

NATS Limited  
Financial statements  
Year ended 31 March 2018

Company Number: 03155567

**Business model and principal activities**

The company is a wholly-owned subsidiary of NATS Holdings Limited, the ultimate parent undertaking of the NATS group of companies.

The NATS group provides air traffic control services through two principal operating subsidiaries: NATS (En Route) plc (NERL) and NATS (Services) Limited (NATS Services). NATS Limited is an intermediate holding company and the sole shareholder of NERL and NATS Services.

NERL provides air traffic control (ATC) services to aircraft flying in airspace over the UK and the eastern part of the North Atlantic. It is economically regulated by the Civil Aviation Authority (CAA) within the framework of the European Commission's (EC) Single European Sky (SES) and operates under licence from the Secretary of State for Transport. It operates from two air traffic control centres, at Swanwick in Hampshire and Prestwick in Ayrshire.

NATS Services is organised by customer group and between UK and international activities. The former represents about 95% of its revenue. It provides airport ATC and related engineering services to UK airport operators; engineering support and other services to the UK's Ministry of Defence (MOD); other UK business such as aeronautical information management, design and data services, consultancy and ATC training; and services to International customers. Its international activities are mainly provided in the Asia Pacific and Middle East.

NATS Holdings Limited prepares accounts which consolidate the results and financial position of the company and its subsidiaries. For this reason the company does not present consolidated accounts.

The company also acts as an employer to employees within the NATS group and incurs

these employee expenses, and others, on behalf of its subsidiary companies which it recharges through Management Services Agreements (MSA).

At completion of the Public Private Partnership transaction on 26 July 2001, transfer schemes hived down the operating assets and liabilities of NATS Limited to NERL and NATS Services. In addition, the company entered into two MSAs with NERL and NATS Services on 25 July 2001. These agreements provide for the provision by the company of personnel and central services to NERL and NATS Services. 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. NERL and NATS Services are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

**Results and financial position**

The company's performance for the year is shown in the income statement on page 9 and reflects the results of the company under the MSAs explained above. The company reported an operating profit of £nil (2017: £nil).

The company received £57.0m (2017: £24.0m) in dividends in the year, £56.0m from NERL (2017: £23.0m) and £1.0m from NATS Services (2017: £1.0m).

The financial position is explained in the balance sheet on page 10. At 31 March 2018 the company had net assets of £255.9m. The company's principal assets are its investments in subsidiaries; amounts receivable from subsidiaries for the recharge of services provided; the company's share of the IAS 19 funding

position of the group's defined benefit pension scheme and cash balances. Its principal liabilities include staff-related costs relating to the NATS group's all-employee share scheme, holiday pay provisions, payroll taxes and social security costs, the remaining liabilities for voluntary redundancies and staff relocation and deferred tax.

The company provides a defined benefit pension scheme to most employees as explained in note 21. The Trustees completed a formal valuation at 31 December 2017 which reported a funding deficit of £270.4m, a reduction of £188.3m from their 2015 valuation: investment returns, deficit contributions and changes in life expectancy offset the impact of lower gilt yields in increasing liabilities (the company's share of this deficit, relating to its directly employed staff, is c.1%). The group has agreed a new contribution schedule with Trustees. The contributions for employees who work directly for the company are expected to be £0.6m for the year ending 31 March 2019, including salary sacrifice contributions of £0.1m. Contributions paid for the financial year ended 31 March 2018 were £0.6m, including salary sacrifice contributions of £nil.

The directors' assessment of going concern is explained in note 3.

### **Principal risks and uncertainties**

The principal risk that NATS Limited faces is a subsidiary being unable to meet its obligations as they fall due, which would cause financial distress to the company. The company's subsidiaries have procedures in place to mitigate against market and financial risk and their financial positions are monitored to ensure these amounts due to the company are recoverable.

A full description of the NATS group's principal activities, including key risks and uncertainties, is

contained in the Strategic report section of the Annual Report and Accounts of NATS Holdings Limited.

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



Richard Churchill-Coleman

Secretary

## Report of the directors

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

Details of significant events since the balance sheet date are contained in note 25 to the financial statements.

Information about the use of financial instruments by the company is given in note 13 to the financial statements.

### Dividends

The Board declared and paid a first interim dividend of 20.21 pence per share (totalling £28.5m) in May 2017 and a second interim dividend of 20.21 pence per share (totalling £28.5m) that was paid in November 2017. The Board recommends a final dividend for the year of £nil (2017: £nil).

In May 2018, the Board approved an interim dividend of £29.5m (20.92 pence per share) for the year ending 31 March 2019 which was paid in June 2018.

### Directors

The directors of the company who served during the year and to the date of this report are set out below:

Martin Rolfe

Nigel Fotherby

None of the directors have any interests in the share capital of the company. Interests of the directors in the ordinary shares of the company's parent undertaking NATS Holdings Limited are explained in those accounts.

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

### Directors' indemnities

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

### Employees

The company continues its commitment to the involvement of employees in the decision making process through effective leadership at all levels in the organisation. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The NATS CEO maintains high visibility with employees through visits to NATS sites, where he talks to them about current business issues and takes 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 employees exist through a local and company-wide framework agreed with the Trades Unions.

It is the company's 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.

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

The company is also committed to improving employment opportunities for disabled people. The company will continue to promote policies and practices which provide suitable training and retraining, and development opportunities for disabled employees, including any individuals who become disabled, bearing in mind their particular aptitudes and abilities and the need to maintain a safe working environment. The company strives to maintain the health, safety and wellbeing of employees through an appropriate culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained and responsibility for ensuring compliance with both legal requirements and company policy rests with the Safety Director.

#### **Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance

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

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

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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 results of the company;
- the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces; and
- the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

#### Auditor

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

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



Richard Churchill-Coleman  
Secretary

5 July 2018

Registered office  
4000 Parkway, Whiteley, Fareham,  
Hampshire, PO15 7FL  
Registered in England and Wales  
Company Number: 03155567

## Independent auditor's report to the members of NATS Limited

### Opinion

We have audited the financial statements of NATS Limited ("the company") for the year ended 31 March 2018 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the company in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

### Basis for opinion

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

### Conclusions relating to going concern

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

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

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Strategic report and the Report of the directors. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise

explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

Companies Act 2006 requires us to report to you if, in our opinion:

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

### **Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>.

This description forms part of our auditor's report.

