NATS (USA) Inc.	9.0	2.8
Impairment of investment in NATS (Services) Canada Inc.	-	4.7
Deferred grants released	(0.3)	(0.3)

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 loss 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 £nil (2020: £0.4m gain).

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.

6. Operating loss for the year (continued)

Transactions with group companies

	2021 £m	2020 £m
Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below)	102.3	107.3
Charges for services provided by NATS Limited	2.2	2.4
Charges for services provided by NATS (En Route) plc	24.4	26.4
Charges for services provided by NATS Solutions Limited	5.2	4.9
Charges for services provided by NATS Services DMCC	1.5	1.9
Charges for services provided by NATS Services (Asia Pacific) Pte. Limited	0.5	0.5

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 Inter-company Secondment Agreement (ISA) dated 1 October 2009, the services of certain employees are seconded to NATS Services by NATS Limited. NATS Services is responsible under the ISA 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 Inter-company Trading Agreement (ICTA) NERL provides certain services to NATS Services. The ISA and ICTA 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

	2021			2020		
	Staff costs (excluding redundancies) £m	Staff redundancies £m	Total £m	Staff costs (excluding redundancies) £m	Staff redundancies £m	Total £m
Salaries and staff costs were as follows:						
Wages and salaries	72.0	6.4	78.4	75.1	0.7	75.8
Social security costs	8.5	0.7	9.2	9.2	-	9.2
Pension costs (note 7b)	20.6	0.5	21.1	22.3	-	22.3
	101.1	7.6	108.7	106.6	0.7	107.3
Less:						
Amounts capitalised	(1.1)	-	(1.1)	(0.9)	-	(0.9)
Government grants	(6.4)	-	(6.4)	-	-	-
	93.6	7.6	101.2	105.7	0.7	106.4

Government grants of £6.4m (2020: £nil) which relate to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

Wages and salaries includes share-based payment charges, other allowances and holiday pay.

b) Pension costs (see note 26)

	2021 £m	2020 £m
Defined benefit pension scheme costs	14.8	16.9
Defined contribution pension scheme costs	6.3	5.4
	21.1	22.3

Staff pension contributions are included within these pension scheme costs as the company operates a salary sacrifice arrangement. Wages and salaries (note 7a) have been shown net of staff pension contributions.

c) Staff numbers

	2021 No.	2020 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	448	464
Air traffic service assistants	103	111
Engineers	150	129
Others	219	224
	920	928
The number of employees (including executive directors) in post at 31 March was:	869	962

The voluntary redundancy programme was completed in December 2020.

8. Investment income

	2021 £m	2020 £m
Dividends from investments	0.7	0.5
Interest on bank deposits	0.1	0.6
Other interest receivable	0.6	1.1
	1.4	2.2

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. Finance costs

	2021 £m	2020 £m
Interest on lease liabilities (see note 16)	0.2	0.2
Other finance costs	0.1	-
	0.3	0.2

Other finance costs includes the effect of unwinding the discount on amounts payable after more than one year.

10.Tax

	2021 £m	2020 £m
Corporation tax		
Current tax	(1.2)	(0.2)
Adjustments in respect of prior year - UK taxation	0.1	0.1
Foreign taxation	-	0.1
	(1.1)	-
Deferred tax (see note 21)		
Origination and reversal of temporary timing differences	1.4	0.5
Adjustments in respect of prior year	(0.1)	0.2
Effects of tax rate change on opening balance	-	(0.1)
	1.3	0.6
	0.2	0.6

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable loss for the year.

	2021		2020	
The charge for the year can be reconciled to the loss per the income statement as follows:	£m		£m	
Loss on ordinary activities before tax	(8.1)		(5.5)	
Tax on loss on ordinary activities at standard rate in the UK of 19% (2020: 19%)	(1.5)	19.0%	(1.0)	19.0%
Tax effect of change in corporation tax rate from 17% to 19%	-	-	(0.1)	1.7%
Tax effect of prior year adjustments - current tax	0.1	(1.1%)	0.1	(1.7%)
Tax effect of prior year adjustments - deferred tax	(0.1)	1.1%	0.2	(3.8%)
Adjustment to deferred grants on property, plant and equipment and intangible assets	0.2	(2.6%)	-	-
Impairment of investment in NATS (USA) Inc. and NATS (Services) Canada Inc.	1.7	(21.1%)	1.5	(27.8%)
Employee share scheme	-	-	0.1	(1.7%)
Foreign permanent establishment exemption	-	-	(0.1)	1.7%
Dividends from joint ventures	(0.1)	1.1%	(0.1)	1.7%
Other permanent differences	(0.1)	1.1%	-	-
Tax charge for year at an effective tax rate of (2.5%) (2020: (10.9%))	0.2	(2.5%)	0.6	(10.9%)
Deferred tax credit/(charge) taken directly to equity (see note 21)	11.9		(8.9)	

Deferred tax is provided at a rate of 19% (2020: 19%), being the prevailing rate of corporation tax which is expected to apply in the period when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. The Finance Bill was substantively enacted in May 2021, and accordingly deferred tax balances will be provided for at a rate of 25% for amounts expected to unwind after 1 April 2023. The change in rate is estimated to result in a change to the income statement in 2021/22 of £0.4m.

