NATS (Services) Limited

Financial statements
Year ended 31 March 2017

Company Number: 04129270

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Company Secretary
Richard Churchill-Coleman

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

Registered in England and Wales
Company No. 04129270

Auditor
BDO LLP

This report presents a summary of the company's business model and strategy together with the principal risks and uncertainties it faces. The review also explains the company's operating performance and results, financial position and cash flows for the year ended 31 March 2017.

Who we are

NATS Services provides air traffic control (ATC) and aviation related services. We manage our activities according to customer groups, enabling us to offer services and solutions tailored to our customers.

Our core business is UK Airports. This provides ATC to 14 of the UK's major airports under competitive contract. In addition, we provide engineering support and airport optimisation services to UK airport operators.

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

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

We also provide our services internationally, targeting the Asia Pacific and Middle East. Our international activities also include FerroNATS, our joint venture with Ferrovial Servicios, which provides ATC to nine Spanish airports.

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

Review of the year

As foreshadowed in last year's report, the company's revenue at £225.8m was in line with last year (2016: £225.7m). Additional income generated by Defence from support to Aquila for Project Marshall was offset by lower income from UK Airports, following the transfer of the Gatwick ATC contract to another provider in March 2016.

Profit before tax at £17.3m (2016: £22.3m) was £5.0m lower than last year. This mainly reflected the loss of Gatwick and price reductions on other contracts, partly offset by lower staff pension costs. Last year's result also included net income of £2.0m from one-off items. Our financial performance is reviewed in more detail below.

Overall, we made good progress in implementing our strategic objectives this year and achieved all but one of the priorities we set.

Priorities for 2017	How we did
Provide a safe, efficient and reliable service every day from our airports	✓
Win & retain commercial business:	
• Establish a remote tower capability	✓
• Establish further strategic partnerships with our airport customers	✓
• Achieve Mode S Surveillance capability for Project Marshall	x

This year saw significant growth in the volume of international flights, particularly from London airports, and we maintained our safety record with no risk-bearing incidents attributable to NATS Services.

Within the UK, we continue to face increasing competition for the provision of airports ATC. Our response is to build trusting and sustainable partnerships with UK airport customers, combined with a clear and compelling proposition for different airport market segments and to use advances in technology to improve price competitiveness. During the year we were awarded the ATC contract by George Best Belfast City Airport and renewed ATC contracts with Aberdeen, Glasgow and Southampton airports, along with our engineering contract with Highlands and Islands Airports. However, the Edinburgh Airport ATC service will transfer to a competitor at the end of March 2018 and we are working with the airport and its new provider on the transition of this service. This is evidence that we must continue to innovate and offer our service cost effectively.

Digital towers (which see air traffic controllers manage aircraft from remote facilities instead of in traditional airport towers) are becoming a demonstrably viable option for airports and have the potential to transform the way air navigation services at airports are delivered: London City has announced plans for a digital tower service in the future. In April 2017, we invested £5m to acquire a 50% interest in Searidge Technologies, a Canadian provider of digital tower capability, and during the year we continued to develop an in-house digital tower capability at Swanwick. Together these enable us to offer a wider choice of digital tower solutions to customers depending on their requirements.

We are supporting our Aquila joint venture with its delivery of the MOD's Project Marshall. The service provision element of this contract is performing extremely well. However the asset provision element has faced schedule challenges. Together with our joint venture partner, Thales, we are committing more resources in 2017/18 to re-plan and execute on a delivery schedule for asset provision that will ensure our military customer has the capability required to perform its mission.

We continue to develop our international activities, focusing on the Middle East and Asia Pacific. Of note this year was the award of an airspace design contract in Thailand.

UK's EU referendum decision

While the outcome of the UK's EU referendum decision and the triggering of Article 50 has not had an adverse impact on the demand for air travel to date, it has potentially significant implications for the UK aviation sector.

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

Economic environment

Historically, the growth in demand for air travel has been closely linked to the strength of the global economy and, for UK air traffic, to that of the UK, US and Eurozone economies. The UK economy is forecast to grow by 1.9% in 2017 (source: Oxford Economics), with growth through 2017 expected to slow as higher inflation offsets some of the benefit of improved trade performance. The US economy is expected to grow at 2.1% during 2017. Eurozone economies also continue to build momentum with a weaker euro supporting stronger exports. Continued low oil prices have reduced the cost of air travel and are contributing to passenger demand. The Middle East market continues to grow.

The principal risks to the forecast include: the impact on UK growth from its decision to leave the EU; the possibility of protectionist trade policies by the US, possibly outweighed by a more benign fiscal agenda; a slowdown in growth in China, although IATA's forecasts indicate strong demand for air travel there; and the escalation of conflicts in the Middle East.

Strategy and business model

The company has two very clear strategic objectives:

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

The UK Airports service operates in a contestable market and faces competition from other Air Navigation Service Providers (ANSPs). Large UK airports also fall within the scope of European SES regulations (see Regulatory environment below). The UK airports market comprises 129 civil licensed aerodromes. NATS Services provides ATC at 14 of these, 111 self-provide the service and four airports outsource ATC to three other providers.

The airport ATC market has seen the emergence of new competitors and in-house provision, making it more challenging to secure contracts. The company's strategy is to win and retain UK airport ATC customer contracts. To maintain our existing market position we must continue to work hard to fulfil our customer's requirements for a safe, efficient and reliable service every day in a changing market place. We are developing more compelling propositions to airport operators through value adding innovations in technology, like digital towers, and operations which also deliver improved price performance. Through performance-led strategic partnerships, as we have with Heathrow airport, we can support airport operators to deliver improvements for airlines and therefore a world class passenger experience for the travelling public.

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

Defence represents the provision of ATC and related engineering support and other services to the UK MOD. These services are mainly provided through the Project Marshall contract which is being delivered in partnership with Thales by our Aquila joint venture.

Other UK Business includes aeronautical information management (AIM), design and data services, consultancy and ATC training. Our expertise in information services derives from managing aeronautical and air navigation services data, charting and other services. These services are provided to commercial airlines, windfarms and other airspace users.

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

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

Long term growth in aviation will place greater pressure on existing airport and airspace infrastructure at the same time as environmental concerns make expansion of that infrastructure more challenging. This is likely to increase demand for our value-adding services such as: maximising utilisation of airport runways and surrounding airspace; mitigating environmental impacts of aviation; and provision of information services designed to improve the performance of the aviation network and save airports and airlines money.

Safety

Our main priority is the safety of aircraft and the travelling public and we are committed to improving operational safety performance. This commitment is embedded in our business plan which targets a reduction in safety risk (defined as the accident risk per flight) of 13% by the end of 2019, in line with predicted traffic growth.

We have an international reputation for our approach to safety management, our well established safety culture and our excellent safety record. Our safety improvements focus on tackling operational risks and subsequent sources of safety incidents, including working with others in our industry.

We maintained our safety performance in a year of unexpectedly high traffic growth at some airports. We measure our safety performance using the Risk Analysis Tool (RAT), which evaluates the severity and risk of safety incidents. On a 12-month rolling basis to the end of calendar year 2016, our performance generated a RAT score[2] of 17.8 (per 100,000 flights) relative to our target of 24.8.

The most significant operational risks we deal with are runway-related events and issues on the ground at airports. To improve runway safety generally, we are contributing to the development of a European action plan for the prevention of runway incursions by sharing our experience of high intensity runways in the UK. Also, our UK airports service participates in the CAA's ground handling operations safety activity. For this, we have been working alongside ground handlers to improve safety awareness and performance and to encourage effective regulation of ground handlers by the CAA.

Regulatory environment

SES is a European initiative to reform air traffic services to provide a safer, more environmentally sound and cost effective service. Under SES, a legislative framework has been established which regulates air traffic service provision, including Terminal Air Navigation Services (TANS) at large UK airports (more than 70,000 movements per annum). The UK market for TANS is subject to the market conditions test within EC SES Regulations. If conditions are not met TANS are more heavily monitored and targeted by the EC.

In October 2016, the EC agreed with the UK Government's assessment that market conditions for TANS have been established for RP2. This will be subject to re-assessment for RP3.

People

A focus on our people is a priority for 2018. Our People and Organisation Strategy will ensure that the company has the skills and workforce required to deliver the operational service today and the talent and capability mix to deliver an organisation that is fit for the future. Our new talent strategy is particularly important as the world of work is changing. As new technology and methods of operation are implemented we will need to develop and train our existing employees and ensure that we attract, and retain, the skills we need for this new environment.

After prolonged discussions, last summer the company agreed a two-year pay deal with staff. This recognised their important contribution to the company's performance and the need to respond to the pressures from rising pension costs, both of which are critical to ensuring that our customers receive the right service at the right price. This agreement now enables us to move forward and engage with our people on future developments in the business, including the changing needs of our airport customers. In support of this we have committed to creating an enhanced partnership relationship with our employees and Trades Unions to ensure NATS has a workforce that is prepared and equipped for future challenges. We have established an employee relations improvement project to identify ways to work more effectively with the Trades Unions, enhancing our ability to jointly solve problems and deliver essential change. We have also created a series of one-day workshops for managers to better equip them to communicate with their teams and to improve their understanding of how the business works and the challenges we face.

Our overall focus is to make the company a great place to work, where people are motivated to deliver high levels of performance and are genuinely engaged in the business. This year we have built on a culture survey to leverage the beneficial aspects of NATS culture and enhance aspects of our people practice; whether it is inducting new colleagues to the organisation more effectively; identifying how we can promote greater health and wellbeing in work; or looking at how we can improve the people aspects of new technology delivery.

Overview of financial and operational performance

	2017	2016
	£m	£m
Revenue	225.8	225.7
Profit before tax and significant one-off items	17.3	20.3
Profit before tax	17.3	22.3
Profit after tax	13.8	19.3
Dividends	1.0	9.2

The company reported a profit before tax of £17.3m (2016: £22.3m), a reduction of £5.0m. This mainly reflected lower margins following the loss of the Gatwick contract and other price reductions. Also, the prior year's result included net income of £2.0m from significant one-off items.

