

NATS Limited
Financial statements
Year ended 31 March 2019

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 94% 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 (2018: £nil).

The company received £59.0m (2018: £57.0m) in dividends in the year, £57.0m from NERL (2018: £56.0m) and £2.0m from NATS Services (2018: £1.0m).

The financial position is explained in the balance sheet on page 10. At 31 March 2019 the company had net assets of £251.3m. The company's principal assets are its investments in subsidiaries; amounts receivable from subsidiaries for the recharge of services provided; cash balances and deferred tax. 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 company's share of the IAS 19 deficit position of the group's defined benefit pension scheme and the remaining liabilities for voluntary redundancies and staff relocation.

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 2020, including salary sacrifice contributions of £0.1m. Contributions paid for the financial year ended 31 March 2019 were £0.6m, including salary sacrifice contributions of £0.1m.

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

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 20.92 pence per share (totalling £29.5m) in May 2018 and a second interim dividend of 20.92 pence per share (totalling £29.5m) that was paid in November 2018. The Board recommends a final dividend for the year of £nil (2018: £nil).

In May 2019, the Board approved and paid an interim dividend of £30.0m (21.28 pence per share) for the year ending 31 March 2020.

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 relating to the company which is included on the NATS group's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and 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 by order of the Board by:



Richard Churchill-Coleman
Secretary
27 June 2019

Registered office
4000 Parkway, Whiteley, Fareham,
Hampshire, PO15 7FL
Registered in England and Wales
Company Number: 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 2019 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the company in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

This description forms part of our auditor's report.

Use of our report

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



Malcolm Thixton (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Southampton

United Kingdom

27 June 2019

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

Income statement

for the year ended 31 March

	Notes	2019 £m	2018 £m
Revenue	4	490.2	485.4
Staff costs	7	(481.9)	(477.9)
Services and materials		(0.5)	(0.4)
Repairs and maintenance		(0.1)	(0.1)
Other operating charges		(7.8)	(7.1)
Other operating income		0.1	0.1
Net operating costs		<u>(490.2)</u>	<u>(485.4)</u>
Operating result	6	-	-
Investment income	8	<u>59.0</u>	<u>57.0</u>
Profit before tax		<u>59.0</u>	<u>57.0</u>
Tax	9	-	-
Profit for the year attributable to equity shareholders		<u>59.0</u>	<u>57.0</u>

Statement of comprehensive income

for the year ended 31 March

	Notes	2019 £m	2018 £m
Profit for the year after tax		<u>59.0</u>	<u>57.0</u>
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	21 b	(5.5)	18.3
Deferred tax relating to items that will not be reclassified subsequently	16	0.9	(3.1)
Other comprehensive (loss)/income for the year, net of tax		<u>(4.6)</u>	<u>15.2</u>
Total comprehensive income for the year attributable to equity shareholders		<u>54.4</u>	<u>72.2</u>

Balance sheet

at 31 March

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
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
Deferred tax asset	16	0.2	-
		<u>244.8</u>	<u>249.0</u>
Current assets			
Trade and other receivables	12	68.3	65.4
Cash and cash equivalents	13	6.1	5.7
		<u>74.4</u>	<u>71.1</u>
Total assets		<u>319.2</u>	<u>320.1</u>
Current liabilities			
Trade and other payables	14	(60.0)	(57.2)
Current tax liability		(0.1)	(0.1)
Provisions	15	(2.0)	(3.7)
		<u>(62.1)</u>	<u>(61.0)</u>
Net current assets		<u>12.3</u>	<u>10.1</u>
Non-current liabilities			
Trade and other payables	14	(4.3)	(1.8)
Retirement benefit obligations	21 b	(0.9)	-
Provisions	15	(0.6)	(0.7)
Deferred tax liability	16	-	(0.7)
		<u>(5.8)</u>	<u>(3.2)</u>
Total liabilities		<u>(67.9)</u>	<u>(64.2)</u>
Net assets		<u>251.3</u>	<u>255.9</u>
Equity			
Called up share capital	17	141.0	141.0
Other reserves		(50.0)	(50.0)
Retained earnings		160.3	164.9
		<u>251.3</u>	<u>255.9</u>

The financial statements (Company No. 03155567) were approved by the Board of directors and authorised for issue on 27 June 2019 and signed on its behalf by:



Martin Rolfe
Chief Executive



Nigel Fotherby
Finance Director

Statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the company			Total £m
	Share capital £m	Other reserves ¹ £m	Retained earnings £m	
At 1 April 2017	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)
At 31 March 2018	141.0	(50.0)	164.9	255.9
At 1 April 2018	141.0	(50.0)	164.9	255.9
Profit for the year	-	-	59.0	59.0
Other comprehensive loss for the year	-	-	(4.6)	(4.6)
Total comprehensive income for the year	-	-	54.4	54.4
Dividends paid	-	-	(59.0)	(59.0)
At 31 March 2019	141.0	(50.0)	160.3	251.3

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

Cash flow statement

for the year ended 31 March

	Notes	2019 £m	2018 £m
Net cash generated from operating activities	18	<u>0.4</u>	<u>0.9</u>
Cash flows from investing activities			
Dividends received		<u>59.0</u>	<u>57.0</u>
Net cash inflow from investing activities		<u>59.0</u>	<u>57.0</u>
Cash flows from financing activities			
Dividends paid		<u>(59.0)</u>	<u>(57.0)</u>
Net cash outflow from financing activities		<u>(59.0)</u>	<u>(57.0)</u>
Increase in cash and cash equivalents during the year		<u>0.4</u>	<u>0.9</u>
Cash and cash equivalents at 1 April		<u>5.7</u>	<u>4.8</u>
Cash and cash equivalents at 31 March		<u><u>6.1</u></u>	<u><u>5.7</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 issued by the International Accounting Standards Board (IASB).

Accounting standards adopted in the year

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 2018.

IFRS 9: *Financial Instruments*

IFRS 15: *Revenue from Contracts with Customers*

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*

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

Future accounting developments

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not

been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16: *Leases*

IFRS 3 (amendments): *Definition of a Business*

IFRS 9 (amendments): *Prepayment Features with Negative Compensation and Clarification regarding the modification of financial liabilities*

IAS 1 and IAS 8 (amendments): *Definition of Material*

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

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

IFRIC 23: *Uncertainty over Income Tax Treatments*

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

As at 31 March 2019, the company has non-cancellable operating lease commitments of £1.9m as disclosed in note 19. We expect these arrangements will meet the definition of a lease under IFRS 16, and hence the company will recognise an increase to total property, plant and equipment and a corresponding liability in respect of these leases, unless they qualify for exemption as low value or short-term leases upon the application of IFRS 16.

The effect of adoption of IFRS 16 at 1 April 2019 is expected to recognise right of use assets of c£1m and lease liabilities of c£1m. 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 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 and fair value 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 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 recognised from the transfer of goods or services at an amount that the company expects to be entitled to in exchange for those goods or services. Revenue is recognised based on the satisfaction of performance obligations, which are characterised by the transfer of control over a product or service to a customer. Revenue excludes amounts collected on behalf of third parties.

Revenue is recognised over time in accordance with the Management Services Agreements.

For the comparative year, revenue was 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.

Income from other sources

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

Dividend income is recognised when the shareholder's rights to receive payment have been established.

Interest income is recognised on a time proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through

the expected life of the financial asset to that asset's net carrying amount.

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 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.

Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent

re-measurement depends on the company's business model for managing the financial asset and its cash flow characteristics.

The company has financial assets at amortised cost. The company does not have financial assets at fair value through the profit or loss or at fair value through other comprehensive income. Detailed disclosures are set out in notes 12, 13 and 14.

Financial assets:

Amortised cost

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

Impairment of financial assets

Equity instruments are assessed at each reporting date to determine whether there was objective evidence of impairment. Impairment losses are recognised in the income statement.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process, the probability of the non-payment of trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, such provisions are recorded in a separate provision account with the loss being recognised in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. In the prior year, impairment losses on trade receivables were recognised using allowance accounts. When a trade receivable was considered irrecoverable, it was written off against the allowance account, any subsequent recoveries were credited to the allowance account. Changes in the allowance account were recognised in the income statement.

Impairment provisions for other receivables are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether at each reporting date, there

has been a significant increase in credit risk since initial recognition of the financial asset.

For those financial assets where the credit risk has not increased significantly since initial recognition, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of 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 or loss' or 'other financial liabilities'.

Fair value through the profit or loss

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

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

Interest-bearing bank loans, other borrowings, loan notes and debt securities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Effective interest method

The effective interest method is a method of calculating amortised cost of a financial asset or financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Equity

Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

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 2019 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 affects 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 £6.1m 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 2019.