### **Use of our report**

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



Malcolm Thixton (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Southampton

United Kingdom

5 July 2018

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

**Income statement**

for the year ended 31 March

	Notes	2018 £m	2017 £m
Revenue	4	485.4	459.9
Staff costs	7	(477.9)	(452.6)
Services and materials		(0.4)	(0.4)
Repairs and maintenance		(0.1)	(0.1)
Other operating charges		(7.1)	(6.9)
Other operating income		0.1	0.1
Net operating costs		<u>(485.4)</u>	<u>(459.9)</u>
<b>Operating result</b>	6	-	-
Investment revenue	8	<u>57.0</u>	<u>24.0</u>
<b>Profit before tax</b>		<u>57.0</u>	<u>24.0</u>
Tax	9	-	-
<b>Profit for the year attributable to equity shareholders</b>		<u><u>57.0</u></u>	<u><u>24.0</u></u>

**Statement of comprehensive income**

for the year ended 31 March

	Notes	2018 £m	2017 £m
<b>Profit for the year after tax</b>		<u>57.0</u>	<u>24.0</u>
<b>Items that will not be reclassified subsequently to profit and loss:</b>			
Actuarial gain / (loss) on defined benefit pension scheme	21 b	18.3	(10.5)
Deferred tax relating to items that will not be reclassified subsequently	16	<u>(3.1)</u>	<u>1.7</u>
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<u>15.2</u>	<u>(8.8)</u>
<b>Total comprehensive income for the year attributable to equity shareholders</b>		<u><u>72.2</u></u>	<u><u>15.2</u></u>

**Balance sheet**

at 31 March

	Notes	2018 £m	2017 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	-	-
Investments	23	244.6	244.6
Retirement benefit asset	21 b	4.3	-
Trade and other receivables	12	0.1	0.1
Deferred tax asset	16	-	2.3
		<u>249.0</u>	<u>247.0</u>
<b>Current assets</b>			
Trade and other receivables	12	65.4	63.9
Cash and cash equivalents	13	5.7	4.8
		<u>71.1</u>	<u>68.7</u>
<b>Total assets</b>		<u>320.1</u>	<u>315.7</u>
<b>Current liabilities</b>			
Trade and other payables	14	(57.2)	(55.6)
Current tax liability		(0.1)	-
Provisions	15	(3.7)	(2.4)
		<u>(61.0)</u>	<u>(58.0)</u>
<b>Net current assets</b>		<u>10.1</u>	<u>10.7</u>
<b>Non-current liabilities</b>			
Trade and other payables	14	(1.8)	(2.4)
Retirement benefit obligations	21 b	-	(13.6)
Provisions	15	(0.7)	(1.0)
Deferred tax liability	16	(0.7)	-
		<u>(3.2)</u>	<u>(17.0)</u>
<b>Total liabilities</b>		<u>(64.2)</u>	<u>(75.0)</u>
<b>Net assets</b>		<u>255.9</u>	<u>240.7</u>
<b>Equity</b>			
Called up share capital	17	141.0	141.0
Other reserves		(50.0)	(50.0)
Retained earnings		164.9	149.7
		<u>255.9</u>	<u>240.7</u>

The financial statements (Company No. 03155567) were approved by the Board of directors and authorised for issue on 5 July 2018 and signed on its behalf by:



Martin Rolfe  
Chief Executive



Nigel Fotherby  
Finance Director

**Statement of changes in equity**

for the year ended 31 March

	Equity attributable to equity holders of the company			Total £m
	Share capital £m	Other reserves <sup>1</sup> £m	Retained earnings £m	
<b>At 1 April 2016</b>	141.0	(50.0)	158.5	249.5
Profit for the year	-	-	24.0	24.0
Other comprehensive loss for the year	-	-	(8.8)	(8.8)
Total comprehensive income for the year	-	-	15.2	15.2
Dividends paid	-	-	(24.0)	(24.0)
<b>At 31 March 2017</b>	<b>141.0</b>	<b>(50.0)</b>	<b>149.7</b>	<b>240.7</b>
<b>At 1 April 2017</b>	141.0	(50.0)	149.7	240.7
Profit for the year	-	-	57.0	57.0
Other comprehensive income for the year	-	-	15.2	15.2
Total comprehensive income for the year	-	-	72.2	72.2
Dividends paid	-	-	(57.0)	(57.0)
<b>At 31 March 2018</b>	<b>141.0</b>	<b>(50.0)</b>	<b>164.9</b>	<b>255.9</b>

<sup>1</sup> Other reserves arose on the completion of the PPP transaction in July 2001.

**Cash flow statement**

for the year ended 31 March

	Notes	2018 £m	2017 £m
<b>Net cash generated from/(used by) operating activities</b>	18	<u>0.9</u>	<u>(0.6)</u>
<b>Cash flows from investing activities</b>			
Dividends received		<u>57.0</u>	<u>24.0</u>
<b>Net cash inflow from investing activities</b>		<u>57.0</u>	<u>24.0</u>
<b>Cash flows from financing activities</b>			
Repayment from borrowings		-	(0.4)
Dividends paid		<u>(57.0)</u>	<u>(24.0)</u>
<b>Net cash outflow from financing activities</b>		<u>(57.0)</u>	<u>(24.4)</u>
<b>Increase/(decrease) in cash and cash equivalents during the year</b>		<u>0.9</u>	<u>(1.0)</u>
Cash and cash equivalents at 1 April		<u>4.8</u>	<u>5.8</u>
<b>Cash and cash equivalents at 31 March</b>		<u><u>5.7</u></u>	<u><u>4.8</u></u>

## 1. General information

NATS Limited 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 5. The nature of the company's operations and its principal activities are set out in the Report of the directors and Strategic report.