Revenue

Revenue at £225.8m (2016: £225.7m) was in line with last year. UK Airports revenue was £12.5m lower, following the transfer of the Gatwick contract to another provider in March 2016. This was offset by an increase in Defence of £15.7m, as we continued to support Aquila with Project Marshall. Revenue from Other UK business was £4.2 m lower and International revenue improved by £1.1m.

Operating costs

Operating costs, before significant one-off items, were £209.7m (2016: £206.5m).

	2017	2016
	£m	£m
Staff costs	(103.8)	(116.7)
Non-staff costs	(104.2)	(86.4)
Asset related charges	(1.7)	(3.4)
Operating costs before significant one-off items	(209.7)	(206.5)
Profit on disposal of non-current assets	-	7.2
Relocation costs	-	(5.2)
Operating costs	(209.7)	(204.5)

Staff costs of £103.8m (2016: £116.7m) were 11.1% lower, mainly due to lower accounting pension costs compared to such costs in the previous year. Before staff salary sacrifice and past service costs, the accrual rate for the defined benefit pension scheme for the year was 36.0% (2016: 45.4%) of pensionable pay. Other staff costs were also lower mainly due to a reduction in headcount following the transition of the Gatwick contract to a competitor at the start of the year.
Non-staff costs at £104.2m (2016: £86.4m) were £17.8m higher than the previous year. This mainly reflected the increase in activity to support Project Marshall, and the asset provision element of this contract in particular.

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

Investment revenue

The company earned £1.2m (2016: £1.1m) from interest on bank deposits, its loan to NERL, a fellow NATS subsidiary, and its loan to the Aquila joint venture.

UK Airports

	2017	2016
Financial performance:		
Revenue (£m)	165.4	177.9
Service line contribution (£m)	30.2	38.0
Capital expenditure (£m)	3.9	1.2
Operational performance:		
Airports served: UK (no.)	14	14
Risk-bearing airprox (no.)	nil	nil
Significant milestones:		
Enhanced Instrument Landing System at Heathrow		April/March
Instrumented Runway Visual Range at Cardiff		May
Emergency Voice Switch at Aberdeen, Luton & Southampton		June
Navigational Aids at Belfast International		July
Semi Automatic Meteorological Observation Systems at Manchester and London City		August/ February

Revenue was 7.0% lower at £165.4m (2016: £177.9m), mainly reflecting price reductions and the loss of the Gatwick contract. As a result of this, service line contribution was also lower at £30.2m (2016: £38.0m).

One of our strategic objectives is to win and retain UK airport ATC contracts, and developments in this respect are discussed above.

We continue to provide engineering services to airport operators and completed a number of major engineering projects in the year. These included an enhanced instrument landing system (ILS) at Heathrow, which is the first of its type in the UK. It provides the capability to increase landing rates during low visibility procedures and improves aircraft management on the ground. We also installed an advanced ILS at Belfast International to assist the safe landing of aircraft during poor weather conditions. Also of note, we are upgrading voice communications for Bristol and Luton airports.

Defence

	2017	2016
Financial performance:		
Revenue (£m)	36.2	20.5
Service line contribution (£m)	4.9	2.1
Capital expenditure (£m)	0.1	0.2
Operational performance:		
Airfields served (no.)	4	2
Significant milestones:		
Operational handover completed at Middle Wallop and Netheravon		
Park Air Radios commissioned at RNAS Culdrose, Yeovilton, Portland, Predannack, and Plymouth Mill		
Jotron Radios commissioned at 12 RAF bases		
New voice switches installed at RAF Shawbury, Tern Hill & Valley, and Conningsby		

Revenue grew by £15.7m to £36.2m (2016: £20.5m) in the year reflecting engineering support provided to Aquila. As a result, service line contribution improved to £4.9m (2016: £2.1m).

Project Marshall is a 22-year concession for the provision of ATC services and the upgrade of MOD ATC infrastructure. The service provision element of this contract, which is provided to Gibraltar, RAF Wattisham, RAF Netheravon and RAF Middle Wallop, is performing extremely well. However, the asset provision element has faced schedule challenges. For this reason, together with our joint venture partner, we are committing more resources in 2017/18 to re-plan and execute the delivery schedule.

Other NATS customers

	2017	2016
Financial performance:		
Revenue (£m)	24.2	27.3
- Other UK business	*13.7*	*17.9*
- International	*10.5*	*9.4*
Service line contribution (£m)	0.6	2.4
- Other UK business	*2.8*	*2.3*
- International	*(2.2)*	*0.1*
Capital expenditure (£m)	2.5	1.6
Operational performance:		
Airports served: Overseas (no.)*	9	9
Secured order value:		
UK contracts (£m)	34.9	57.6
Overseas contracts (£m)	9.1	5.5

* Service provided by our FerroNATS joint venture

Other UK business revenue was £4.2m lower this year at £13.7m (2016: £17.9m) mainly reflecting fewer windfarm mitigation contracts. We continue to support Tormywheel Wind Farm that will see a new radar system at Edinburgh Airport and surveillance solutions for

Frodsham Wind Farm at both Chester and Liverpool airports.

These and other contracts generated a service line contribution of £2.8m (2016: £2.3m).

Presently, we are implementing a new aeronautical data platform to give airlines access to enhanced data and analytic tools to optimise their operating performance.

International revenues grew by £1.1m to £10.5m (2016: £9.4m). The Asia Pacific region performed more strongly while there were limited opportunities in the Middle East. At a contribution level our international activities reported a loss of £2.2m (2016: £0.1m profit). This included the cost of investment in developing our presence in these regions and the financing of our Dubai subsidiary, NATS Services DMCC.

Balance sheet

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

	2017 £m	2016 £m
Intangible fixed assets	**4.1**	2.7
Property, plant and equipment	**12.7**	9.6
Investments	**2.4**	2.4
Loan to fellow subsidiary	**22.5**	22.5
Loans to joint ventures (including interest)	**14.9**	3.8
Cash	**136.9**	147.7
Deferred tax asset	**14.0**	4.3
Other net liabilities	**(1.9)**	(7.2)
Pension scheme deficit	**(71.9)**	(15.4)
Net assets	**133.7**	170.4

The change in financial position since the start of the year mainly reflects an increase in the defined benefit pension scheme IAS19 funding deficit which offset retained earnings.

The increase of £4.5m in book value of intangible and tangible fixed assets includes investment in our in-house digital towers capability.

We extended additional loans of £10.5m to our joint ventures in the year.

Defined benefit pensions

a. Accounting deficit under IAS 19

At 31 March 2017, measured under international accounting standards (IAS19) and the associated best estimate assumptions, the company's share of the NATS defined benefit scheme was in deficit: liabilities (£1,189.2m) exceeded assets (£1,117.3m) by £71.9m (2016: £15.4m).

Defined benefit scheme liability	**£m**
At 1 April 2016	(15.4)
Charge to income statement	(22.2)
Actuarial gains/(losses):	
- on scheme assets	238.5
- on scheme liabilities	(299.2)
Employer contributions*	26.4
At 31 March 2017	(71.9)
Represented by:	
Scheme assets	1,117.3
Scheme liabilities	(1,189.2)
Deficit	(71.9)

* including salary sacrifice

Given the size of the scheme relative to the company, changes in market conditions can have relatively large impacts on the results and financial position. IAS19 requires discount rates for valuing pension obligations to be based on AA corporate bonds. During 2017, while the scheme assets increased by £188.5m, its liabilities increased by £245.0m reflecting a 130 basis points reduction in the real discount rate.

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 and is determined based on the conclusion of each triennial valuation conducted by the Trustees. This valuation uses a wide range of assumptions for measuring pension liabilities and legislation requires a margin for prudence. As a result the triennial valuation gives rise to a different valuation than that disclosed under international accounting standards.

Last year the Trustees completed a triennial valuation as at 31 December 2015 (the 2015 valuation). This reported a funding deficit of £458.7m for the NATS group, an increase of £76.1m from their 2012 valuation (NATS Services' economic share of this deficit is c£106m). This mainly reflected a deterioration in financial market conditions, principally from lower gilt yields, which was only partially offset by investment returns. In addition, the scheme's actuary determined the cost to NATS of staff benefits accruing in future at 31.8% of pensionable earnings, up from 29.4% in 2012.

Following the 2015 valuation, Trustees agreed to continue with the recovery plan for the 2012 deficit and to a new 11-year recovery plan for the increase in deficit at 31 December 2015. As a result, the company's share of these deficit contributions to be paid for the 2017 calendar year will be £9.4m in addition to normal contributions of 31.8% of pensionable pay.

Overall, excluding salary sacrifice contributions of £2.9m (2016: £3.2m) and past service costs of £0.4m (2016: £0.8m), the company's contributions in the year of £23.1m (2016: £24.4m) represented 43.6% of pensionable pay (2016: 40.6%).

Trustees intend to bring forward their next valuation to 31 December 2017.

Cash flow

Overall, the company's cash balances decreased by £10.8m in the year to £136.9m (2016: £147.7m).

	2017 £m	2016 £m
Net cash from operating activities	**6.6**	2.2
Net cash (used in)/generated from investing activities	**(16.4)**	1.9
Net cash used in financing activities	**(1.0)**	(9.2)
Decrease in cash and cash equivalents	**(10.8)**	(5.1)
Cash and cash equivalents at end of year	**136.9**	147.7

Net cash from operating activities at £6.6m was £4.4m higher than 2016 (2016: £2.2m). This mainly reflects lower corporation tax payments.

There was a net cash outflow from investing activities of £16.4m (2016: £1.9m inflow) reflecting loans to the Aquila joint venture and capital investment. Outflows of £1.0m (2016: £9.2m) from financing activities related to dividend payments.

Outlook for 2018

We expect our revenue next year to be broadly in line with 2017, as we continue to fulfil our UK Airports ATC contracts and maintain our level of support to Aquila. However, we do expect our profitability to be lower, mainly due to an increase in defined benefit pension costs which reflect the financial market conditions at 31 March 2017.

Our priorities for 2018

- Provide safe and resilient air traffic services from our airports;
- Focus on our people and employee relations;
- Achieve Swanwick site acceptance testing for London City Digital Tower; and
- Provide support to Heathrow and Hong Kong for their third runways.