11. Dividends

	2021 £m	2020 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of nil per share (2020: £10.00 per share)	-	1.0
Second interim dividend of nil per share (2020: £10.00 per share)	-	1.0
	-	2.0

12. Intangible assets

	Operational software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 2019	4.0	2.7	2.2	8.9
Additions internally generated	-	0.1	2.3	2.4
At 31 March 2020	4.0	2.8	4.5	11.3
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.5	0.7	1.2
Transfers during the year	-	3.4	(3.4)	-
At 31 March 2021	4.0	6.7	1.9	12.6
Accumulated amortisation				
At 1 April 2019	4.0	2.1	0.2	6.3
Charge for the year	-	0.3	-	0.3
Impairment provision recognised in income statement	-	-	0.2	0.2
Disposals during the year	-	0.2	(0.2)	-
At 31 March 2020	4.0	2.6	0.2	6.8
Charge for the year	-	0.3	-	0.3
Transfer of impairment provision	-	0.2	(0.2)	-
At 31 March 2021	4.0	3.1	-	7.1
Carrying amount				
At 31 March 2021	-	3.6	1.9	5.5
At 31 March 2020	-	0.2	4.3	4.5
At 1 April 2019	-	0.6	2.0	2.6

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. During the prior year impairment charges of £0.2m were made in respect of assets in the course of construction.

13. 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 2019	0.1	4.9	36.9	2.8	5.7	50.4
Additions during the year	-	-	-	0.1	4.0	4.1
Other transfers during the year	-	-	(0.1)	-	0.1	-
At 31 March 2020	0.1	4.9	36.8	2.9	9.8	54.5
Additions during the year	-	-	2.9	-	0.3	3.2
Other transfers during the year	-	-	7.0	-	(7.0)	-
At 31 March 2021	0.1	4.9	46.7	2.9	3.1	57.7
Accumulated depreciation and impairment						
At 1 April 2019	0.1	4.4	24.9	2.8	-	32.2
Provided during the year	-	0.1	2.4	-	-	2.5
Impairment provision recognised in income statement	-	-	-	-	4.1	4.1
At 31 March 2020	0.1	4.5	27.3	2.8	4.1	38.8
Provided during the year	-	0.1	2.5	-	-	2.6
Impairment provision recognised in income statement	-	-	-	-	3.7	3.7
Transfer of impairment provision	-	-	6.3	-	(6.3)	-
At 31 March 2021	0.1	4.6	36.1	2.8	1.5	45.1
Carrying amount						
At 31 March 2021	-	0.3	10.6	0.1	1.6	12.6
At 31 March 2020	-	0.4	9.5	0.1	5.7	15.7
At 1 April 2019	-	0.5	12.0	-	5.7	18.2

The company conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the company incurred impairment charges of £3.7m (2020: £4.1m) relating to the reduction in value in use of UK Airports assets in the course of construction and installation reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full.

14. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2019	1.8	3.9	0.2	5.9
Additions during the year	-	0.3	0.2	0.5
Effect of modification to lease terms	-	(0.1)	-	(0.1)
Terminations during the year	-	(0.4)	-	(0.4)
At 31 March 2020	1.8	3.7	0.4	5.9
Additions during the year	1.0	0.1	0.1	1.2
Effect of modification to lease terms	0.1	0.2	-	0.3
Terminations during the year	-	(0.3)	(0.1)	(0.4)
At 31 March 2021	2.9	3.7	0.4	7.0
Accumulated depreciation and impairment				
At 1 April 2019	0.5	-	-	0.5
Charge during the year	0.3	1.4	0.1	1.8
Impairments during the year	-	0.2	-	0.2
Terminations during the year	-	(0.2)	-	(0.2)
At 31 March 2020	0.8	1.4	0.1	2.3
Charge during the year	0.2	0.8	0.2	1.2
Charge capitalised in the year	0.2	-	-	0.2
Impairments during the year	0.2	-	-	0.2
Terminations during the year	-	(0.3)	(0.1)	(0.4)
At 31 March 2021	1.4	1.9	0.2	3.5
Carrying amount				
At 31 March 2021	1.5	1.8	0.2	3.5
At 31 March 2020	1.0	2.3	0.3	3.6
At 1 April 2019	1.3	3.9	0.2	5.4

The company conducts annual reviews of the carrying values of its right-of-use assets. During the year, impairment charges of £0.2m (2020: £0.2m) were made reflecting the reduction in value in use of certain assets following reassessment of some UK Airports assets, and the likelihood of benefits being realised in full.

15. Financial and other assets

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

Trade and other receivables

	2021 £m	2020 £m
Non-current		
Receivable from customers gross	1.5	1.6
Prepayments	1.6	0.2
	3.1	1.8
Current		
Receivable from customers gross	26.9	21.7
Less: expected credit loss provision	(0.5)	(0.8)
	26.4	20.9
Amounts recoverable under contracts	1.1	2.9
Contract spare parts	0.5	0.5
Contract assets	21.7	23.1
Other debtors	1.1	1.1
Prepayments	2.8	2.7
Amounts due from fellow subsidiary (NATS (En Route) plc)	1.0	-
Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited)	10.1	17.9
Amounts due from subsidiary undertaking (NATS Services DMCC)	1.0	0.7
Amounts due from subsidiary undertaking (NATS (USA) Inc.)	0.5	0.5
Amounts due from subsidiary undertaking (NATS Services (Hong Kong) Limited)	0.7	3.1
	66.9	73.4

Contract assets, which are all current, are expected to transfer to receivables from customers by 31 March 2022.

The average credit period taken on sales of services is 53 days (2020: 33 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.5m (2020: £0.8m).