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

## 2. Accounting policies

The following accounting policies have been applied consistently 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 note 3. 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.

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

IAS 7 (amendments): *Disclosure Initiative*

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

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

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

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

IFRS 16: *Leases*

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

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

IFRIC 22: *Foreign Currency Transactions and Advance Consideration*

IFRIC 23: *Uncertainty over Income Tax Treatments*

As at 31 March 2018, the company has non-cancellable operating lease commitments of £2.0m as disclosed in note 19. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the company will recognise an increase to total property, plant and equipment and a corresponding liability in respect of these leases, unless they qualify for exemption as low value or short-term leases upon the application of IFRS 16.

The company's preliminary assessment is that as at 31 March 2020, property, plant and equipment is likely to increase by c.£0.5m and lease liabilities by c.£0.5m.

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.

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

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

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

### *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 is a component of NATS Limited that engages in business activities from which it may earn revenues and incur expenses. Operating

segment 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.

#### *Operating profit*

Operating profit is stated before investment income, finance costs and taxation.

#### *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;
- ◆ 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;
- ◆ Dividend income is recognised when the shareholder's rights to receive payment have been established; and
- ◆ Revenue is recognised in accordance with the Management Services Agreements.

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other items are classified as operating leases.

The company does not have any finance leases.

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

#### *Property, plant and equipment*

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

impairment in value. The cost of property, plant and equipment includes internal and contracted labour costs directly attributable to bringing the assets into working condition for their intended use. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of property plant and equipment over their estimated useful lives as follows:

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

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

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

#### *Government grants and other grants*

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement by equal annual instalments over the expected useful economic lives of the related assets.

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

#### *Share-based payments*

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

In 2001, the company established an All-Employee Share Ownership Plan for the benefit of its employees to hold 5% of the share capital of NATS Holdings Limited. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by The Airline Group Limited (AG) for £nil consideration and NESL was gifted cash of £279,264 to acquire additional shares to maintain the Plan's interest at 5% of the share capital of NATS Holdings Limited. The Plan is administered by NESL, a trustee company. The employee ordinary shares may only be owned by employee shareholders and can only be sold to the trust company. 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 the 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 are 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 of goodwill or 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.

#### *Retirement benefit costs*

The Civil Aviation Authority Pension Scheme is a funded defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

Remeasurement comprising actuarial gains and losses and return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised immediately to the extent that the benefits are already vested.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 21. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

#### *Provisions*

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

#### *Financial instruments*

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Detailed disclosures are set out in notes 12, 13 and 14.

#### *Financial assets*

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

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

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

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under

a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value plus transaction costs.

Other than loans and receivables the company does not have financial assets in other categories.

#### *Loans and receivables*

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

#### *Impairment of financial assets*

Financial assets are rigorously assessed for indicators of impairment at half year and year end.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

#### *Cash and cash equivalents*

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

#### *Financial liabilities*

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

#### *Fair value through the profit and loss*

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

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

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

*Investment in subsidiaries*

A subsidiary is an entity in which the company has control. The existence and effect of voting rights that are currently exercisable or convertible are considered when assessing whether the company has such power over another entity.

Investment in subsidiaries is carried in the balance sheet at cost less any impairment losses. Consolidated financial statements are not presented by the company for the year ended 31 March 2018 as they are presented by the parent undertaking NATS Holdings Limited.

### **3. Critical judgements and key sources of estimation uncertainty**

*Retirement benefits*

The company accounts for its 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 21 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. Note 13 also 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 had net cash balances of £5.7m at the balance sheet date together with formal arrangements with its subsidiaries on the recovery of costs. As a result, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

The directors have formed a judgement that taking into account the financial resources available to the company, it has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2018.

#### 4. Revenue

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

	2018 £m	2017 £m
Services provided to NATS (En Route) plc	371.5	352.8
Services provided to NATS (Services) Limited	113.9	107.1
	<u>485.4</u>	<u>459.9</u>
Investment revenue (see note 8)	57.0	24.0
	<u>542.4</u>	<u>483.9</u>

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

For management reporting purposes, the company is currently organised into one business area.

##### Principal activities are as follows:

The company acts as an employer to staff within the NATS group of companies. The company seconded staff to the two principal operating companies within the group (NERL and NATS Services). It also provides central services to these two companies. The provision of these services is governed by Management Services Agreements (MSA) between the two operating companies and NATS Limited. In accordance with the MSA, NERL and NATS Services pay fees to NATS Limited for the provision of the company's services.

Segment information about the provision of these services is presented below:

	2018 Total £m	2017 Total £m
<b>Revenue</b>		
Revenue from customers	<u>485.4</u>	<u>459.9</u>
<b>Segmental operating result</b>		
Investment revenue	<u>57.0</u>	<u>24.0</u>
<b>Profit before tax</b>	57.0	24.0
Tax	-	-
<b>Profit for the year</b>	<u>57.0</u>	<u>24.0</u>
<b>Balance Sheet</b>		
Segmental assets	<u>320.1</u>	<u>315.7</u>
Segmental liabilities	<u>(64.2)</u>	<u>(75.0)</u>

##### Geographical segments

The company's two customers (NERL and NATS Services) are both located in the UK and all company assets are also located within the UK.

All revenue is derived from the company's two customers (NERL and NATS Services).

#### 6. Operating result for the year

The operating result for the year has been arrived at after charging:

	2018 £m	2017 £m
Auditor's remuneration for audit services (see below)	0.2	0.1
Staff relocation costs (net of credits for revisions to estimates) following site closure	(0.5)	0.1
Redundancy costs	<u>3.8</u>	<u>2.3</u>

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

**7. Staff costs**

The company is responsible for employing the staff engaged in the activities carried out by both NERL and NATS Services. Under the terms of the respective Management Services Agreements (MSA) dated 25 July 2001 the services of certain employees are seconded to NERL and NATS Services by the company. NERL and NATS Services are responsible for paying to the company an amount equal to the aggregate of all costs incurred by the company in connection with the employment of the seconded employees (including all taxes and social security and pension costs) together with appropriate staff related costs and expenses and disbursements. The total staff costs incurred by the company for the group were:

**a) Staff costs**

	2018 £m	2017 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	332.1	306.8
Social security costs	40.4	37.7
Pension costs (note 7 b)	105.4	108.1
	<u>477.9</u>	<u>452.6</u>

Wages and salaries include redundancy costs of £3.8m (2017: £1.9m), share-based payment credits or charges, other allowances and holiday pay. Pension costs include £nil (2017: £0.4m) for redundancy related augmentation payments which staff elected to receive in lieu of severance payments.