Guy Adams

Commercial Director

Principal risks and uncertainties

The operational complexities inherent in the business leave NATS Services exposed to a number of significant risks and uncertainties. Our risk management process has identified the key risks that the Board believes are likely to have the most significant impact on our business, financial position, results and reputation based on the severity and likelihood of the risk exposure. Risks are reviewed and re-assessed regularly and reflect the Board's assessment as at the date of this report. The list is not intended to be exhaustive. The company has maintained a focus on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

Safety: the risk of an aircraft accident

A loss of separation attributable to NATS Services that results in an accident in the air or on the ground would significantly impact NATS and its reputation as a provider of safe air traffic services. This could result in loss of revenue in the short term as investigations take place and the loss of future contracts due to reputational damage.

As a provider of a safety critical service, safety is the company's highest priority. To further embed our existing safety culture across the organisation and to mitigate safety risk, NATS has developed a Strategy for the Future Safety of ATM and supports this with a three year rolling Safety Plan. NATS also maintains an explicit Safety Management System. The latter includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors of safety risk.

Maintaining continuous operations

a. Loss of service at an airport

Dependent on the nature of the incident and the contract terms in place, a loss of service could result in a significant reduction in income. To mitigate this risk, NATS has a robust Business Resilience and Continuity system in place, with each unit having a Continuity Plan produced in line with internationally accepted standards, which is regularly exercised and updated to meet potential threats to the operation.

Also, NATS Services engages regularly with the customer on contingency facilities. The arrangement to provide contingency facilities is the responsibility of the customer. Where the loss of service is not attributable to NATS Services, the risk would be borne by the customer.

b. Operational systems resilience

Operational service provision is increasingly dependent on the performance and resilience of engineering systems and communications, surveillance and flight data infrastructure. A number of mechanisms exist to identify systems resilience risks. These include regular reviews of system health through a series of structured questions with evidence-based outcomes. In addition, tactical issues are assessed following engineering updates to NATS' Safety Tracking and Reporting System to determine whether immediate escalation is required and to identify any emerging trends requiring investigation.

Defined benefit pension scheme

Adverse movements in pension asset and liability values arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the size of the pension deficit and result in significant contributions to fund pension benefits. NATS' management regularly reviews the financial position of the group's defined benefit scheme and is consulted by Trustees on the design of the risk reduction strategies that are in place. The scheme was closed to new entrants in 2009, pensionable pay rises are capped and future service benefits are linked to the Consumer Prices Index. The Trustees completed a formal triennial valuation of the defined benefit scheme as at 31 December 2015. This reported an increase in the funding deficit and has resulted in additional contributions. NATS Services maintains adequate cash reserves to meet its share of pension contributions.

The Trustees will perform their next formal valuation at 31 December 2017. Financial market conditions since the 2015 valuation, characterised by historic low real gilt yields in particular, have continued to be a challenge for most UK defined benefit pension schemes. If today's financial market conditions prevail at 31 December 2017, the company expects Trustees to report a larger deficit that will require the company to increase its share of the contributions to the scheme. The directors are monitoring the funding position of the scheme and further possible actions available to mitigate pension risk include: the company's cash reserves, its projected operating cash flows and the long term nature of its airport contracts.

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

Poor market and economic conditions and political factors can slow down or reduce NATS Services ability to break into new markets. NATS Services is therefore focusing its efforts in specific growth markets where there are known to be good prospects.

The impact of the UK's decision to leave the EU and the triggering of Article 50 has not had a material adverse impact on our revenue to date. In the short term, the continuing uncertainty and market volatility during negotiations (e.g. exchange rates) could affect the demand for air travel. Our core UK Airports business is generally characterised by long-term contracts whose revenue is not directly linked to the volume of flights handled at airports.

Economic regulation of UK Terminal Air Navigation Services (TANS)

The UK market for Terminal Air Navigation Services (TANS) is subject to the market conditions test within the EC SES Regulations. If conditions are not met TANS are subject to economic regulation. In October 2016, the Commission agreed with the UK Government's assessment that market conditions for TANS have been established for RP2. This will be re-assessed for RP3.

Security: electronic and other external and internal threats

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

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

Employee relations

Industrial action could result in reduced air traffic service provision which adversely impacts on service performance. Every effort is made to maintain good employee relations at all times, including through our Working Together programme, to ensure the delivery of an efficient operational service and associated support.

Other matters: financial risks

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme), the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 15.

The Strategic report was approved by the Board of directors on 30 June 2017 and signed on its behalf by:

Richard Churchill-Coleman
Secretary

Report of the directors

The directors present their report together with the financial statements and audited accounts for the year ended 31 March 2017.

Details of significant events since the balance sheet date are contained in note 27 to the financial statements. An indication of likely future developments in the business of the company are contained in the Strategic report.

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

Dividends

The company paid dividends of £1.0m (£10.00 per share) in the year (2016: £9.2m). The Board recommends a final dividend for the year of £nil (2016: £nil).

In May 2017, the Board approved and the company paid an interim dividend of £1.0m (£10.00 per share) for the year ending 31 March 2018.

Directors and their interests

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

Guy Adams

Nigel Fotherby

Martin Rolfe

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

The following directors held interests in ordinary shares of the company's ultimate parent undertaking NATS Holdings Limited at 31 March 2017:

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

None of the directors has, or has had, a material interest in any contract of significance in relation to the company's business.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Employees

Contracts of employment with staff are held by the company's parent company, NATS. NATS continues its commitment to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation. Staff are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular staff consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS group CEO and the company's Managing Director maintain high visibility with staff through visits to NATS sites where they talk to them about current business issues and take questions in an open and straightforward manner. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. This has been enhanced through the Working Together programme aimed at working towards partnership principles as the basis for our relationship. Formal arrangements for consultation with staff exist through a local and company-wide framework agreed with the Trades Unions.

It is NATS' policy to establish and maintain competitive pay rates which take full account of the different pay markets relevant to its operations. In return, employees are expected to perform to the required standards and to provide the quality and efficiency of service expected by its customers.

NATS is an equal opportunities employer. Its policy is designed to ensure that no applicant or employee receives less favourable treatment than any other on the grounds of sex, age, disability, marital status, colour, race, ethnic origin, religious belief or sexual orientation, nor is disadvantaged by conditions or requirements applied to any post which cannot be shown to be fair and reasonable under relevant employment law or codes of practice.

NATS is also committed to improving employment opportunities for disabled people. The company will continue to promote policies and practices which provide suitable training and retraining and development opportunities for disabled staff, including any individuals who become disabled, bearing in mind their particular aptitudes and abilities and the need to maintain a safe working environment.

NATS strives to maintain the health and safety of employees through an appropriate culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained and responsibility for ensuring compliance with both legal requirements and company policy rests with the HR Director.

Going concern and subsequent events

The directors' assessment of going concern is explained in the financial statements on page 32. Subsequent events are disclosed in note 27 to the financial statements.

Directors' responsibilities

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces; and
- the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Auditor

A resolution to re-appoint BDO LLP as statutory auditor will be proposed at the Annual General Meeting.

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

Richard Churchill-Coleman
Secretary
30 June 2017

Registered office

4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL
Registered in England and Wales
Company number: 04129270

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

We have audited the financial statements of NATS (Services) Limited for the year ended 31 March 2017 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements and the Strategic report and Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Malcolm Thixton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
30 June 2017

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

Income statement
for the year ended 31 March

		2017	2016		
		Result for the year	Result before significant one-off items	Significant one-off items	Result for the year
	Notes	£m	£m	£m	£m
Revenue	4	225.8	225.7	-	225.7
Staff costs	7	(103.8)	(116.7)	-	(116.7)
Services and materials		(51.7)	(39.1)	-	(39.1)
Repairs and maintenance		(5.1)	(9.5)	-	(9.5)
Depreciation, amortisation and impairment	6	(2.0)	(3.7)	-	(3.7)
Profit on disposal of non-current assets		-	-	7.2	7.2
Other operating charges		(47.4)	(37.8)	(5.2)	(43.0)
Deferred grants released	6	0.3	0.3	-	0.3
Net operating costs		(209.7)	(206.5)	2.0	(204.5)
Operating profit	6	16.1	19.2	2.0	21.2
Investment revenue	8	1.2	1.1	-	1.1
Profit before tax		17.3	20.3	2.0	22.3
Tax	9	(3.5)	(4.0)	1.0	(3.0)
Profit for the year attributable to equity shareholders		13.8	16.3	3.0	19.3

Statement of comprehensive income
for the year ended 31 March

	Notes	2017 £m	2016 £m
Profit for the year after tax		13.8	19.3
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	23	(60.7)	58.7
Deferred tax relating to items that will not be reclassified	18	10.9	(11.8)
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives	14	(0.2)	0.9
Transfer to income statement on cash flow hedges		0.5	-
Deferred tax relating to items that may be reclassified	18	-	(0.2)
Other comprehensive (loss)/income for the year, net of tax		(49.5)	47.6
Total comprehensive (loss)/income for the year attributable to equity shareholders		(35.7)	66.9

Balance sheet
for the year ended 31 March

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible assets	11	4.1	2.7
Property, plant and equipment	12	12.7	9.6
Investments	25	2.4	2.4
Loan to joint ventures	25	14.9	1.4
Deferred tax asset	18	14.0	4.3
Loan to fellow subsidiary	13	22.5	22.5
Trade and other receivables	13	2.8	0.2
Derivative financial instruments	14	0.1	0.1
		73.5	43.2
Current assets			
Loan to joint ventures	25	-	2.4
Trade and other receivables	13	51.1	45.6
Cash and cash equivalents	15	136.9	147.7
Derivative financial instruments	14	0.2	-
		188.2	195.7
Total assets		261.7	238.9
Current liabilities			
Trade and other payables	16	(40.1)	(38.5)
Current tax liabilities		(1.3)	(1.1)
Provisions	17	(1.2)	(0.3)
Derivative financial instruments	14	(0.5)	(0.2)
		(43.1)	(40.1)
Net current assets		145.1	155.6
Non-current liabilities			
Trade and other payables	16	(12.8)	(12.1)
Retirement benefit obligations	23	(71.9)	(15.4)
Provisions	17	-	(0.8)
Derivative financial instruments	14	(0.2)	(0.1)
		(84.9)	(28.4)
Total liabilities		(128.0)	(68.5)
Net assets		133.7	170.4
Equity			
Called up share capital	19	0.1	0.1
Hedge reserve		0.2	(0.1)
Other reserves		-	-
Retained earnings		133.4	170.4
Total equity		133.7	170.4