4. Revenue

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

	2019 £m	2018 £m
Services provided to NATS (En Route) plc	385.8	371.5
Services provided to NATS (Services) Limited	104.4	113.9
	<u>490.2</u>	<u>485.4</u>
Investment income (see note 8)	59.0	57.0
	<u>549.2</u>	<u>542.4</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:

	2019 Total £m	2018 Total £m
Revenue		
Revenue from customers	<u>490.2</u>	<u>485.4</u>
Segmental operating result	-	-
Investment income	<u>59.0</u>	<u>57.0</u>
Profit before tax	59.0	57.0
Tax	-	-
Profit for the year	<u>59.0</u>	<u>57.0</u>
Balance Sheet		
Segmental assets	<u>319.2</u>	<u>320.1</u>
Segmental liabilities	<u>(67.9)</u>	<u>(64.2)</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:

	2019 £m	2018 £m
Auditor's remuneration for audit services (see below)	0.2	0.2
Staff relocation costs (net of credits for revisions to estimates) following site closure	0.2	(0.5)
Redundancy costs	<u>1.5</u>	<u>3.8</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

	2019 £m	2018 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	355.4	332.1
Social security costs	43.2	40.4
Pension costs (note 7 b)	83.3	105.4
	<u>481.9</u>	<u>477.9</u>

Wages and salaries include redundancy costs of £1.4m (2018: £3.8m), share-based payment credits or charges, other allowances and holiday pay. Pension costs include £0.1m (2018: £nil) 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:

	2019 £m	2018 £m
Salaries and staff costs, including directors' remuneration, were as follows:		
Wages and salaries	2.7	2.4
Social security costs	0.5	0.4
Pension costs (note 7 b)	0.5	1.1
	<u>3.7</u>	<u>3.9</u>

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

b) Pension costs

	2019 £m	2018 £m
Defined benefit pension scheme costs (note 21 a)	66.3	92.6
Defined contribution pension scheme costs	17.0	12.8
	<u>83.3</u>	<u>105.4</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:

	2019 £m	2018 £m
Defined benefit pension scheme costs (note 21 b)	0.3	1.0
Defined contribution pension scheme costs	0.2	0.1
	<u>0.5</u>	<u>1.1</u>

c) Staff numbers

	2019 No.	2018 No.
The monthly average number of employees (including secondments to NERL and NATS Services under the MSA) was:		
Air traffic controllers	1,742	1,683
Air traffic service assistants	636	627
Engineers	888	903
Others	1,094	1,008
	<u>4,360</u>	<u>4,221</u>

The monthly average number of employees excluding secondments to NERL and NATS Services was:

	No.	No.
Air traffic controllers	-	-
Air traffic service assistants	1	-
Engineers	2	2
Others	35	31
	<u>38</u>	<u>33</u>

8. Investment income

	2019 £m	2018 £m
Income from shares in group undertakings	<u>59.0</u>	<u>57.0</u>

9. Tax

	2019 £m	2018 £m
Corporation tax		
Current tax	-	0.1
Deferred tax (see note 16)	<u>-</u>	<u>(0.1)</u>

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year.

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

	2019 £m		2018 £m	
Profit on ordinary activities before tax	<u>59.0</u>		<u>57.0</u>	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2018: 19%)	11.2	19.0%	10.8	19.0%
Tax effect of dividend income not assessed in determining taxable profit	<u>(11.2)</u>	<u>(19.0%)</u>	<u>(10.8)</u>	<u>(19.0%)</u>
Tax charge for year at an effective tax rate of 0.0% (2018: 0.0%)	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Deferred tax credit/(charge) taken directly to equity (see note 16)	<u>0.9</u>		<u>(3.1)</u>	

10. Dividends

	2019 £m	2018 £m
Amounts recognised as dividends to equity shareholders in the year		
First interim dividend of 20.92 pence per share (2018: 20.21 pence per share)	29.5	28.5
Second interim dividend of 20.92 pence per share (2018: 20.21 pence per share)	<u>29.5</u>	<u>28.5</u>
	<u>59.0</u>	<u>57.0</u>

In May 2019 the Board approved and the company paid an interim dividend for the year ending 31 March 2020 of 21.28 pence per share, totalling £30.0m.