None of the directors received remuneration for their services to the company. Director's remuneration for services provided to the NATS group are disclosed in the accounts of NATS Holdings Limited, and included in the table above.

The staff costs for the company net of the staff costs for those staff seconded to NERL and NATS Services under the respective MSAs were as follows:

	2018 £m	2017 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	2.4	2.3
Social security costs	0.4	0.5
Pension costs (note 7 b)	1.1	0.7
	<u>3.9</u>	<u>3.5</u>

Wages and salaries include share based payment credits or charges, other allowances and holiday pay.

**b) Pension costs**

	2018 £m	2017 £m
Defined benefit pension scheme costs (note 21 a)	92.6	98.0
Defined contribution pension scheme costs	12.8	10.1
	<u>105.4</u>	<u>108.1</u>

The company operates a salary sacrifice arrangement for staff pension contributions. Wages and salaries and pension costs reflect this arrangement. The pension costs for the company net of the pension costs for those staff seconded to NERL and NATS Services under the respective MSAs were as follows:

	2018 £m	2017 £m
Defined benefit pension scheme costs (note 21 b)	1.0	0.6
Defined contribution pension scheme costs	0.1	0.1
	<u>1.1</u>	<u>0.7</u>

**c) Staff numbers**

	2018 No.	2017 No.
The monthly average number of employees (including secondments to NERL and NATS Services under the MSA) was:		
Air traffic controllers	1,683	1,636
Air traffic service assistants	627	621
Engineers	903	928
Others	1,008	953
	<u>4,221</u>	<u>4,138</u>

	No.	No.
The monthly average number of employees excluding secondments to NERL and NATS Services was:		
Air traffic controllers	-	-
Air traffic service assistants	-	-
Engineers	2	5
Others	31	29
	<u>33</u>	<u>34</u>

**8. Investment revenue**

	2018 £m	2017 £m
Income from shares in group undertakings	57.0	24.0

**9. Tax**

	2018 £m	2017 £m
<b>Corporation tax</b>		
Current tax	0.1	-
<b>Deferred tax (see note 16)</b>	(0.1)	-

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £m	%	2017 £m	%
Profit on ordinary activities before tax	57.0		24.0	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2017: 20%)	10.8	19.0%	4.8	20.0%
Tax effect of dividend income not assessed in determining taxable profit	(10.8)	(19.0%)	(4.8)	(20.0%)
Tax charge for year at an effective tax rate of 0.0% (2017: 0.0%)	-	0.0%	-	0.0%
Deferred tax (charge)/credit taken directly to equity (see note 16)	(3.1)		1.7	

**10. Dividends**

	2018 £m	2017 £m
Amounts recognised as dividends to equity shareholders in the year		
First interim dividend of 20.21 pence per share (2017: 17.02 pence per share)	28.5	24.0
Second interim dividend of 20.21 pence per share (2017: nil pence per share)	28.5	-
	57.0	24.0

In May 2018 the Board approved an interim dividend for the year ending 31 March 2019 of 20.92 pence per share, totalling £29.5m, which was paid in June 2018.

**11. Property, plant and equipment**

The company has assets with an original cost of £1.0m which are fully depreciated (2017: £1.0m). The net book value of property, plant and equipment at 31 March 2018 was £nil (2017: £nil). Depreciation charges amounted to £nil (2017: £nil).

**12. Financial and other assets**

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

**Trade and other receivables**

	2018 £m	2017 £m
<b>Non-current</b>		
Other debtors	0.1	0.1
<b>Current</b>		
Other debtors	2.2	2.3
Intercompany debtors	62.1	60.5
Prepayments	1.1	1.1
	65.4	63.9

The company does not have any external customers. Its customers are subsidiaries. No allowance has been made for irrecoverable amounts on the outstanding balances. The company's subsidiaries have procedures in place to mitigate against its market and financial risk and their financial positions are monitored to ensure that amounts due to the company are recoverable. The company supplies management services to its subsidiaries under the Management Services Agreements.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash held by the company. 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 (excluding prepayments and VAT) would be £69.9m (2017: £67.3m).

### 13. Financial instruments

#### Capital risk management

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

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

#### Significant accounting policies

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

#### Categories of financial instrument

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

	2018 £m	2017 £m
<b>Financial assets</b>		
Trade and other receivables, excluding prepayments and VAT	64.2	62.5
Cash and cash equivalents	5.7	4.8
	<u>69.9</u>	<u>67.3</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	<u>(45.6)</u>	<u>(46.5)</u>

Trade and other receivables excludes prepayments, and VAT of £0.2m (2017: £0.4m). Financial liabilities at amortised cost includes trade and other payables (excluding taxes and social security liabilities of £13.4m (2017: £11.5m)).

#### Financial risk management objectives

The NATS group 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 interest rate risk), credit risk and liquidity risk.

#### Market risk

The company's activities expose it to the financial risk of changes in interest rates on cash deposits. The company is not exposed to interest rate risk on borrowings. It has no material risk as a result of changes in foreign currency exchange rates as it only holds small euro and US dollar balances to make foreign currency purchases.

#### Interest rate risk management

The company had no debt at 31 March 2018 (2017: none).

#### Economic interest rate exposure

The company's cash and short term deposits were as follows:

2018				2017			
Currency	Amount £m	Economic interest		Currency	Amount £m	Economic interest	
		rate %	Average maturity days			rate %	Average maturity days
Sterling	<u>5.7</u>	0.4	3	Sterling	<u>4.8</u>	0.3	3

#### 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 were 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 on profit for the year and on equity. A positive number represents an increase in profit and equity and a negative number a decrease in profit and equity.