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 30 June 2017 and signed on its behalf by:

Martin Rolfe
Chief Executive

Nigel Fotherby
Finance Director

Statement of changes in equity
for the year ended 31 March

	Equity attributable to equity holders of the company				
	Share capital £m	Hedge reserve £m	Other reserves[1] £m	Retained earnings £m	Total £m
At 1 April 2015	0.1	(0.8)	0.2	113.2	112.7
Profit for the year	-	-	-	19.3	19.3
Other comprehensive income/(loss) for the year	-	0.7	(0.2)	47.1	47.6
Total comprehensive income/(loss) for the year	-	0.7	(0.2)	66.4	66.9
Dividends paid	-	-	-	(9.2)	(9.2)
At 31 March 2016	0.1	(0.1)	-	170.4	170.4
At 1 April 2016	0.1	(0.1)	-	170.4	170.4
Profit for the year	-	-	-	13.8	13.8
Other comprehensive income/(loss) for the year	-	0.3	-	(49.8)	(49.5)
Total comprehensive income/(loss) for the year	-	0.3	-	(36.0)	(35.7)
Dividends paid	-	-	-	(1.0)	(1.0)
At 31 March 2017	0.1	0.2	-	133.4	133.7

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

Cash flow statement
for the year ended 31 March

	Notes	2017 £m	2016 £m
Net cash from operating activities	20	6.6	2.2
Cash flows from investing activities			
Interest received on short term investments		0.7	1.1
Purchase of property, plant and equipment and other intangible assets		(6.6)	(3.2)
Proceeds of disposal of property, plant and equipment		-	7.4
Investment in subsidiaries		-	(0.1)
Loan to joint ventures		(10.5)	(3.3)
Net cash (outflow)/inflow from investing activities		(16.4)	1.9
Cash flows from financing activities			
Dividends paid		(1.0)	(9.2)
Net cash outflow from financing activities		(1.0)	(9.2)
Decrease in cash and cash equivalents during the year		(10.8)	(5.1)
Cash and cash equivalents at 1 April		147.7	152.8
Cash and cash equivalents at 31 March		136.9	147.7

1. General information

NATS (Services) Limited (NATS Services) is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 15. The nature of the company's operations and its principal activities are set out in the Strategic report and in the Report of the directors.

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

2. Accounting policies

The following accounting policies have been applied consistently both in the current and prior years in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation and accounting

The financial statements have been prepared on the going concern basis. For further detail please refer to page 32. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and therefore the company financial statements comply with Article 4 of the EU IAS Regulation. The financial information has also been prepared in accordance with IFRSs.

The company has utilised the exemption under IFRS 10: Consolidated Financial Statements (see below) and the Companies Act 2006 from preparing and delivering consolidated accounts. The name of the parent undertaking which draws up the consolidated accounts is disclosed in note 26.

In the current year, the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are effective for accounting periods beginning on or after 1 January 2016.

IAS 1 (amendments): *Disclosure Initiative*

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

IAS 27 (amendments): *Equity Method in Separate Financial Statements*

IFRS 10, IFRS 12 and IAS 28 (amendments): *Applying the Consolidation Exemption*

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

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

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

IFRS 16: *Leases*

IAS 7 (amendments): *Disclosure Initiative*

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

IFRIC 22: *Foreign Currency Transactions and Advance Consideration*

IFRS 9: *Financial Instruments* deals with classification, measurement and derecognition of financial assets and financial liabilities, hedge accounting and introduces a new expected loss impairment model. The main impact of the standard on the company is expected to be the adoption of the expected loss impairment model in assessing the fair value of trade and contract receivables and loans to joint ventures.

The company expects to recognise lifetime expected credit losses (i.e. losses arising from default over the life of a financial instrument) for its trade and contract receivables and loans to joint ventures. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses.

The company is also assessing whether the new standard will be implemented with a restatement of the previous period. If this is deemed impracticable at the date of initial application, an adjustment will be reflected in retained earnings.

The standard is effective for reporting periods beginning on or after 1 January 2018.

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

The company's principal sources of revenue are UK Airports, Defence, Other UK Business and International as described in note 5.

The company is undertaking a preliminary assessment of the impact of the standard by reviewing major contracts from each source of revenue. This assessment is subject to change. The principal impact identified from this assessment to date is the reclassification of airport ATC revenue. A number of airport ATC contracts require the company to rent the airport control tower buildings from the airport operator and to recover the property costs through the fee charged to the airport operator for ATC services. The fees for recovering property costs amount to c£17m per annum and are recognised as revenue under IAS18. Under IFRS 15, the provision of the air traffic control tower is not considered to be distinct from the provision of ATC services. Accordingly, the fee for recovering property costs would be reclassified from revenue and netted in operating costs against rental charges in the income statement, with no impact to the result.

The major part of the company's revenue is derived from service contracts which include performance obligations which are satisfied over time as customers simultaneously receive and consume the benefits provided by the company's performance as the company performs or which include enforceable rights to payment for performance completed to date. In addition, the transaction price for certain airport ATC contracts includes variable consideration for service performance incentives and profit sharing arrangements. The company's preliminary assessment is that the nature, timing and amount of revenue for these service contracts is not materially different under IFRS 15.

The standard is effective for annual periods beginning on or after 1 January 2018. The directors do not intend to adopt the standard earlier and expect to use the full retrospective method upon adoption which requires the restatement of comparative financial information.

IFRS 16: *Leases* specifies how a company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

As at 31 March 2017, the company has non-cancellable operating lease commitments of £23.5m as disclosed in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the company will recognise an increase to total property, plant and equipment and a corresponding liability in respect of all these leases, unless they qualify for low value or short-term leases upon the application of IFRS 16.

The company's preliminary assessment is that property, plant and equipment is likely to increase by c£50m and lease liabilities by c£50m as at 31 March 2020.

Over the life of leased assets, there will be no profit impact from adopting IFRS 16 but profit will vary between financial years as interest charges on finance leases are higher at the beginning of the lease term and reduce as the lease principal is repaid. Profit before tax for the year ending 31 March 2020 is expected to be c£1m lower following adoption of this standard.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the company's financial statements and as a result the above preliminary assessment is subject to change. The standard is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The directors do not intend to apply the standard earlier and have not yet assessed the transition accounting method to be used upon adoption.

The directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements in future periods.

At completion of the PPP transaction on 26 July 2001, a transfer scheme hived down certain of the operating assets and liabilities of National Air Traffic Services Limited (now NATS Limited (NATS)) to this company.

In addition, the company entered into a Management Services Agreement (MSA) with NATS on 25 July 2001. This agreement provides for the provision by NATS of personnel and central services to the company. The cost of central services is recharged on the basis of a fair allocation of costs taking into account the most important drivers for the services provided. The company is responsible for paying to NATS an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company also entered into an Intercompany Services Agreement (ICA) on 25 July 2001 with NATS (En Route) plc (NERL). Under this agreement this company provides NERL with the following services:

- North Sea helicopter advisory services;
- Air traffic services in certain sectors;
- Services to the London Approach service (engineering services and use of communications facilities); and
- Miscellaneous other services.

The range of services provided by NERL to NATS Services under the agreement includes:

- Training services;
- Radar data services at NATS Services airports;
- Engineering and software support services;
- Research and development for NATS Services airports and business development activities; and
- Other services to NATS Services' business development (for example - consultancy and engineering services).

The company commenced trading from 26 July 2001.

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

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

Operating profit

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

Operating segments

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

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

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

Significant one-off items

Significant one-off items are deemed as such by the directors by virtue of their nature or size. These are included under the statutory classification appropriate to their nature but are separately disclosed on the face of the income statement to assist in understanding the financial performance of the company.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is recognised as follows:

- Income from the rendering of services is recognised when the outcome can be reliably estimated and then by reference to the stage of completion of the transaction at the balance sheet date;
- Sales of goods are recognised when they are delivered and title has passed;
- Revenue from construction contracts is recognised in accordance with the company's accounting policy on construction contracts (see below);
- Dividend income is recognised when the shareholder's rights to receive payment have been established; and
- Interest income is recognised on a time-proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other items are classified as operating leases. The company does not have any finance leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for 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:

- Leasehold land: over the term of the lease;
- Freehold buildings: 10 – 40 years;
- Leasehold buildings: over the remaining life of the lease to a maximum of 20 years;
- Air traffic control systems: 8 – 15 years;
- Plant and other equipment: 3 – 15 years;
- Furniture, fixtures and fittings: 10 years; and
- Vehicles: 5 years.

Freehold land and assets in the course of construction and installation are not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

Deferred grants and other contributions to property, plant and equipment

Government grants as contributions to non-current assets are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful economic lives of the related assets.

Grants of a revenue nature are credited to income in the period to which they relate (and are reported on the face of the income statement).

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried in the balance sheet at cost less any impairment in the value of individual investments.

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

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development activities is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 12 years. Assets in the course of construction are not amortised until ready for use.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets, including those in the course of construction, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the weighted average cost of capital.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss on an intangible or tangible asset subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

Amounts recoverable on contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been, or are more likely than not to be, agreed with the customer.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Share based payments

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

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

Shares awarded by the Plan are treated as cash-settled liabilities. A liability is recognised for shares awarded over the period from award to when the employee becomes unconditionally entitled to the shares and are measured initially at their fair value. At each balance sheet date until the liability is settled, as well as at the date of settlement, the fair value of the liability is re-measured based on independent share valuations with any changes in fair value recognised in profit or loss for the year.