Movement in the expected credit loss provision

	2021 £m	2020 £m
Balance at the beginning of the year	0.8	0.1
(Decrease)/increase in allowance recognised in the income statement	(0.3)	0.7
Balance at the end of the year	0.5	0.8

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 (including amounts owed by related parties, as disclosed in note 27) have been considered. Based on this, trade receivables and contract assets have been grouped into sub-groups as they are considered to have different credit risk characteristics: UK Airports; Defence services and Other UK Business; and International. For each of these sub-groups separate provision matrices based on the days past due have been used to summarise historic loss patterns. The historical loss rates calculated reflect the economic conditions in place during the period to which the historical data relates and does not reflect forward looking macro-economic factors. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period for each of these sub-groups at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2021 to reflect the increase in default risk by customers due to the significant impact of Covid on the aviation sector and the historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

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.

15. Financial and other assets (continued)

At 31 March 2021 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	2021							
		Receivables - months past due						
	Unbilled income	Current	1 month	2-3 months	4-6 months	>6 months	In administration	Total £m
UK Airports service line								
Expected credit loss rate (%)	0.0%	3.1%	9.1%	5.4%	0.0%	0.0%	100.0%	
Gross carrying amount	2.2	9.8	0.9	0.5	-	0.1	-	13.5
Lifetime expected credit loss (£m)	-	0.3	0.1	-	-	-	-	0.4
Defence and Other UK Business service lines								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount	0.6	24.8	1.5	3.1	-	0.6	-	30.6
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-	-
International service line								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount	1.1	3.6	1.0	0.1	-	0.1	0.1	6.0
Lifetime expected credit loss (£m)	-	-	-	-	-	-	0.1	0.1
Total expected credit losses (£m)	**-**	**0.3**	**0.1**	**-**	**-**	**-**	**0.1**	**0.5**

	2020							
		Receivables - months past due						
	Unbilled income	Current	1 month	2-3 months	4-6 months	>6 months	In administration	Total £m
UK Airports service line								
Expected credit loss rate (%)	0.0%	3.3%	10.0%	8.3%	10.0%	0.0%	100.0%	
Gross carrying amount	3.5	20.0	0.1	-	-	-	-	23.6
Lifetime expected credit loss (£m)	-	0.7	-	-	-	-	-	0.7
Defence and Other UK Business service lines								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount	0.6	16.6	0.1	-	-	-	-	17.3
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-	-
International service line								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	
Gross carrying amount	-	5.1	0.1	0.2	-	0.1	-	5.5
Lifetime expected credit loss (£m)	-	-	-	-	-	0.1	-	0.1
Total expected credit losses (£m)	**-**	**0.7**	**-**	**-**	**-**	**0.1**	**-**	**0.8**

15. Financial and other assets (continued)

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 £0.3m will be released by 31 March 2022, £1.0m by 31 March 2026 and £0.2m by 31 March 2029 (2020: £0.3m will be released by 31 March 2021, £1.0m by 31 March 2025 and £0.3m by 31 March 2029). None of those receivables has been subject to a significant increase in credit risk since initial recognition.

The company has assessed the carrying values of the loans to joint ventures at the balance sheet date and concluded that there should be no provision recorded under the expected credit loss methodology. The company monitors the performance of its joint ventures and their ability to meet loan obligations as they fall due. Expected credit losses have been assessed with the benefit of this visibility and past loan performance.

As at 31 March 2021, trade receivables of £0.1m (2020: £0.1m) had lifetime expected credit losses of the full value of the receivables.

There are £0.1m of receivables in the expected credit loss provision which are in administration, receivership or liquidation (2020: £nil).

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 £159.1m (2020: £169.6m).

16. Leases

Details of the carrying values of right-of-use assets under lease agreements are reported in note 14.

The following table sets out the contractual maturity of the company's lease liabilities:

	2021 £m	2020 £m
Due within one year or less	1.3	1.3
Due between one and two years	0.7	0.7
Due between two and five years	1.8	1.5
Due in more than five years	0.2	0.4
	4.0	3.9
Less: future finance charges	(0.3)	(0.3)
	3.7	3.6

Analysed as:

	2021 £m	2020 £m
Current	1.2	1.2
Non-current	2.5	2.4
	3.7	3.6

The income statement shows the following amounts relating to leases:

	2021 £m	2020 £m
Interest on lease liabilities (see note 9)	0.2	0.2

The depreciation charge for right-of-use assets included in the income statement, is shown in note 14.

Minimum lease payments under operating leases recognised in the income statement are £nil (2020: £0.1m).

16. Leases (continued)

Nature of leasing activities

The company leases a number of properties in the UK from which it operates. Some property contracts contain provision for payments to increase each year by inflation others to be reset periodically to market rental rates. In other cases, the periodic rent is fixed over the lease term. The company also leases certain items of plant, equipment and vehicles. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date relative to lease payments that are variable.

Year ended 31 March 2021	Lease contracts No.	Fixed payments %(i)	Variable payments %(i)	Sensitivity £m
Property leases with payments linked to inflation	2	n/a	24.7%	-
Property leases with periodic uplifts to market rentals	3	n/a	26.6%	-
Property leases with fixed payments	1	1.0%	n/a	n/a
Leases of plant and equipment	19	41.8%	n/a	n/a
Vehicle leases	35	5.9%	n/a	n/a
	60	48.7%	51.3%	-

Year ended 31 March 2020	Lease contracts No.	Fixed payments %(i)	Variable payments %(i)	Sensitivity £m
Property leases with payments linked to inflation	1	n/a	1.4%	-
Property leases with periodic uplifts to market rentals	4	n/a	32.1%	0.1
Property leases with fixed payments	1	0.4%	n/a	n/a
Leases of plant and equipment	19	58.1%	n/a	n/a
Vehicle leases	43	8.0%	n/a	n/a
	68	66.5%	33.5%	0.1

(i) The fixed/variable payment percentage is calculated based on the value of the lease liability outstanding as at 31 March 2021, divided by the company's total lease liability outstanding at that date.