	2018 Impact £m	2017 Impact £m
Cash on deposit (2018: £5.7m, 2017: £4.8m)	<u>0.1</u>	<u>-</u>

### 13. 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 its fellow subsidiaries 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 fellow subsidiaries and the mitigations against this risk are explained in note 12. 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 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 of the ratings is applied.

Currently, the company's investments take the form of money market fund investments and are restricted to AAAm rated liquidity funds.

The table below sets out the group's 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):

Rating (Standard & Poor's)	Number of institutions	2018		Number of institutions	2017	
		£m	By credit rating %		£m	By credit rating %
AAAm	1	5.5	96.5	1	4.7	97.9
BBB+	1	0.2	3.5	1	0.1	2.1
		<u>5.7</u>	<u>100.0</u>		<u>4.8</u>	<u>100.0</u>

The deposits of £0.2m (2017: £0.1m) with a BBB+ rated institution were held in various current accounts that are not subject to the above investment limits.

#### Liquidity risk management

The responsibility for liquidity risk management, the risk that the company will have insufficient funds to meet its obligations as they fall due, rests with the Board with oversight provided by the Treasury Committee. The company manages liquidity by maintaining adequate reserves and borrowing facilities by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost.

#### Maturity of non-derivative financial liabilities

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

	2018 Other liabilities £m	2017 Other liabilities £m
Due within one year or less	43.8	44.1
Between one and two years	0.9	1.0
Due between two and five years	0.5	-
Due in more than five years	0.4	1.4
	<u>45.6</u>	<u>46.5</u>

Other liabilities above include trade and other payables excluding social security liabilities of £13.4m (2017: £11.5m).

#### Fair values of financial instruments

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

### 14. Financial and other liabilities

#### Trade and other payables

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

	2018 £m	2017 £m
<b>Current</b>		
Trade payables	0.2	0.2
Other payables	0.4	0.3
Tax and social security	13.4	11.5
Accruals and deferred income	43.2	43.6
	<u>57.2</u>	<u>55.6</u>
<b>Non-current</b>		
Accruals and deferred income	1.8	2.4
	<u>59.0</u>	<u>58.0</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 6 days (2017: 11 days). The directors consider that the carrying amount of the trade payables approximates to their fair values.

**15. Provisions**

	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2017	1.2	2.1	0.1	3.4
Additional provision in the year	3.7	-	-	3.7
Release of provision in the year	(0.1)	(0.5)	-	(0.6)
Utilisation of provision	(1.2)	(0.8)	(0.1)	(2.1)
At 31 March 2018	<u>3.6</u>	<u>0.8</u>	<u>-</u>	<u>4.4</u>
			2018 £m	2017 £m
Amounts due for settlement within 12 months			3.7	2.4
Amounts due for settlement after 12 months			0.7	1.0
			<u>4.4</u>	<u>3.4</u>

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the group's redundancy programme at 31 March 2018. The ageing of the provision reflects the expected timing of employees leaving the group.

The relocation provision represents the best estimate of the future cost of relocating staff when the site they work at closes and they are relocated to another site. The ageing of the provision reflects the expected timing of the employees' relocation date.

The other provisions represent the best estimate of other liabilities, and include property-related costs. The ageing of the provision reflects the best estimate of when these potential liabilities will fall due.

**16. 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.

	Retirement benefits £m	Total £m
At 1 April 2016	0.6	0.6
Credit to equity	1.7	1.7
At 31 March 2017	2.3	2.3
Credit to income	0.1	0.1
Charge to equity	(3.1)	(3.1)
At 31 March 2018	<u>(0.7)</u>	<u>(0.7)</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2018 £m	2017 £m
Deferred tax liabilities	(0.7)	-
Deferred tax assets	-	2.3
	<u>(0.7)</u>	<u>2.3</u>

**17. Share capital**

	Authorised:		Called up, allotted and fully paid:	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2017 and 31 March 2018	<u>150,000,100</u>	<u>150.0</u>	<u>141,000,005</u>	<u>141.0</u>

**18. Notes to the cash flow statement**

	2018 £m	2017 £m
Operating result from continuing operations	-	-
Adjustments for:		
Pension scheme funding	0.4	-
Operating cash flows before movements in working capital	<u>0.4</u>	<u>-</u>
(Increase)/decrease in trade and other receivables	(1.5)	9.3
Increase/(decrease) in trade, other payables and provisions	2.0	(9.8)
Cash generated from/(used by) from operations	<u>0.9</u>	<u>(0.5)</u>
Tax paid	-	(0.1)
Net cash generated from/(used by) operating activities	<u><u>0.9</u></u>	<u><u>(0.6)</u></u>

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.

**19. Financial commitments**

	2018 £m	2017 £m
Amounts contracted but not provided for in the accounts	<u>-</u>	<u>-</u>
Minimum lease payments under operating leases recognised in the income statement	<u>0.2</u>	<u>0.2</u>

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

	2018 £m	2017 £m
Within one year	1.1	1.6
In the second to fifth years inclusive	0.9	1.0
After five years	-	0.2
	<u>2.0</u>	<u>2.8</u>

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

**20. Share based payments**

The company 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 for staff employed by NATS Limited was:

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2018	No. employee shares outstanding at 31 March 2017
<b>Free share awards</b>			
21 September 2001	3,353,742	284,317	311,410
20 October 2003	2,459,000	265,886	293,784
10 September 2004	1,966,000	396,957	444,409
11 January 2008	1,071,840	314,859	353,289
18 September 2009	963,200	351,657	403,555
<b>Partnership shares</b>			
1 March 2011	694,783	325,365	380,758
26 September 2012	714,959	422,365	574,396
30 May 2014	496,738	406,176	429,133
31 October 2016	530,303	495,273	520,614
<b>Matching shares</b>			
1 March 2011	694,783	325,624	382,246
26 September 2012	714,959	421,028	574,746
30 May 2014	496,738	406,176	429,133
31 October 2016	530,303	495,273	520,614
		4,910,956	5,618,087
Dividend shares issued on 28 June 2005	247,017	33,701	37,289
Total employee shares in issue at 31 March		<u>4,944,657</u>	<u>5,655,376</u>