In respect of the award schemes, the company provides finance to NATS Employee Sharetrust Limited (NESL) to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The company's share of the costs of running the employee share trust is charged to the income statement.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Under the Finance (No.2) Act 2015 which was enacted on 18 November 2015, the corporation tax rate was reduced to 19% with effect from 1 April 2017. Under the Finance Act 2016, the corporation tax rate will be reduced to 17% with effect from 1 April 2020. The future main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate.

Foreign currency translation

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the company enters into forward contracts (see below for details of the company's accounting policies in respect of such derivative financial instruments).

Retirement benefit costs

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses and return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split 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 defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 23. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

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

Financial assets

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

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

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

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

The company has financial assets in the categories of other loans and receivables and financial assets at fair value through the profit and loss. The company does not have financial assets in other categories.

Loans and receivables

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

Impairment of financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of three months or less) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities are either financial liabilities at 'fair value through the profit and loss' or 'other financial liabilities'.

Fair value through the profit and loss

Financial liabilities at fair value through the profit and loss are measured initially at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

Other financial liabilities: including bank, other borrowings, loan notes and debt securities.

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are accounted for on an 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.

Reserves

The statement of changes in equity includes Other reserves, which arose on the completion of the PPP transaction in July 2001. All other reserves are explained elsewhere in this note.

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 14 and 15 to the accounts.

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

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

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

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

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

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

3. Critical judgements and key sources of estimation uncertainty

Retirement benefits

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

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 23 of the notes to the accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Going concern

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the Strategic Report above. In addition, note 15 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long-term contracts, many of which were renewed in the year. The company is also actively seeking to reduce its operating cost base through a cost saving programme to provide mitigation for future revenue shortfalls and cost pressures from legacy pension arrangements. As a result, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

The directors have formed a judgement that taking into account the financial resources available to the company, it has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2017.

4. Revenue

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

	2017 £m	2016 £m
UK Airports	165.4	177.9
Defence	36.2	20.5
Other UK Business	13.7	17.9
International	10.5	9.4
	225.8	225.7
Investment revenue (see note 8)	1.2	1.1
	227.0	226.8

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

5. Operating segments

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

The performance of operating segments is assessed based on service line revenue and contribution. Service line contribution represents the revenue and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), employee share scheme (costs)/credits, redundancy and relocation costs and any profit/(loss) on disposal of non-current assets. A reconciliation of service line contribution to operating profit is set out below.

Principal activities

The following table describes the activities of each operating segment:

UK Airports	The provision of air traffic control, engineering support and airport optimisation services to UK airport customers.
Defence	The provision of air traffic control, engineering support and other services to the UK MOD and to our joint venture for the UK MOD's Marshall contract.
Other UK business	Other services provided to UK customers including: Consultancy, offering airspace development, capacity improvement, training; and Information, providing data to enable future efficiency and flight optimisation.
International	The provision of air traffic control and related services (including consultancy, engineering, training and information services) to overseas customers.

A change to the service line management reporting structure was introduced from 1 April 2016. The effect of this is to change the reporting of operating segments based on the principal products and services provided by the company to one based on key customers. As a result the prior period comparatives for the year ended ended 31 March 2016 have been presented on a consistent basis.

Segment information about these activities is presented below.

Revenue

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

	2017			2016		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
UK Airports	153.3	12.1	165.4	165.5	12.4	177.9
Defence	35.8	0.4	36.2	20.2	0.3	20.5
Other UK Business	9.0	4.7	13.7	11.4	6.5	17.9
International	7.6	2.9	10.5	6.7	2.7	9.4
	205.7	20.1	225.8	203.8	21.9	225.7

Intercompany revenue includes revenue for services to NATS (En Route) plc of £17.2m (2016: £19.2m), NATS (USA) Inc of £nil (2016: £0.2m), NATS Services DMCC of £0.3m (2016: £0.5m) and NATS Services (Asia Pacific) Pte. Limited of £2.6m (2016: £2.0m).

5. Operating segments (continued)

Operating profit

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

A reconciliation of service line contribution to operating profit is provided below:

	2017 £m	2016 £m
UK Airports	30.2	38.0
Defence	4.9	2.1
Other UK Business	2.8	2.3
International	(2.2)	0.1
Service line contribution	35.7	42.5
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	(1.7)	(3.4)
Profit on disposal of non-current assets	-	7.2
Employee share scheme credits	0.5	0.1
Redundancy and relocation costs	(0.3)	(6.1)
Other costs not directly attributed to service lines	(18.1)	(19.1)
Operating profit	16.1	21.2

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

Supplementary information

EC Regulations require air navigation service providers to present income and costs, prepared under international accounting standards, for each of their air navigation services. The following disclosure is provided in this respect:

	2017			2016		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	143.9	81.9	225.8	161.2	64.5	225.7
Costs (net)	(125.1)	(84.6)	(209.7)	(136.5)	(68.0)	(204.5)
Operating profit	18.8	(2.7)	16.1	24.7	(3.5)	21.2

Geographical segments

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

	Revenue 2017 £m	Revenue 2016 £m
United Kingdom	217.2	217.7
Other European Countries	2.6	1.7
Countries in Asia	5.9	5.9
Countries in North America	-	0.3
Countries in Oceania	0.1	0.1
	225.8	225.7

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

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £2.3m (2016: £2.4m) which the company holds in overseas entities (see note 25). These investments have been established to enable the company to undertake business abroad.

Information about major customers

Included in revenues arising from UK Airports are revenues of £56.9m (2016: £56.5m) which arose from the company's largest customer.

6. Operating profit for the year

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

a) Significant one-off items

During the year ended 31 March 2015, the company announced a restructuring of its activities, which included the closure of a site and the redeployment of staff. The staff relocation costs were recognised in the year ended 31 March 2016 and were considered to be significant one-off items and shown separately in the income statement. In addition, the profit recorded on the disposal of the Gatwick Control Tower in 2016 was considered to be a significant one-off item and has also been shown separately in the income statement.

	2017 £m	2016 £m
Relocation costs from Heathrow to the Corporate Technical Centre	-	5.2
Profit on disposal of Gatwick Control Tower building	-	(7.2)
	-	(2.0)

b) Other items

	2017 £m	2016 £m
CAA regulatory charges for safety regulation at airports	2.7	3.1
Other voluntary redundancy costs	0.9	0.6
Staff relocation costs (net of credits for revisions to estimates)	(0.6)	0.3
Depreciation of property, plant and equipment	1.5	2.5
Amortisation of intangible assets	0.5	1.2
Deferred grants released	(0.3)	(0.3)
Auditors remuneration for audit services (see below)	-	-

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

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

A portion of the company's costs are denominated in foreign currencies and are cash flow hedged. Included in operating profit is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating profit is a loss of £0.5m (2016: £nil).

c) Transactions with group companies

	2017 £m	2016 £m
Charges for services provided by NATS Limited	2.4	2.3
Charges for services provided by NATS (Enroute) Plc	25.4	25.2
Charges for services provided by NATS Solutions Limited	3.5	1.0
Charges for services provided by NATS Services DMCC	2.4	0.1
Charges for services provided by NATS Services (Asia Pacific) Pte. Limited	0.1	-
Waiver of loan provided to NATS Services DMCC	1.1	-

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NATS Services. Under the terms of the MSA dated 25 July 2001 the services of certain employees are seconded to NATS Services by NATS Limited. NATS Services is responsible under the Management Services Agreement (MSA) for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NATS Services (including all taxes and social security, redundancy and pension costs) together with appropriate staff related costs and expenses and disbursements. Under the Intercompany Services Agreement (ICSA) NERL provides certain services to NATS Services. The MSA and ICSA are explained in more detail in note 2. NATS Solutions Limited provides support services to NATS Services for air traffic control at military airfields. NATS Services (Asia Pacific) Pte. Limited provides support to NATS Services contracts in the Asia Pacific region and NATS Services DMCC provides support to NATS Services contracts in the Middle East. A parent company loan to NATS Services DMCC of £1.1m was waived during the year.

7. Staff costs

a) Staff costs

	2017 £m	2016 £m
Salaries and staff costs were as follows:		
Wages and salaries	71.2	75.0
Social security costs	8.6	8.4
Pension costs (note 7b)	24.9	33.8
	104.7	117.2
Less: amounts capitalised	(0.9)	(0.5)
	103.8	116.7

Wages and salaries include a charge of £0.5m (2016: £0.2m credit) for redundancy subsequently settled as pension contributions, share based payment charges, other allowances and holiday pay. Pension costs include £0.4m (2016: £0.8m) for redundancy-related augmentation payments which staff elected to receive in lieu of severance payments.

b) Pension costs

	2017 £m	2016 £m
Defined benefit pension scheme costs (note 23)	22.2	31.4
Defined contribution pension scheme costs	2.7	2.4
	24.9	33.8

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

c) Staff numbers

	2017 No.	2016 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	467	507
Air traffic service assistants	133	145
Engineers	133	136
Others	213	216
	946	1,004

8. Investment revenue

	2017 £m	2016 £m
Interest on bank deposits	0.4	0.8
Interest receivable from intercompany loans	0.2	0.3
Other interest receivable	0.6	-
	1.2	1.1

Other interest receivable represents interest accrued on the loan to our joint venture, Aquila.