The company sometimes negotiates break clauses in its property leases. On a case-by-case basis, the company will consider whether the absence of a break clause would exposes the company to excessive risk. Typically factors considered in deciding to negotiate a break clause include:

- The length of the lease term;
- What the location will be used for e.g. a break clause is more important for a location used to house older technology; and
- Whether the location represents a new area of operations for the company.

At 31 March 2021, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the company would not exercise its right to exercise any right to break the lease. In addition, the carrying amounts of some leases include the period to which the company is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £2.4m (2020: £3.0m), of which £0.5m (2020: £0.5m) is potentially avoidable if the leases were not extended and a further £1.6m (2020: 1.1m) is potentially avoidable were the company to exercise break clauses at the earliest opportunity.

The company builds certain airport engineering assets used to satisfy its obligations under its Airport ATC contracts. Dependent on the agreement with individual airports those assets are either sold directly to the airports or the company enters into a sale and leaseback arrangement and recharges the monthly lease cost to the airport on a cost plus adminstrative fee margin basis. The leases have primary lease periods of between 5 and 7 years and are extendable to secondary and tertiary periods. In the event that an Airport ATC contract is not renewed the assets will be sold by the lease company directly to the Airport and the leases disposed of in the company financial statements. The outstanding discounted liability for these leases at 31 March 2021 was £1.7m (2020: £2.2m).

The company entered into one new sale and leaseback arrangements in the year to 31 March 2021 (2020: two), additions to right-of-use assets are £0.1m (2020: £0.3m) (note 14) and lease liabilities £0.1m (2020: £0.3m).

The amount for leases not yet commenced to which the company is committed at 31 March 2021 is £nil (2020: £nil).

17. Derivative financial instruments

Fair value of derivative financial instruments

	2021 £m	2020 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	-	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.1)	(0.1)

Further details on derivative financial instruments are provided in note 18.

18. 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.

Categories of financial instrument

The carrying values of financial instruments by category at 31 March were as follows:

	2021 £m	2020 £m
Financial assets:		
Financial assets at amortised cost		
Trade and other receivables	65.1	71.8
Loans to joint ventures	4.9	18.4
Cash and cash equivalents and short term investments	89.1	79.4
	159.1	169.6
Derivative financial instruments		
In designated hedge accounting relationships	-	0.1
	159.1	169.7
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and other payables	(31.3)	(38.4)
Lease liabilities	(3.7)	(3.6)
	(35.0)	(42.0)
Derivative financial instruments		
In designated hedge accounting relationships	(0.1)	(0.1)
	(35.1)	(42.1)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £4.4m (2020: £2.9m) and contract spare parts of £0.5m (2020: £0.5m)), loans to joint ventures, cash and cash equivalents and short term investments.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £18.9m (2020: £20.0m), deferred income of £1.1m (2020: £1.4m) and VAT of £0.9m (2020: £0.8m)) and lease liabilities.

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 2021.

Market risk

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

18. 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Euro	1.3	4.6	(1.4)	(1.9)
Canadian dollar	1.6	1.8	(0.1)	(0.2)
Kuwaiti dinar	-	0.4	-	-
Norwegian krone	0.2	0.3	(0.2)	(0.1)
Philippine peso	0.4	0.4	-	-
Qatari riyal	0.7	1.2	-	-
Singapore dollar	1.2	0.7	-	(0.1)
Swedish krona	-	0.3	(0.3)	-
Thai baht	0.5	0.6	-	-
UAE dirham	0.4	1.0	(0.1)	-
US dollar	0.9	0.6	(0.9)	(0.4)
	7.2	11.9	(3.0)	(2.7)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £1.5m at 31 March 2021 in euro, Norwegian krone, Singapore dollars, Thai baht and US dollars (2020: £6.7m in euro, Canadian dollars, Kuwaiti dinar, Norwegian krone, 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	2021 Impact £m	2020 Impact £m
Euro	(0.1)	(0.3)
Canadian dollar	(0.2)	(0.3)
Kuwaiti dinar	-	(0.1)
Philippine peso	-	(0.1)
Qatari riyal	(0.1)	(0.1)
Singapore dollar	-	0.2
Thai baht	(0.1)	(0.1)
UAE dirham	-	(0.1)
US dollar	(0.1)	(0.1)
	(0.6)	(1.0)

The company's sensitivity to foreign currencies has decreased. In particular, the company's sensitivity to the euro has decreased during the year due to a decrease in euro 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.