The movement in the number of employee shares outstanding for staff employed by NATS Limited is as follows:

	Movement in the no. of shares during the year ended 31 March 2018	Movement in the no. of shares during the year ended 31 March 2017
Balance at 1 April	5,655,376	5,123,990
Granted during the year	-	1,060,606
Forfeited during the year	(7,350)	(6,735)
Exercised during the year	(703,369)	(522,485)
Balance at 31 March	<u>4,944,657</u>	<u>5,655,376</u>

These shares are valued every six months by independent valuers using discounted cash flows and income multiple methods of valuation. As at 31 March 2018 the price of an employee share was valued at £3.40 (2017: £3.95). A valuation at 30 June 2017 valued the shares at £3.30. The liability for the employee shares at 31 March 2018 was £16.1m (2017: £20.8m) included in other accruals and deferred income. The income statement includes a credit of £2.8m (2017: £0.6m). The payments made to employees for the shares they exercised during the year was £2.4m (2017: £2.0m).

**20. Share based payments (continued)**

The number of shares outstanding at the balance sheet date for staff employed directly by NATS Limited was:

Date of share awards	No. employee shares outstanding at 31 March 2018	No. employee shares outstanding at 31 March 2017
Free share awards		
21 September 2001	1,204	1,204
20 October 2003	2,500	2,500
10 September 2004	2,800	2,400
11 January 2008	2,420	1,980
18 September 2009	2,600	2,200
Partnership shares		
1 March 2011	2,800	2,400
26 September 2012	3,314	3,314
30 May 2014	2,250	2,100
31 October 2016	3,078	2,852
Matching shares		
1 March 2011	2,720	2,320
26 September 2012	3,314	3,314
30 May 2014	2,250	2,100
31 October 2016	3,078	2,852
	34,328	31,536
Dividend shares issued on 28 June 2005	264	264
Total employee shares in issue at 31 March	34,592	31,800

The movement in the number of employee shares outstanding for staff employed directly by NATS Limited is as follows:

	Movement in the no. of shares during the year ended 31 March 2018	Movement in the no. of shares during the year ended 31 March 2017
Balance at 1 April	31,800	34,248
Granted during the year	-	6,352
Forfeited during the year	(98)	(312)
Exercised during the year	(898)	(7,388)
Staff transfers between group companies	3,788	(1,100)
Balance at 31 March	34,592	31,800

The liability on the balance sheet that relates to NATS Limited for the employee shares at 31 March 2018 was £0.1m (2017: £0.1m) included in other accruals and deferred income. The payments made to NATS Limited employees for the shares they exercised during the year was £nil (2017: £nil).

## 21. Retirement benefit scheme

### Defined contribution scheme

The company 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. NATS matches employee contributions to the scheme in a ratio of 2:1, up to a maximum contribution of 18%. For the year ended 31 March 2018 employer contributions of £8.5m (2017: £6.7m), excluding employee salary sacrifice contributions of £4.3m (2017: £3.4m), represented 15.0% of pensionable pay (2017: 14.9%). Employee contributions for staff employed directly by the company of £0.1m (2017: £0.1m), excluding employee salary sacrifice contributions of £nil (2017: £nil), represented 15.2% of pensionable pay (2017: 14.5%).

The defined contribution scheme had 1,276 members at 31 March 2018 (2017: 975), of which 13 were company members (2017: 12).

### Defined benefit scheme

The company entered into a deed of adherence with the CAA and the Trustees of the Civil Aviation Authority Pension Scheme (CAAPS) whereby the company was admitted to participate in CAAPS from 1 April 1996. CAAPS is a fully funded defined benefit scheme providing benefits based on final pensionable salaries. At 31 March 2001, the business of NATS was separated from the CAA. As a consequence, NATS became a 'non associated employer' which requires the assets relating to the liabilities of NATS active employees at 31 March 2001 to be separately identified within the CAAPS. CAAPS was divided into two sections to accommodate this, namely the CAA section and the NATS section, and a series of common investment funds was established in which both sections participate for investment purposes. The assets and membership of the scheme prior to transfer were allocated between these sections in accordance with Statutory Instrument 2001 Number 853, Transport Act 2000 (Civil Aviation Authority Pension Scheme) Order 2001. The assets of the scheme are held in a separate trustee administered fund. CAAPS is governed by a board of Trustees which is responsible for implementing the funding and investment strategy. The board comprises 6 employer (NATS and CAA) and 6 member-nominated trustees, as well as an independent chairman.

During 2009 the 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 company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable salaries to a maximum of the consumer price index (CPI) plus 0.25%. In addition, the Trustees consulted members of the scheme on a change to the indexation of future service at CPI, rather than RPI. These reforms were agreed by staff.

### Trustees' funding assessment

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

The last Trustees' funding assessment of the NATS' section was carried out at 31 December 2017 and used the projected unit credit method. The assumptions which have the most significant effect on the liabilities assessed at the valuation and hence the contribution requirement are those relating to the rate of return on investments, the rate of increase in salaries, the rate of increase in pensions and life expectancy.

The market value of the NATS' section's assets as at 31 December 2017 was £4,540.4m. For the purpose of the Trustees' funding assessment assets were taken at market value. The shortfall of assets relative to the value of benefits that had accrued to existing members was £270.4m, corresponding to a funding ratio of 94.4%.

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

### Contributions to the pension scheme

The company is an employer to staff in the NATS group. Staff are seconded to NERL and NATS Services under the respective Management Services Agreements (MSA) with these companies (see Strategic Report, page 1). Under the MSA, the company is obliged to pay all salaries and other benefits (including pension contributions) for the staff. NERL and NATS Services pay fees to the company for the services it provides including those of the staff. The pensions cost reported below shows the costs for both the total staff employed by the company and for the staff who work directly for the company (i.e. excluding staff seconded to NERL and NATS Services).