9. Tax

	2017 £m	2016 £m
Corporation tax		
Current tax	2.2	2.5
Adjustments in respect of prior year - UK taxation	0.1	0.1
Non UK taxation	0.1	0.6
Adjustments in respect of prior year - non UK taxation	-	0.5
Double taxation relief prior year adjustment	(0.1)	(0.5)
	2.3	3.2
Deferred tax (see note 18)		
Origination and reversal of temporary timing differences	1.2	(0.1)
Adjustments in respect of prior year	0.1	(0.2)
Effects of tax rate change on opening balance	(0.1)	0.1
	1.2	(0.2)
	3.5	3.0

Corporation tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:	2017 £m		2016 £m	
Profit on ordinary activities before tax	17.3		22.3	
Tax on profit on ordinary activities at standard rate in the UK of 20% (2016: 20%)	3.5	20.0%	4.5	20.0%
Tax effect of change in corporation tax rate from 20% to 17% (2016: 20% to 18%)	(0.1)	(0.5%)	0.1	0.5%
Tax effect of prior year adjustments - current tax	0.1	0.5%	0.1	0.5%
Tax effect of prior year adjustments - deferred tax	0.1	0.5%	(0.2)	(0.9%)
Employee share scheme award of partnership and matching shares	(0.1)	(0.5%)	-	-
Sale of Gatwick Control Tower building	-	-	(1.5)	(6.7%)
Tax charge for year at an effective tax rate of 20.0% (2016: 13.4%)	3.5	20.0%	3.0	13.4%
Deferred tax credit/(charge) taken directly to equity (see note 18)	10.9		(12.0)	

10. Dividends

	2017 £m	2016 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of £10.00 per share (2016: £61.00 per share)	1.0	6.1
Second interim dividend of £nil per share (2016: £31.00 per share)	-	3.1
	1.0	9.2

In May 2017, the Board approved and the company paid an interim dividend for the year ending 31 March 2018 of £10.00 per share (totalling £1.0m).

11. Intangible assets

	Operational software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 2015	4.5	1.4	0.8	6.7
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.1	0.8	0.9
Transfers during the year	-	0.5	(0.5)	-
At 31 March 2016	4.5	2.0	1.2	7.7
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	-	1.8	1.8
Transfers during the year	-	0.2	(0.2)	-
At 31 March 2017	4.5	2.2	2.9	9.6
Accumulated amortisation				
At 1 April 2015	3.2	0.6	-	3.8
Charge for the year	0.8	0.4	-	1.2
At 31 March 2016	4.0	1.0	-	5.0
Charge for the year	0.2	0.3	-	0.5
At 31 March 2017	4.2	1.3	-	5.5
Carrying amount				
At 31 March 2017	0.3	0.9	2.9	4.1
At 31 March 2016	0.5	1.0	1.2	2.7
At 1 April 2015	1.3	0.8	0.8	2.9

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

12. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2015	0.1	10.0	34.9	3.0	0.3	48.3
Additions during the year	-	-	0.8	-	1.2	2.0
Disposals during the year	-	(5.1)	(5.1)	(0.1)	-	(10.3)
At 31 March 2016	0.1	4.9	30.6	2.9	1.5	40.0
Additions during the year	-	-	0.1	-	4.5	4.6
Disposals during the year	-	-	(1.0)	(0.1)	-	(1.1)
Other transfers during the year	-	-	0.1	-	(0.1)	-
At 31 March 2017	0.1	4.9	29.8	2.8	5.9	43.5
Accumulated depreciation and impairment						
At 1 April 2015	0.1	9.7	26.1	2.3	-	38.2
Provided during the year	-	0.2	1.7	0.6	-	2.5
Disposals during the year	-	(5.1)	(5.1)	(0.1)	-	(10.3)
At 31 March 2016	0.1	4.8	22.7	2.8	-	30.4
Provided during the year	-	0.1	1.4	-	-	1.5
Disposals during the year	-	-	(1.0)	(0.1)	-	(1.1)
At 31 March 2017	0.1	4.9	23.1	2.7	-	30.8
Carrying amount						
At 31 March 2017	-	-	6.7	0.1	5.9	12.7
At 31 March 2016	-	0.1	7.9	0.1	1.5	9.6
At 1 April 2015	-	0.3	8.8	0.7	0.3	10.1

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

13. Financial and other assets

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

Trade and other receivables

	2017 £m	2016 £m
Non-current		
Loan to fellow subsidiary - interest bearing (NATS (Enroute) plc)	22.5	22.5
Trade and other receivables		
Prepayments	2.8	0.2
	2.8	0.2
Current		
Trade and other receivables		
Receivable from customers (gross)	20.6	20.9
Allowance for doubtful debts	(0.4)	(0.3)
	20.2	20.6
Amounts recoverable under contracts	0.8	0.6
Prepayments	5.2	7.8
Amounts due from fellow subsidiary - non-interest bearing loans repayable on demand (NATS (Enroute) plc)	1.2	-
Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited)	5.1	2.2
Amounts due from subsidiary undertaking (NATS Services DMCC)	1.1	2.2
Amounts due from subsidiary undertaking (NATSNav Limited)	-	0.7
Amounts due from subsidiary undertaking (NATS (USA) Inc.)	0.5	0.4
Accrued income	17.0	11.1
	51.1	45.6

The average credit period taken on sales of services is 34 days (2016: 33 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.4m (2016: £0.3m). This amount has been determined by reference to past default experience. Debts that are neither impaired nor overdue are assessed for credit quality and reviewed periodically.

13. Financial and other assets (continued)

Receivables in respect of customers are provided for where there is an identified loss event, such as administration, receivership or liquidation or where there is evidence of a reduction in the recoverability of the cash flows.

Ageing of past due but not impaired trade receivables

	2017 £m	2016 £m
31-90 days	-	0.1
91-365 days	-	0.1
> 365 days	0.1	0.2
	0.1	0.4

Movement in the allowance for doubtful debts

	2017 £m	2016 £m
Balance at the beginning of the year	0.3	0.5
Foreign exchange movement in the year	0.1	-
Amounts written off as irrecoverable	-	(0.2)
Balance at end of year	0.4	0.3

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

There are no receivables in the allowance for doubtful debts which are in administration, receivership or liquidation (2016: £nil).

Ageing of impaired receivables

	2017 £m	2016 £m
> 365 days	0.4	0.3

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

At 31 March 2017, NATS Services provided unsecured loans totalling £22.5m to NERL (2016: £22.5m). These loans are subordinate to NERL's senior debt and until the senior debt is repaid in full, these loans may only be repaid on either 31 May or 30 November using cash that would otherwise have been available for distribution to NATS Limited. The loan bears interest at a rate equal to six month LIBOR plus an agreed margin. The current interest rate is 0.9% (2016: 1.1%).

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, would be £220.2m (2016: £211.8m).

14. Derivative financial instruments

Fair value of derivative financial instruments

	2017 £m	2016 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	0.1
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.2	-
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.5)	(0.2)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	(0.1)

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

15. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern, to meet its obligations to its customers, to fund business opportunities as they arise and to fund returns to shareholders.

The capital structure of the company consists of cash and cash equivalents, as shown in this note and equity attributable to shareholders as disclosed in the statement of changes in equity.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instrument

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

	2017 £m	2016 £m
Financial assets		
Loans and receivables, excluding prepayments	83.3	64.1
Cash and cash equivalents and short term investments	136.9	147.7
Derivative financial instruments in designated hedge accounting relationships	0.3	0.1
	220.5	211.9
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	(0.7)	(0.3)
Other financial liabilities at amortised cost	(34.2)	(33.6)
	(34.9)	(33.9)

Other financial liabilities at amortised cost include balances for trade and other payables (excluding deferred income of £18.7m (2016: £17.0m)) and amounts owed to other group undertakings.

Financial risk management objectives

The NATS group's treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2017.

Market risk

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

Foreign currency risk management

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

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

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

	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Euro	0.9	0.1	(1.3)	(0.7)
Canadian dollar	0.3	0.3	-	-
Hong Kong dollar	-	-	-	(0.2)
Kuwaiti dinar	0.1	0.6	-	-
Norwegian krone	0.1	0.2	(0.2)	(0.2)
Philippine peso	0.4	0.2	-	-
Qatari riyal	0.4	0.2	-	-
Singapore dollar	1.2	0.5	-	-
Swedish krona	0.4	-	(0.6)	-
Thai baht	1.6	-	(0.2)	-
UAE dirham	0.4	0.9	-	-
US dollar	1.2	0.5	(1.1)	(0.1)
	7.0	3.5	(3.4)	(1.2)

15. Financial instruments (continued)

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £2.2m at 31 March 2017 (2016: £1.1m) in euro, Canadian dollars, Norwegian krone, Qatari riyals, Swedish krona and US dollars. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods. These contracts are not reflected on the balance sheet but are reported in the table below.

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

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

Currency	2017 Impact £m	2016 Impact £m
Euro	(1.1)	(1.1)
Canadian dollar	(0.1)	(0.1)
Kuwaiti dinar	-	(0.1)
Singapore dollar	(0.1)	(0.1)
Thai baht	0.4	-
UAE dirham	-	(0.1)
US dollar	(0.1)	-
	(1.0)	(1.5)

The company's sensitivity to foreign currencies has remained fairly constant. NATS Services believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Forward foreign exchange contracts

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

The following contracts were outstanding at year end:

	2017				2016		
Euro sold	£m	€m	Average exchange rate	Euro sold	£m	€m	Average exchange rate
0-90 days	0.6	0.7	0.8209	0-90 days	0.3	0.4	0.7382
91-365 days	0.5	0.6	0.8200	91-365 days	0.1	0.2	0.7417
> 365 days	0.1	0.2	0.7586	> 365 days	0.5	0.6	0.7524
	1.2	1.5	0.8123		0.9	1.2	0.7459
Euro bought	€m	£m		Euro bought	€m	£m	
0-90 days	0.4	0.4	0.8201	0-90 days	0.6	0.5	0.7890
91-365 days	12.2	10.7	0.8784	91-365 days	12.8	10.3	0.8081
> 365 days	1.3	1.1	0.9132	> 365 days	2.5	2.0	0.8244
	13.9	12.2	0.8797		15.9	12.8	0.8100
Canadian dollar bought	C$m	£m		Canadian dollar bought	C$m	£m	
91-365 days	0.4	0.2	1.9936	91-365 days	1.6	0.8	1.9915
> 365 days	0.8	0.4	1.9876	> 365 days	-	-	-
	1.2	0.6	1.9896		1.6	0.8	1.9915
Norwegian krone sold	£m	NOKm		Norwegian krone sold	£m	NOKm	
0-90 days	0.1	1.3	11.1126	0-90 days	0.1	0.9	12.3780
91-365 days	0.1	1.2	11.1105	91-365 days	-	0.8	12.3760
	0.2	2.5	11.1115		0.1	1.7	12.3770
Norwegian krone bought	NOKm	£m					
0-90 days	1.4	0.1	11.7480				
> 365 days	1.5	0.1	11.7395				
	2.9	0.2	11.7437				
Swedish krona bought	SEKm	£m					
0-90 days	2.1	0.2	11.1031				
91-365 days	4.2	0.4	11.0746				
	6.3	0.6	11.0841				

15. Financial instruments (continued)

Forward foreign exchange contracts (continued)

2017			
Philippine peso sold	£m	PHPm	Average exchange rate
91-365 days	0.3	21.3	63.4464

Thai baht sold	£m	THBm	
0-90 days	1.7	73.9	44.5600
91-365 days	2.7	123.1	45.1515
> 365 days	1.3	62.2	45.9100
	5.7	259.2	45.1597

US dollar bought	$m	£m	
0-90 days	0.4	0.3	1.3525
91-365 days	0.2	0.1	1.3592
	0.6	0.4	1.3549

At 31 March 2017, the aggregate amount under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.2m unrealised gain (2016: unrealised loss of £0.2m). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement for hedges relating to revenue expenditure or capitalised and depreciated for those relating to capital expenditure.