18. 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:

	2021			2020		
			Average exchange rate			Average exchange rate
Euro bought	€m	£m		€m	£m	
0-90 days	0.2	0.2	0.9003	0.2	0.2	0.8703
91-365 days	1.5	1.4	0.9028	0.1	0.1	0.8719
	1.7	1.6	0.9025	0.3	0.3	0.8707
Canadian dollar bought	C$m	£m		C$m	£m	
0-90 days	0.5	0.3	1.7755	0.6	0.4	1.7649
91-365 days	-	-	-	0.5	0.3	1.6791
> 365 days	1.1	0.6	1.7770	1.6	0.9	1.7765
	1.6	0.9	1.7765	2.7	1.6	1.7563
Norwegian krone bought	NOKm	£m		NOKm	£m	
91-365 days	1.4	0.1	11.6942	-	-	-
Singapore dollar sold	£m	SGDm		£m	SGDm	
0-90 days	0.2	0.4	1.8550	2.3	4.2	1.8125
91-365 days	0.7	1.4	1.8243	-	-	-
	0.9	1.8	1.8317	2.3	4.2	1.8125
US dollar bought	$m	£m		$m	£m	
91-365 days	0.2	0.2	1.3091	1.1	0.9	1.3069
> 365 days	0.4	0.3	1.3127	-	-	-
	0.6	0.5	1.3114	1.1	0.9	1.3069

At 31 March 2021, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.1m (2020: £nil). 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 2021 or 31 March 2020 and therefore was not exposed to any interest rate risk on borrowings.

18. Financial instruments (continued)

Economic interest rate exposure

The company held cash and short term deposits as follows:

	2021						
	Cash			Short term deposits			Total
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Amount £m
Sterling	87.6	0.0	1	-	-	-	87.6
Euro	0.2	-	1	-	-	-	0.2
Norwegian krone	0.2	-	1	-	-	-	0.2
Singapore dollar	0.2	-	1	-	-	-	0.2
Thai baht	0.5	-	1	-	-	-	0.5
US dollar	0.4	-	1	-	-	-	0.4
	89.1			-			89.1

	2020						
	Cash			Short term deposits			Total
Currency	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Amount £m
Sterling	62.7	0.5	16	10.0	0.8	128	72.7
Euro	3.3	-	1	-	-	-	3.3
Canadian dollar	0.2	-	1	-	-	-	0.2
Kuwaiti dinar	0.3	-	1	-	-	-	0.3
Norwegian krone	0.3	-	1	-	-	-	0.3
Qatari riyal	0.6	-	1	-	-	-	0.6
Singapore Dollar	0.7	-	1	-	-	-	0.7
Swedish krona	0.3	-	1	-	-	-	0.3
Thai baht	0.6	-	1	-	-	-	0.6
UAE dirham	0.3	-	1	-	-	-	0.3
US dollar	0.1	-	1	-	-	-	0.1
	69.4			10.0			79.4

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

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.

	2021 Impact £m	2020 Impact £m
Cash at bank and short term deposits (2021: £89.1m, 2020: £79.4m)	0.9	0.8

18. 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 15. 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 AA- and A+ respectively from Standard & Poor's or Fitch Ratings and Aa3 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.

Investment limits for each institution are set with reference to their credit rating.

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

	2021			2020		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAAm	4	87.4	98.1	5	33.6	42.3
AA-	-	-	-	2	21.5	27.1
A+	1	0.7	0.8	1	15.0	18.9
A	1	1.0	1.1	-	-	-
A-	-	-	-	1	9.3	11.7
		89.1	100.0		79.4	100.0

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 2021 (31 March 2020: uncommitted overdraft of £1.0m undrawn).

The following table sets out the remaining contractual maturity of the company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to repay. The table includes both interest and principal cash flows.

	2021			2020		
	Lease liabilities £m	Other liabilities £m	Total £m	Lease liabilities £m	Other liabilities £m	Other liabilities £m
Due within one year or less	1.3	31.2	32.5	1.3	38.3	39.6
Between one and two years	0.7	-	0.7	0.7	-	0.7
Due between two and five years	1.8	-	1.8	1.5	-	1.5
Due in more than five years	0.2	0.1	0.3	0.4	0.1	0.5
	4.0	31.3	35.3	3.9	38.4	42.3
Less: future finance charges	(0.3)	-	(0.3)	(0.3)	-	(0.3)
	3.7	31.3	35.0	3.6	38.4	42.0

Other liabilities above include trade and other payables excluding deferred income of £1.1m (2020: £1.4m), contract liabilities of £18.9m (2020: £20.0m) and VAT of £0.9m (2020: £0.8m).

18. Financial instruments (continued)

Fair value measurements

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

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

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

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

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

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	-	-	-	-	0.1	-	0.1
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.1)	-	(0.1)	-	(0.1)	-	(0.1)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

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

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

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

19. 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:

	2021 £m	2020 £m
Current		
Trade payables	4.8	2.8
Other payables	3.2	1.3
Contract liabilities	5.2	9.6
Amounts due to parent company	10.9	16.1
Amounts due to fellow subsidiary undertaking (NATS (En Route) plc)	-	4.5
Amounts due to subsidiary undertaking (NATS Solutions Limited)	0.3	0.3
Accruals and deferred income (including deferred grants)	13.5	14.7
	37.9	49.3
Non-current		
Other payables	0.1	0.1
Contract liabilities	13.7	10.4
Accruals and deferred income (including deferred grants)	0.5	0.8
	14.3	11.3
	52.2	60.6

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 72 days (2020: 37 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

20. Provisions

	Total £m
At 1 April 2020	2.0
Additional provision in the year	1.9
Utilisation of provision	(0.1)
At 31 March 2021	3.8

	2021 £m	2020 £m
Amounts due for settlement within 12 months	0.7	0.1
Amounts due for settlement after 12 months	3.1	1.9
	3.8	2.0

Provisions represent the best estimate of other liabilities, including the cost of fulfilling onerous contracts. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