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

## 21. Retirement benefit scheme (continued)

### Contributions to the pension scheme (continued)

As the employer of all staff in the NATS group, during the year the group paid cash contributions to the scheme of £104.1m (2017: £115.8m). This amount included £9.7m (2017: £13.3m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 55.3% (2017: 43.6%) of pensionable pay. Contributions for staff working directly for NATS Limited were £0.6m (2017: £0.6m). This included salary sacrifice contributions of £nil (2017: £nil).

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

The estimated contributions expected to be paid to the scheme for all staff in the NATS group during the financial year ending 31 March 2019 is £99.2m, including salary sacrifice contributions estimated at £8.8m. Contributions for staff who work directly for NATS Limited are expected to be £0.6m, including salary sacrifice contributions estimated at £0.1m.

### Company's accounting valuation under international accounting standards

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects including, for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 2017, whereas the company's accounting valuation is prepared annually at 31 March. As a result, at each valuation date, the market conditions on which the assumptions are based will be different. Also, the assumptions adopted for the Trustees' funding assessment are set by the Trustees and include appropriate margins for prudence, whereas those adopted for the company's accounting valuation are prescribed by international accounting standards and reflect best estimates.

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

The Trustees' funding assessment carried out as at 31 December 2017 was updated to 31 March 2018 for the company's accounting valuation under IAS 19 by a qualified actuary. The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

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

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

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

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 10.2%/increase by 11.9%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.7%/decrease by 10.2%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 3.0%/decrease by 2.8%
Rate of mortality	1 year increase in life expectancy	Increase by 3.2%

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

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

**21. Retirement benefit scheme (continued)****a) The pension costs of the total staff employed by NATS Limited were:**

Amounts recognised in the consolidated income statement of NATS Holdings Limited, in the staff costs line item, in respect of the defined benefit scheme are as follows:

	2018 £m	2017 £m
Current service cost	(81.9)	(94.6)
Past service cost	-	(0.4)
Net interest expense	(7.6)	(0.8)
Administrative expenses	(3.1)	(2.2)
Components of defined benefit costs recognised within operating profit	<u>(92.6)</u>	<u>(98.0)</u>

Remeasurements recorded in the consolidated statement of comprehensive income of NATS Holdings Limited are as follows:

	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest expense)	36.5	1,101.4
Actuarial gains and losses arising from changes in financial assumptions	214.2	(1,522.5)
Actuarial gains and losses arising from changes in demographic assumptions	162.4	119.6
Actuarial gains and losses arising from experience adjustments	36.8	10.3
	<u>449.9</u>	<u>(291.2)</u>

The amount included in the consolidated balance sheet of NATS Holdings Limited arising from the group's obligations in respect of its defined benefit scheme is as follows:

	2018 £m	2017 £m
Present value of defined benefit obligations	(4,375.0)	(5,786.3)
Fair value of scheme assets	4,485.6	5,435.5
Surplus/(deficit) in scheme	<u>110.6</u>	<u>(350.8)</u>

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

	2018 £m	2017 £m
At 1 April	(5,786.3)	(4,760.0)
Current service cost	(81.9)	(94.6)
Past service cost	-	(0.4)
Interest expense on defined benefit scheme obligations	(132.1)	(162.4)
Actuarial gains and losses arising from changes in financial assumptions	214.2	(1,522.5)
Actuarial gains and losses arising from changes in demographic assumptions	162.4	119.6
Actuarial gains and losses arising from experience adjustments	36.8	10.3
Benefits paid	1,211.9	623.7
At 31 March	<u>(4,375.0)</u>	<u>(5,786.3)</u>

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

	2018 £m	2017 £m
Active members	1,749.5	2,904.5
Deferred members	457.0	602.1
Pensioners	2,168.5	2,279.7
	<u>4,375.0</u>	<u>5,786.3</u>

**21. Retirement benefit scheme (continued)**

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

	2018 £m	2017 £m
At 1 April	5,435.5	4,682.6
Interest income on scheme assets	124.5	161.6
Return on plan assets (excluding amounts included in net interest expense)	36.5	1,101.4
Contributions from sponsoring company	104.1	115.8
Benefits paid	(1,211.9)	(623.7)
Administrative expenses	(3.1)	(2.2)
At 31 March	<u>4,485.6</u>	<u>5,435.5</u>

The major categories of scheme assets were as follows:

	2018 £m	2017 £m
Cash and cash equivalents	154.4	65.0
Equity instruments		
- UK	132.1	419.3
- Europe	36.0	119.7
- North America	106.1	341.7
- Japan	14.8	48.1
- Pacific (excluding Japan)	40.9	135.2
- Emerging markets	130.7	428.5
- Global	889.6	804.0
	<u>1,350.2</u>	<u>2,296.5</u>
Bonds		
- Corporate bonds	957.6	942.5
- Index-linked gilts over 5 years	1,394.7	1,457.7
	<u>2,352.3</u>	<u>2,400.2</u>
Other investments		
- Property	245.5	241.7
- Hedge funds	223.5	215.9
- Global tactical asset allocation	135.0	130.8
- Private equity funds	125.6	140.0
	<u>729.6</u>	<u>728.4</u>
Derivatives		
- Futures contracts	(100.9)	(54.6)
	<u>4,485.6</u>	<u>5,435.5</u>

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

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

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

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

The actual return on scheme assets for the year ended 31 March 2018 was £161.0m (2017: £1,263.0m).