Interest rate risk management

The company had no debt at 31 March 2017 or 31 March 2016 and therefore was not exposed to any interest rate risk on borrowings.

Economic interest rate exposure

The company held cash deposits as follows:

Currency	2017 Amount £m	2017 Economic interest rate %	2017 Average maturity days	2016 Amount £m	2016 Economic interest rate %	2016 Average maturity days
Sterling	134.7	0.3	14	146.6	0.5	15
Euro	0.6	-	3	0.1	-	-
Canadian dollar	0.2	-	3	0.2	-	-
Kuwaiti dinar	-	-	3	0.5	-	-
Norwegian krone	0.1	-	3	0.1	-	-
Qatari riyal	0.2	-	3	0.1	-	-
Swedish krona	0.4	-	3	-	-	-
US dollar	0.7	-	3	0.1	-	-
	136.9			147.7		

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

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

Currency	2017 Intercompany loan Amount £m	2017 Economic interest rate %	2017 Weighted average time for which rate is fixed days	2016 Intercompany loan Amount £m	2016 Economic interest rate %	2016 Weighted average time for which rate is fixed days
Sterling	22.5	0.9	183	22.5	1.1	183

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the company's cash deposits and intercompany loans on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2017 Impact £m	2016 Impact £m
Cash at bank and short term deposits (2017: £136.9m, 2016: £147.7m)	1.4	1.5
Intercompany loans (2017: £22.5m, 2016: £22.5m)	0.2	0.2
	1.6	1.7

15. Financial instruments (continued)

Credit risk management

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

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

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

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

Rating (Standard & Poor's)	Limit per Institution £m
AAA & AAAm	70.0
AA+	56.0
AA	42.0
AA-	28.0
A+	21.0
A	14.0
A-	10.5

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

	2017			2016		
Rating (Standard & Poor's)	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAAm	4	69.1	50.5	3	73.1	49.5
AA-	1	24.4	17.8	2	34.6	23.4
A	3	29.5	21.5	3	21.0	14.2
A-	1	7.5	5.5	1	7.5	5.1
BBB+	1	6.4	4.7	2	11.5	7.8
		136.9	100.0		147.7	100.0

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

Liquidity risk management

The responsibility for liquidity risk management, the risk that the company will have insufficient funds to meet its obligations as they fall due, rests with the Board of NATS Holdings Limited with oversight provided by the Treasury Committee. The company's policy is to maintain sufficient cash to fund working capital requirements and new business development opportunities in line with targets approved by the Board.

To provide liquidity, NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2017 (31 March 2016: uncommitted overdraft of £1.0m undrawn).

Trade and other payables classed as current, including current tax liabilities, are expected to mature within one year. Non-current trade and other payables are due in greater than one and less than five years.

Fair value measurements

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

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

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

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

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

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.3	-	0.3	-	0.1	-	0.1
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.7)	-	(0.7)	-	(0.3)	-	(0.3)

There were no transfers between individual levels in the year.

15. Financial instruments (continued)

Valuation techniques and key inputs

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

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

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

16. Financial and other liabilities

Trade and other payables

The company had balances in respect of other non-interest bearing financial and other liabilities as follows:

	2017 £m	2016 £m
Current		
Trade payables	4.6	2.0
Other payables	3.4	1.8
Amounts due to parent company (NATS Limited)	16.0	21.8
Amounts due to fellow subsidiary undertaking (NATS (Enroute) plc)	-	0.9
Amounts due to subsidiary undertaking (NATS Solutions Limited)	0.2	-
Accruals and deferred income (including deferred grants)	15.9	12.0
	40.1	38.5
Non-current		
Accruals and deferred income (including deferred grants)	12.8	12.1
	12.8	12.1
	52.9	50.6

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2016: 24 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

17. Provisions

	Total £m
At 1 April 2016	1.1
Additional provision in the year	0.2
Utilisation of provision	(0.1)
At 31 March 2017	1.2

	2017 £m	2016 £m
Amounts due for settlement within 12 months	1.2	0.3
Amounts due for settlement after 12 months	-	0.8
	1.2	1.1

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

18. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the company, and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Other £m	Total £m
At 1 April 2015	(0.2)	(14.2)	(0.2)	(1.5)	(16.1)
(Credit)/charge to income	(0.4)	(0.6)	-	0.8	(0.2)
Charge to equity	-	11.8	0.2	-	12.0
At 31 March 2016	(0.6)	(3.0)	-	(0.7)	(4.3)
At 1 April 2016	(0.6)	(3.0)	-	(0.7)	(4.3)
Charge to income	0.2	0.8	-	0.2	1.2
Credit to equity	-	(10.9)	-	-	(10.9)
At 31 March 2017	(0.4)	(13.1)	-	(0.5)	(14.0)

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:

	2017 £m	2016 £m
Deferred tax assets	14.0	4.3

19. Share capital

	Authorised Number of shares	Authorised £m	Called up, allotted and fully paid Number of shares	Called up, allotted and fully paid £m
Ordinary shares of £1 each				
At 31 March 2016 and 31 March 2017	100,000	0.1	100,000	0.1

20. Notes to the cash flow statement

	2017 £m	2016 £m
Operating profit from continuing operations	16.1	21.2
Adjustments for:		
Depreciation of property, plant and equipment	1.5	2.5
Amortisation of intangible assets	0.5	1.2
Deferred grants released	(0.3)	(0.3)
Profit on disposal of property, plant and equipment	-	(7.2)
Adjustment for pension funding	(4.2)	3.0
Operating cash flows before movements in working capital	13.6	20.4
Increase in contract work in progress	(0.2)	-
Increase in trade and other receivables	(5.5)	(3.7)
Increase/(decrease) in trade, other payables and provisions	9.7	(4.9)
Decrease in amounts due to other group undertakings	(8.9)	(4.4)
Cash generated from operations	8.7	7.4
Tax paid	(2.1)	(5.2)
Net cash from operating activities	6.6	2.2

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

21. Financial commitments

	2017 £m	2016 £m
Capital commitments contracted but not provided for in the accounts	2.4	2.0
Minimum lease payments under operating leases recognised in the income statement	14.3	16.2

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

	2017 £m	2016 £m
Within one year	13.0	14.3
In the second to fifth years inclusive	5.2	17.9
After five years	5.3	6.0
	23.5	38.2

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

Guarantees

NATS Services has committed to providing its subsidiaries NATS Solutions Limited, NATS Services DMCC and NATS Services (Asia Pacific) Pte. Limited with financial support to enable them to continue trading and to meet all liabilities known or reasonably foreseeable at the year end as they fall due. NATS Solutions Limited had net liabilities at 31 March 2017 of £283 (2016: £431). NATS Services DMCC had net assets at 31 March 2017 of £0.2m (2016: net liabilities of £2.1m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2017 of £2.5m (2016: £1.0m).

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

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

Bid and performance bonds

As part of the tendering process for new contracts, NATS Services may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2017 was £6.8m (2016: £5.5m).

22. Share based payments

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

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

	No. employee shares outstanding at 31 March 2017	No. employee shares outstanding at 31 March 2016
Date of share awards		
Free share awards		
21 September 2001	58,402	66,228
20 October 2003	51,471	60,136
10 September 2004	86,037	97,939
11 January 2008	67,460	78,880
18 September 2009	81,200	95,200
Partnership shares		
1 March 2011	73,773	99,440
26 September 2012	120,459	128,043
30 May 2014	92,420	98,120
31 October 2016	107,857	-
Matching shares		
1 March 2011	74,073	99,840
26 September 2012	120,459	128,043
30 May 2014	92,420	98,120
31 October 2016	107,857	-
	1,133,888	1,049,989
Dividend shares issued on 28 June 2005	6,925	8,000
Total employee shares in issue at 31 March	1,140,813	1,057,989

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

	Movement in the no. of shares during the year ended 31 March 2017	Movement in the no. of shares during the year ended 31 March 2016
Balance at 1 April	1,057,989	1,259,570
Granted during the year	222,518	-
Forfeited during the year	(2,622)	(1,600)
Exercised during the year	(153,671)	(182,821)
Staff transfers between group companies	16,599	(17,160)
Balance at 31 March	1,140,813	1,057,989

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. As at 31 March 2017 the price of an employee share was valued at £3.95 (2016: £4.20). A valuation at 30 June 2016 valued the shares at £3.65. The liability for the employee shares at 31 March 2017 was £4.2m (2016: £4.4m) included in amounts due to parent company. The income statement includes a credit of £0.5m (2016: £0.1m). The payments made to employees for the shares they exercised during the year was £0.6m (2016: £0.8m).

23. Retirement benefit schemes

Defined contribution scheme

NATS Limited, the company's immediate parent undertaking, provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The scheme was established on 1 April 2009 for staff who joined from that date. The assets of the scheme are held separately from those of the company in funds under the control of a board of Trustees.

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company operates a number of contribution structures. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2017 employer contributions of £1.8m (2016: £1.6m), excluding employee salary sacrifice contributions of £0.9m (2016: £0.8m), represented 14.8% of pensionable salaries (2016: 14.5%).