21. 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 2019	(0.7)	(0.8)	(0.4)	(1.9)
(Credit)/charge to income	(0.2)	1.1	(0.3)	0.6
Charge/(credit) to equity	-	9.0	(0.1)	8.9
At 31 March 2020	(0.9)	9.3	(0.8)	7.6
At 1 April 2020	(0.9)	9.3	(0.8)	7.6
(Credit)/charge to income	(0.1)	1.3	0.1	1.3
Credit to equity	-	(11.9)	-	(11.9)
At 31 March 2021	(1.0)	(1.3)	(0.7)	(3.0)

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:

	2021 £m	2020 £m
Deferred tax liabilities	-	9.3
Deferred tax assets	(3.0)	(1.7)
	(3.0)	7.6

22. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2020 and 31 March 2021	100,000	0.1	100,000	0.1

23. Notes to the cash flow statement

	2021 £m	2020 £m
Operating loss from continuing operations	(9.2)	(7.5)
Adjustments for:		
Depreciation of property, plant and equipment	2.6	2.5
Depreciation of right-of-use assets	1.2	1.8
Amortisation of intangible assets	0.3	0.3
Impairment charges	3.9	4.5
Impairment of investments in subsidiaries	9.0	7.5
Deferred grants released	(0.3)	(0.3)
Profit on disposal of non-current assets	-	(0.8)
Adjustment for pension funding	(6.8)	(5.9)
Operating cash flows before movements in working capital	0.7	2.1
Decrease/(increase) in amounts recoverable under contracts	1.8	(1.3)
(Increase)/decrease in trade and other receivables	(5.5)	3.7
Increase/(decrease) in trade, other payables and provisions	3.3	(0.7)
Decrease/(increase) in amounts due from other group undertakings	0.3	(4.1)
Cash generated from/(used by) operations	0.6	(0.3)
Tax paid	-	(0.1)
Net cash inflow/(outflow) from operating activities	0.6	(0.4)

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.

Reconciliation of net financial assets

The table below reconciles the movements in financial assets and financial liabilities arising from financing activities in the period.

	Assets		Liabilities	Net financial assets
	Cash and cash equivalents £m	Short term investments £m	Lease liabilities £m	Total £m
Net financial assets as at 1 April 2019	73.0	10.0	(5.7)	77.3
Cash flows	(3.6)	-	2.3	(1.3)
New leases in the period	-	-	(0.5)	(0.5)
Effect of modification to lease terms	-	-	0.1	0.1
Terminations	-	-	0.2	0.2
Net financial assets as at 31 March 2020	69.4	10.0	(3.6)	75.8
Cash flows	19.7	(10.0)	1.0	10.7
New leases in the period	-	-	(1.2)	(1.2)
Effect of modification to lease terms	-	-	(0.3)	(0.3)
Terminations	-	-	0.4	0.4
Net financial assets as at 31 March 2021	89.1	-	(3.7)	85.4

24. Financial commitments

	2021 £m	2020 £m
Capital commitments contracted but not provided for in the accounts	0.6	0.8

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 liabilities at 31 March 2021 of £4,914 (2020: £4,914). NATS Services DMCC had net assets at 31 March 2021 of £0.3m (2020: £0.3m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2021 of £9.5m (2020: £6.5m). NATS Services (Hong Kong) Limited had net assets at 31 March 2021 of £1.9m (2020: £1.8m). NATS Services LLC had net assets at 31 March 2021 of £0.2m (2020: £0.3m).

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

NATS Services has provided a parent 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 2021 was £9.0m (2020: £7.9m).

25. 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 2021	No. employee shares outstanding at 31 March 2020
Date of share awards		
Free share awards		
21 September 2001	28,906	42,750
20 October 2003	26,102	38,102
10 September 2004	45,637	57,637
11 January 2008	35,880	44,909
18 September 2009	42,000	50,200
Partnership shares		
1 March 2011	36,328	43,928
26 September 2012	47,564	57,472
30 May 2014	46,688	54,218
31 October 2016	76,818	87,397
31 October 2018	105,649	119,547
Matching shares		
1 March 2011	36,076	43,676
26 September 2012	47,084	57,192
30 May 2014	46,438	53,968
31 October 2016	76,818	87,397
31 October 2018	106,249	119,547
	804,237	957,940
Dividend shares issued on 28 June 2005	3,455	4,822
Total employee shares in issue at 31 March	807,692	962,762

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

	Movement in the no. of shares during the year ended 31 March 2021	Movement in the no. of shares during the year ended 31 March 2020
Balance at 1 April	962,762	1,072,984
Forfeited during the year	(2,148)	(3,332)
Exercised during the year	(152,790)	(120,563)
Staff transfers between group companies	(132)	13,673
Balance at 31 March	807,692	962,762

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid had a significant and material impact and the scheme has been closed for leavers and joiners since 1 April 2020. The fair value of an employee share was estimated by reference to a comparable listed company at 31 March 2021 to be £3.12 (2020: £2.85). The last independent valuation at 30 June 2019 was £3.85. The liability for the employee shares at 31 March 2021 was £2.9m (2020: £2.6m), which includes amounts owing to good leavers since 1 April 2020, is included in amounts due to parent company. The income statement includes a debit of £0.4m (2020: £0.8m credit). The payments made to employees for the shares they exercised during the year was £nil (2020: £0.5m).

26. 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 2021 employer contributions of £4.0m (2020: £3.5m), excluding employee salary sacrifice contributions of £2.1m (2020: £1.9m), represented 16.3% of pensionable pay (2020: 16.1%). In addition, the company paid £0.2m (2020: £nil) in lieu of redundancy payments to defined contribution schemes.