**21. Retirement benefit scheme (continued)****b) The pension costs of the staff who work directly for NATS Limited were:**

Amounts recognised in income, in the staff costs line item, in respect of the defined benefit scheme (and reported in these accounts) are as follows:

	2018 £m	2017 £m
Current service cost	(0.5)	(0.4)
Net interest expense	(0.3)	(0.1)
Administrative expenses	(0.2)	(0.1)
Components of defined benefit costs recognised within operating profit	<u>(1.0)</u>	<u>(0.6)</u>

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

	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest expense)	5.0	43.3
Actuarial gains and losses arising from changes in financial assumptions	6.9	(58.8)
Actuarial gains and losses arising from changes in demographic assumptions	5.2	4.6
Actuarial gains and losses arising from experience adjustments	1.2	0.4
	<u>18.3</u>	<u>(10.5)</u>

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

	2018 £m	2017 £m
Present value of defined benefit obligations	(170.3)	(225.2)
Fair value of scheme assets	174.6	211.6
Surplus/(deficit) in scheme	<u>4.3</u>	<u>(13.6)</u>

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

	2018 £m	2017 £m
At 1 April	(225.2)	(193.5)
Current service cost	(0.5)	(0.4)
Interest expense on defined benefit scheme obligations	(5.1)	(6.5)
Actuarial gains and losses arising from changes in financial assumptions	6.9	(58.8)
Actuarial gains and losses arising from changes in demographic assumptions	5.2	4.6
Actuarial gains and losses arising from experience adjustments	1.2	0.4
Benefits paid	47.2	29.0
At 31 March	<u>(170.3)</u>	<u>(225.2)</u>

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

	2018 £m	2017 £m
Active members	14.9	56.0
Deferred members	54.8	63.2
Pensioners	100.6	106.0
	<u>170.3</u>	<u>225.2</u>

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

	2018 £m	2017 £m
At 1 April	211.6	190.4
Interest income on scheme assets	4.8	6.4
Return on plan assets (excluding amounts included in net interest expense)	5.0	43.3
Contributions from company	0.6	0.6
Benefits paid	(47.2)	(29.0)
Administrative expenses	(0.2)	(0.1)
At 31 March	<u>174.6</u>	<u>211.6</u>

**21. Retirement benefit scheme (continued)**

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

	2018 £m	2017 £m
Cash and cash equivalents	6.0	2.5
Equity instruments		
- UK	5.1	16.3
- Europe	1.4	4.7
- North America	4.1	13.3
- Japan	0.6	1.9
- Pacific (excluding Japan)	1.6	5.3
- Emerging markets	5.1	16.7
- Global	34.6	31.3
	<hr/> 52.5	<hr/> 89.5
Bonds		
- Corporate bonds	37.3	36.7
- Index-linked gilts over 5 years	54.3	56.7
	<hr/> 91.6	<hr/> 93.4
Other investments		
- Property	9.6	9.3
- Hedge funds	8.7	8.4
- Global tactical asset allocation	5.3	5.1
- Private equity funds	4.8	5.5
	<hr/> 28.4	<hr/> 28.3
Derivatives		
- Futures contracts	(3.9)	(2.1)
	<hr/> (3.9)	<hr/> (2.1)
	<hr/> <hr/> 174.6	<hr/> <hr/> 211.6

The company's share of the actual return on scheme assets for the year ended 31 March 2018 was £9.8m (2017: £49.7m).

**22. 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.

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

The company did not have any transactions with the shareholders of NATS Holdings Limited.

Transactions with other companies in the NATS group are described in note 4 and amounts due from other companies in the NATS group are described in note 12.

**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 the group's principal subsidiaries and their executive management teams.

	2018 £m	2017 £m
Short term employee benefits	7.4	5.8
Post-employment benefits	-	0.9
Other long term benefits	0.6	0.8
Termination benefits	-	0.6
	<hr/> 8.0	<hr/> 8.1

The remuneration of key management personnel incurred directly by NATS Limited was £0.3m (2017: £0.3m).

**Directors' remuneration**

None of the directors receive any fees or salaries in respect of their services as directors of the company. Details of directors remuneration is provided in the annual report and accounts of NATS Holdings Limited.

**23. Subsidiaries, joint ventures and associates**

Name of company	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
<b>Direct holding:</b>				
NATS (En Route) plc*	En route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited*	Airport air traffic services	100%	England and Wales	United Kingdom
<b>Indirect holding:</b>				
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNV Limited*	Satellite based navigation	100%	England and Wales	United Kingdom
NATS Services (Asia Pac) Pte. Limited, 3 Raffles Place, #06-01 Bharat Building, Singapore 048617	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services DMCC, Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates	ATM consultancy	100%	UAE	UAE
NATS Services LLC, PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman	ATM consultancy	70%	Oman	Oman
NATS (USA) Inc., The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc, 100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada	Digital airport air traffic services	100%	Canada	Canada
European Satellite Services Provider SAS, 18, Avenue Edouard Belin - BPI 602, 31 401 Toulouse Cedex 9, France	Satellite based navigation	16.67%	France	France
FerroNATS Air Traffic Services SA, Calle Principe de Vergara, 135, 28002, Madrid, Spain	Airport air traffic services	50%	Spain	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	50%	England and Wales	United Kingdom
Searidge Technologies Inc, 19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada	Digital airport air traffic services	50%	Canada	Canada
* The registered office address is 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom.				Total £m
Balance of investments at 31 March 2017 and 31 March 2018:				244.6

The company holds investments directly in NATS (En Route) plc and NATS (Services) Limited. Pursuant to a loan agreement entered into by NATS (En Route) plc, the company has granted a legal mortgage and fixed charge over its shares in NERL and a floating charge over all other assets.

**24. Parent undertaking**

The company's ultimate parent undertaking is NATS Holdings Limited, a private company 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.

**25. Events after the reporting period**

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

On 16 May 2018, NATS (USA) Inc., a wholly owned subsidiary of NATS (Services) Limited, made a strategic investment of £51.0m (US\$68.75m) to acquire convertible preferred interests with voting rights of 9.143% of Aireon LLC, a limited liability company incorporated in Delaware USA which is developing a space-based air traffic surveillance system. The investment is intended to result in fully diluted ordinary interests with voting rights of 11.111% by 2 January 2021. NATS is entitled to appoint one of the eleven Board members.

In May 2018, the Board approved an interim dividend for the year ending 31 March 2019 of 20.92 pence per share, totalling £29.5m, which was paid in June 2018. In June 2018, the company received dividends totalling £29.5m from its subsidiaries: NATS (En Route) plc and NATS (Services) Limited.