The defined contribution scheme had 241 members at 31 March 2017 (2016: 199).

Defined benefit scheme

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

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

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

Pensionable pay awards made for calendar years 2016 and 2017 were in line with CPI.

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 2015 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in pensionable salaries and pensions.

The market value of the NATS' section's assets as at 31 December 2015 was £4,544.0m. 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 £458.7m, corresponding to a funding ratio of 90.8%.

The 2015 valuation showed that, based on long-term financial assumptions, the contribution rate required to meet the future benefit accrual was 36.9% of pensionable salaries (31.1% employers and 5.8% employees). In addition, NATS makes payments to the scheme to cover administration costs, including the Pension Protection Fund (PPF) levy, of 0.7% of pensionable salaries.

Contributions to the pension scheme

Following the 2015 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 were paid at 29.4% of pensionable pay until 31 December 2016 and are being paid at 31.8% from 1 January 2017 to 31 December 2026. Deficit recovery contributions were made at £2.4m per month for calendar year 2016 and increase by 2.37% annually thereafter until 31 December 2023. An additional £825,000 per month is payable from 1 January 2017 until 31 December 2026 and this also increases by 2.37% annually until 31 December 2026. 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 £26.4m (2016: £28.4m). This amount included £2.9m (2016: £3.2m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 43.6% (2016: 40.6%) 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 company's share of the pension scheme's funding is c. 23%.

The estimated contributions expected to be paid by the company to the scheme during the financial year ending 31 March 2018 is £27.2m, including salary sacrifice contributions estimated at £2.7m.

23. Retirement benefit schemes (continued)

Company's accounting valuation under international accounting standards

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2015, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

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

The Trustees' funding assessment carried out as at 31 December 2015 was updated to 31 March 2017 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

	2017	2016	2015
RPI inflation	3.10%	2.90%	2.95%
CPI inflation	2.00%	1.80%	1.85%
Increase in:			
- salaries	2.00%	1.80%	2.10%
- deferred pensions	3.10%	2.90%	2.95%
- pensions in payment	3.10%	2.90%	2.95%
Discount rate for net interest expense	2.55%	3.65%	3.35%

The mortality assumptions have been drawn from actuarial tables 95% S2PMA light and 93% S2PFA light (2016: 101% S1PMA light and 99% S1PFA light) with future improvements in line with CMI 2014 (2016: CMI 2011) projections for male/female members, subject to a long term improvement of 1.5% p.a (2016: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.4 years and a female pensioner is 30.8 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (45), when these members reach retirement, life expectancy from age 60 will have increased for males to 31.0 years and for females to 32.6 years.

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

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

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

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

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

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 11.5%/increase by 13.5%
Rate of inflation	Increase/decrease by 0.5%	Increase by 13.3%/decrease by 11.4%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 3.5%/decrease by 3.2%
Rate of mortality	1 year increase in life expectancy	Increase by 3.1%

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

23. Retirement benefit schemes (continued)

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

	2017 £m	2016 £m
Current service cost	(21.4)	(28.4)
Past service cost	(0.4)	(0.8)
Net interest expense	(0.1)	(1.9)
Administrative expenses	(0.3)	(0.3)
Components of defined benefit costs recognised within operating profit	(22.2)	(31.4)

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

	2017 £m	2016 £m
Return on plan assets (excluding amounts included in net interest expense)	238.5	(52.5)
Actuarial gains and losses arising from changes in financial assumptions	(327.1)	110.6
Actuarial gains and losses arising from changes in demographic assumptions	25.7	-
Actuarial gains and losses arising from experience adjustments	2.2	0.6
	(60.7)	58.7

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

	2017 £m	2016 £m
Present value of defined benefit obligations	(1,189.2)	(944.2)
Fair value of scheme assets	1,117.3	928.8
Deficit in scheme	(71.9)	(15.4)

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

	2017 £m	2016 £m
At 1 April	(944.2)	(1,017.5)
Current service cost	(21.4)	(28.4)
Past service cost	(0.4)	(0.8)
Interest expense on defined benefit scheme obligations	(32.5)	(33.7)
Actuarial gains and losses arising from changes in financial assumptions	(327.1)	110.6
Actuarial gains and losses arising from changes in demographic assumptions	25.7	-
Actuarial gains and losses arising from experience adjustments	2.2	0.6
Contributions from scheme members	-	(0.1)
Benefits paid	108.5	25.1
At 31 March	(1,189.2)	(944.2)

The average duration of the scheme's liabilities at the end of the year is 24.9 years (2016: 23.6 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2017 £m	2016 £m
Active members	645.9	555.0
Deferred members	146.9	85.2
Pensioners	396.4	304.0
	1,189.2	944.2

23. Retirement benefit schemes (continued)

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

	2017 £m	2016 £m
At 1 April	928.8	946.4
Interest income on scheme assets	32.4	31.8
Return on plan assets (excluding amounts included in net interest expense)	238.5	(52.5)
Contributions from scheme members	-	0.1
Contributions from sponsoring company	26.4	28.4
Benefits paid	(108.5)	(25.1)
Administrative expenses	(0.3)	(0.3)
At 31 March	1,117.3	928.8

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

	2017 £m	2016 £m
Cash and cash equivalents	13.4	12.2
Equity instruments		
- UK	86.2	68.0
- Europe	24.6	19.1
- North America	70.2	55.8
- Japan	9.9	7.8
- Pacific (excluding Japan)	27.8	23.0
- Emerging markets	88.1	72.9
- Global	165.2	132.6
	472.0	379.2
Bonds		
- Corporate bonds	193.7	177.6
- Index-linked gilts over 5 years	299.6	230.4
	493.3	408.0
Other investments		
- Property	49.7	50.6
- Hedge funds	44.4	40.9
- Global tactical asset allocation	26.9	23.3
- Private equity funds	28.8	26.9
	149.8	141.7
Derivatives		
- Futures contracts	(11.2)	(12.3)
	1,117.3	928.8

The scheme assets do not include any investments in the equity or debt instruments of NATS group companies or any property or other assets used by the group.

Virtually all equity and debt instruments have quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consist of equities and bonds, although the scheme also invests in property, cash and investment (private equity and hedge) funds.

NATS and the Trustees implemented a Liability Driven Investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. In addition, and as an acceleration of the existing strategy, NATS and the Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2017 was £270.9m (2016: loss of £20.7m).

24. Related party transactions

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

AG is a consortium of British Airways plc, Deutsche Lufthansa AG, easyJet Airline Company Limited, The Pension Protection Fund, Thomas Cook Airlines Limited, Thomson Airways Limited, Virgin Atlantic Airways Limited and USS Sherwood Limited. AG has a 42% stake in NATS Holdings Limited. The directors of NATS Holdings Limited are satisfied that the eight members of the AG have not exercised undue influence on the group or the company either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

Contractual arrangements existed during the year between LHR Airports Limited and NATS Services in relation to air navigation services provided at Heathrow airport.

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

Trading transactions

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

	Sales		Purchases	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£m	£m	£m	£m
LHR Airports Limited	54.1	56.0	8.0	7.8
Ministry of Defence (MOD)	0.5	0.2	-	-
Meteorological Office	-	-	0.2	0.2
FerroNATS Air Traffic Services SA	0.6	0.3	-	-
Aquila Air Traffic Management Services Limited	31.0	24.3	-	-

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£m	£m	£m	£m
LHR Airports Limited	7.4	4.7	-	-
Ministry of Defence (MOD)	-	-	-	-
Meteorological Office	-	-	-	0.1
FerroNATS Air Traffic Services SA	-	-	-	-
Aquila Air Traffic Management Services Limited	1.7	0.2	-	-

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 21. No provisions (2016: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

The Report of the directors includes details of the directors of the company. The consolidated accounts of NATS Holdings Limited include details of the remuneration received by the directors of the group.

Directors' remuneration

The aggregate remuneration payable to the directors and the highest paid director of the company in the year was £355,000 (2016: £333,000). The number of directors paid by the company during the year was one (2016: one). The director participates in a pension salary sacrifice arrangement. Contributions which were paid, in 2017, to a defined benefit pension scheme via salary sacrifice have been deducted from this remuneration figure. Contributions to the defined benefit pension scheme, including salary sacrificed by the director of £7,000 and contributions from the company of £49,000, totalled £56,000.

Remuneration of key management personnel

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

	2017	2016
	£m	£m
Short term employee benefits	1.5	1.6
Post-employment benefits	0.2	0.4
Termination benefits	0.2	-
	1.9	2.0

25. Subsidiaries, joint ventures and associates

The company's principal subsidiaries at 31 March 2017 were:

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

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

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

The company had two joint ventures as at 31 March 2017. The subsidiary entity, NATSNav Limited holds an investment in European Satellite Services Provider SAS. Details are as follows:

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

European Satellite Services Provider SAS (ESSP)

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

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

FerroNATS Air Traffic Services SA (FerroNATS)

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

During the year FerroNATS repaid loan finance of €0.1m (£0.1m) to the company (2016: €0.6m (£0.4m)). At 31 March 2017, the loan outstanding was £nil (2016: £0.1m).

Aquila Air Traffic Management Services Limited (Aquila)

In October 2014, the company acquired 50% of the issued share capital of Aquila for a cash consideration of £0.1m. Aquila provides air traffic management services at military airfields in the delivery of Project Marshall for the Ministry of Defence.

During the year, Aquila drew down loan finance of £10.6m (2016: £3.7m) from the company. At 31 March 2017, the loan (including interest) outstanding was £14.9m (2016: £3.7m).

NATS Services has not presented summarised financial information relating to the year ended 31 March 2017. The summary financial information relating to the above joint ventures and associates is presented in the NATS Holdings Limited consolidated accounts.

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

26. Parent undertaking

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

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

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

27. Events after the reporting period

On 26 April 2017, the company established a Canadian subsidiary, NATS (Services) Canada Inc. The subsidiary was established in order to invest in Searidge Technologies Inc. The investment is a 50% joint venture with NAV CANADA. Searidge Technologies 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.

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

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

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