The defined contribution scheme had 395 members at 31 March 2021 (2020: 405).

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 assessed 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% employer and 5.8% employee). 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 are paid at 41.7% payable from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £40.8m in 2018 calendar year, £41.8m in 2019 and £25.4m in 2020. For 2021, £26.0m will be paid, increasing annually by 2.37% for 2022 and 2023. No contributions will be paid in 2024. Further deficit recovery contributions will be paid in 2025 and 2026 of £2.3m per year. NATS Services' share of deficit recovery contributions is c.23%.

NATS Limited, the immediate parent of the company, is the employer of, and seconds to the company, all personnel who undertake the company's business. In that capacity, NATS Limited participates in CAAPS and bears the employment (including pension) costs of those personnel.

The company pays fees to NATS Limited for the provision of services, including those of the staff. An element of those fees represents the employment costs (including pension contributions) of staff provided by NATS Limited to NATS Services. In that way, the existence of a pension deficit or surplus may have an indirect impact upon the company through variations in pension contributions and so the level of those fees.

During the year the company paid cash contributions to the scheme of £21.6m (2020: £22.8m). This amount included £1.8m (2020: £1.9m) of wages and salaries sacrificed by employees in return for pension contributions as well as contributions of £0.3m in lieu of redundancy payments (2020: £nil). Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 59.5% (2020: 58.6%) of pensionable salaries.

Contributions to the scheme are funded by NATS Limited's two principal operating subsidiaries: NERL and NATS Services, in proportion to their pensionable payrolls.

The estimated contributions expected to be paid by the company to the scheme during the financial year ending 31 March 2022 is £20.7m, including salary sacrifice contributions estimated at £1.7m.

26. 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 2021 (based on 31 December 2020 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:

	2021	2020	2019
RPI inflation	3.05%	2.45%	3.10%
CPI inflation	2.55%	1.85%	2.00%
Increase in:			
- salaries	2.55%	1.85%	2.00%
- deferred pensions	3.05%	2.45%	3.10%
- pensions in payment	3.05%	2.45%	3.10%
Discount rate for net interest expense	2.15%	2.30%	2.45%

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2020: 97% S2PMA light and 102% S2PFA light) with future improvements in line with CMI 2019 (2020: CMI 2016) projections for male/female members, subject to a long term improvement of 1.5% p.a (2020: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.3 years and a female pensioner is 30.1 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 29.4 years and for females to 31.2 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 10.1%/increase by 11.8%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.4%/decrease by 9.9%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 2.5%/decrease by 2.4%
Rate of mortality	1 year increase in life expectancy	Increase by 3.6%

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

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

	2021 £m	2020 £m
Current service cost	(15.3)	(16.7)
Past service cost	(0.4)	-
Net interest expense	1.4	0.2
Administrative expenses	(0.5)	(0.4)
Components of defined benefit costs recognised within operating profit	(14.8)	(16.9)

26. Retirement benefit schemes (continued)

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

	2021 £m	2020 £m
Return on plan assets (excluding amounts included in net interest expense)	87.4	(45.9)
Actuarial gains and losses arising from changes in financial assumptions	(169.4)	91.5
Actuarial gains and losses arising from changes in demographic assumptions	22.5	-
Actuarial gains and losses arising from experience adjustments	(2.8)	2.1
	(62.3)	47.7

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

	2021 £m	2020 £m
Present value of defined benefit obligations	(1,085.2)	(935.3)
Fair value of scheme assets	1,078.6	984.2
(Deficit)/surplus in scheme	(6.6)	48.9

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

	2021 £m	2020 £m
At 1 April	(935.3)	(1,014.8)
Current service cost	(15.3)	(16.7)
Past service cost	(0.4)	-
Interest expense on defined benefit scheme obligations	(21.1)	(24.5)
Actuarial gains and losses arising from changes in financial assumptions	(169.4)	91.5
Actuarial gains and losses arising from changes in demographic assumptions	22.5	-
Actuarial gains and losses arising from experience adjustments	(2.8)	2.1
Benefits paid	36.6	27.1
At 31 March	(1,085.2)	(935.3)

The average duration of the scheme's liabilities at the end of the year is 21.8 years (2020: 21.2 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2021 £m	2020 £m
Active members	459.7	398.9
Deferred members	174.9	133.8
Pensioners	450.6	402.6
	1,085.2	935.3

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

	2021 £m	2020 £m
At 1 April	984.2	1,010.1
Interest income on scheme assets	22.5	24.7
Return on plan assets (excluding amounts included in net interest expense)	87.4	(45.9)
Contributions from sponsoring company	21.6	22.8
Benefits paid	(36.6)	(27.1)
Administrative expenses	(0.5)	(0.4)
At 31 March	1,078.6	984.2

26. Retirement benefit schemes (continued)

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

	2021 £m	2020 £m
Cash and cash equivalents	9.1	8.6
Equity instruments		
- Emerging markets	10.2	23.1
- Global	132.5	163.5
	142.7	186.6
Bonds		
- Fixed income	529.5	385.5
- Index-linked gilts over 5 years	236.4	279.9
	765.9	665.4
Other investments		
- Property	48.9	51.0
- Hedge funds	27.2	46.2
- Private equity funds	30.8	27.6
	106.9	124.8
Derivatives		
- Futures contracts	1.3	(1.2)
Other receivables	52.7	-
	1,078.6	984.2

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.

As a result of discussions between NATS and the Trustee the amount of interest rate and inflation hedging has increased over time, starting out at 25% in 2012 with subsequent increases to 50% in 2014 and 65% in 2018, as measured on the Trustee funding basis. In March 2020, NATS and the Trustee agreed a further increase in the level of inflation and interest rate hedging to 75%, as measured on a long-term funding target basis of gilts + 0.5% p.a. and the trades needed to achieve this were carried out between May and August 2020. 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 2021 was £109.9m (2020: £21.2m loss).

27. 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 (in liquidation), 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 and in note 28.

Trading transactions

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

	Sales		Purchases	
	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2021	Year ended 31 March 2020
	£m	£m	£m	£m
LHR Airports Limited	36.8	49.1	0.4	0.3
Meteorological Office	-	-	0.2	0.2
FerroNATS Air Traffic Services SA	0.8	0.5	-	-
Aquila Air Traffic Management Services Limited	25.5	22.5	0.8	0.5
Searidge Technologies Inc	0.4	0.1	0.4	2.3

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2021	Year ended 31 March 2020
	£m	£m	£m	£m
LHR Airports Limited	3.1	5.8	-	0.1
FerroNATS Air Traffic Services SA	0.3	-	-	-
Aquila Air Traffic Management Services Limited	8.8	0.2	0.3	0.3
Searidge Technologies Inc	-	-	-	0.1

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 15 and note 19 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 24. No expected credit loss provisions (2020: £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 earned by the directors and the highest paid director of the company in the year was £251,000 (2020: £555,000). The number of directors paid by the company during the year was one (2020: one). The director does not participate in a company pension scheme.

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.

	2021	2020
	£m	£m
Short term employee benefits	1.0	1.4
Post-employment benefits	-	0.2
Termination benefits	0.7	-
	1.7	1.6

28. 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 (Asia Pacific) Pte. Limited £m	FerroNATS Air Traffic Services SA £m	Aquila Air Traffic Management Services Limited £m	£m
Carrying value					
At 1 April 2020	48.1	0.1	2.2	0.1	50.5
Impairment charge	(9.0)	-	-	-	(9.0)
At 31 March 2021	39.1	0.1	2.2	0.1	41.5

The company also holds investments in the share capital of the following subsidiary undertakings: NATSNav Limited, NATS Solutions Limited, NATS Services DMCC, NATS Services (Hong Kong) Limited and NATS (Services) Canada Inc. The carrying value of these shareholdings were less than £0.1m individually and in aggregate and were the same at the beginning and the end of the financial year.

Subsidiaries

The company's subsidiaries at 31 March 2021 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
National Air Traffic Services Limited*	Dormant	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, the company 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 ended 31 March 2019, 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 1 January 2024. NATS is entitled to appoint one of the eleven Board members. NATS Services' investment in NATS (USA) Inc. was greater than its net assets and resulted in an impairment charge of £9.0m in the year (2020: £2.8m).

28. Subsidiaries, joint ventures and associates (continued)

NATS (Services) Canada Inc.

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

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. NATS Services' investment in NATS (Services) Canada Inc. was greater than its net assets and resulted in an impairment charge of £nil in the year (2020: £4.7m).

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 15 and 19 as appropriate.

Joint ventures and associates

The company held interests in two joint ventures, FerroNATS Air Traffic Services SA and Aquila Air Traffic Management Services Limited, as at 31 March 2021. 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 held	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 (£0.7m) from FerroNATS in the year (2020: €0.6m, £0.5m).

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 repaid loan finance of £14.1m (net) (2020: £5.4m (net) repayment). At 31 March 2021, the loan (including interest) outstanding was £3.3m (2020: £16.8m).

Searidge Technologies Inc. (Searidge)

On 26 April 2017, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. The 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$nil (£nil) from the company (2020: CAD$0.3m, £0.2m). At 31 March 2021, the loan, including interest, outstanding was CAD$2.8m (£1.6m) (2020: CAD$2.8m, £1.6m).

The company has assessed the carrying values of the loans to joint ventures at the balance sheet date and concluded that there should be no provision recorded under the expected credit loss methodology, based on historic loss experience and assessment of future prospects. The company monitors the performance of its joint ventures and their ability to meet loan obligations as they fall due. Expected credit losses have been assessed with the benefit of this visibility and past loan performance.

The company has provided guarantees in respect of its subsidiaries, joint ventures and associates and these are explained in note 24.

NATS Services has not presented summarised financial information relating to the year ended 31 March 2021. The summary financial information relating to the above joint ventures and associates is presented in the NATS Holdings Limited consolidated accounts.

29. 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.

30. Events after the reporting period

Deferred tax is provided at 31 March 2021 at a rate of 19%, being the prevailing rate of corporation tax which is expected to apply in the period when the liability is settled or the asset realised. The Spring Budget 2021 proposed that from April 2023 the main rate of corporation tax will increase to 25% however the legislation was not substantively enacted at the balance sheet date. The Finance Bill was substantively enacted in May 2021, and accordingly deferred tax balances will be provided for at a rate of 25% for

1 An Airprox is a situation in which, in the opinion of a pilot or controller, the distance between aircraft as well as their relative positions and speeds have been such that the safety of the aircraft involved was or may have been compromised. The severity of these incidents is assessed periodically by the UK Airprox Board, an independent body, in the interests of enhancing flight safety.

Airprox events are classified A to D on the basis only of actual risk, not potential risk. An event classified as category B - safety not assured, is an aircraft proximity in which the safety of the aircraft may have been compromised.

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.