11. Property, plant and equipment

The company has assets with an original cost of £1.0m which are fully depreciated (2018: £1.0m). The net book value of property, plant and equipment at 31 March 2019 was £nil (2018: £nil). Depreciation charges amounted to £nil (2018: £nil).

12. Financial and other assets

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

Trade and other receivables

	2019 £m	2018 £m
Non-current		
Other debtors	<u>-</u>	<u>0.1</u>
Current		
Other debtors	2.2	2.2
Amounts due from subsidiary undertaking (NATS (En Route) plc)	49.3	44.5
Amounts due from subsidiary undertaking (NATS (Services) Limited)	15.2	17.5
Amounts due from subsidiary undertaking (NATS Services DMCC)	0.2	0.1
Amounts due from subsidiary undertaking (NATS Solutions Limited)	0.1	-
Prepayments	<u>1.3</u>	<u>1.1</u>
	<u>68.3</u>	<u>65.4</u>

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 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 £73.0m (2018: £69.9m).

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:

	2019 £m	2018 £m
Financial assets at amortised cost		
Trade and other receivables, excluding prepayments and VAT	66.9	64.2
Cash and cash equivalents	6.1	5.7
	<u>73.0</u>	<u>69.9</u>
Financial liabilities at amortised cost		
Trade and other payables	<u>(51.1)</u>	<u>(45.6)</u>

Trade and other receivables excludes prepayments, and VAT of £0.1m (2018: £0.2m). Financial liabilities at amortised cost includes trade and other payables (excluding taxes and social security liabilities of £13.2m (2018: £13.4m)).

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 2019 (2018: none).

Economic interest rate exposure

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

2019				2018			
Currency	Amount £m	Economic interest		Currency	Amount £m	Economic interest	
		rate %	Average maturity days			rate %	Average maturity days
Sterling	<u>6.1</u>	0.8	1	Sterling	<u>5.7</u>	0.4	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.

	2019 Impact £m	2018 Impact £m
Cash on deposit (2019: £6.1m, 2018: £5.7m)	<u>0.1</u>	<u>0.1</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	2019		Number of institutions	2018	
		£m	By credit rating %		£m	By credit rating %
AAAm	1	6.0	98.4	1	5.5	96.5
BBB+	1	0.1	1.6	1	0.2	3.5
		<u>6.1</u>	<u>100.0</u>		<u>5.7</u>	<u>100.0</u>

The deposits of £0.1m (2018: £0.2m) 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.

	2019 Other liabilities £m	2018 Other liabilities £m
Due within one year or less	46.8	43.8
Between one and two years	1.4	0.9
Due between two and five years	2.5	0.5
Due in more than five years	0.4	0.4
	<u>51.1</u>	<u>45.6</u>

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:

	2019 £m	2018 £m
Current		
Trade payables	0.3	0.2
Other payables	0.3	0.4
Tax and social security	13.2	13.4
Accruals and deferred income	46.2	43.2
	<u>60.0</u>	<u>57.2</u>
Non-current		
Accruals and deferred income	4.3	1.8
	<u>64.3</u>	<u>59.0</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 13 days (2018: 6 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 2018	3.6	0.8	-	4.4
Additional provision in the year	1.8	0.6	0.1	2.5
Release of provision in the year	(0.3)	(0.4)	-	(0.7)
Utilisation of provision	(3.3)	(0.3)	-	(3.6)
At 31 March 2019	<u>1.8</u>	<u>0.7</u>	<u>0.1</u>	<u>2.6</u>
			2019 £m	2018 £m
Amounts due for settlement within 12 months			2.0	3.7
Amounts due for settlement after 12 months			0.6	0.7
			<u>2.6</u>	<u>4.4</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 2019. 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
At 1 April 2017	2.3
Credit to income	0.1
Charge to equity	(3.1)
At 31 March 2018	<u>(0.7)</u>
Credit to equity	0.9
At 31 March 2019	<u>0.2</u>

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2019 £m	2018 £m
Deferred tax liabilities	-	(0.7)
Deferred tax assets	0.2	-
	<u>0.2</u>	<u>(0.7)</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 2018 and 31 March 2019	<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

	2019 £m	2018 £m
Operating result from continuing operations	-	-
Adjustments for:		
Pension scheme funding	(0.3)	0.4
Operating cash flows before movements in working capital	(0.3)	0.4
Increase in trade and other receivables	(2.8)	(1.5)
Increase in trade, other payables and provisions	3.5	2.0
Cash generated from operations	0.4	0.9
Tax paid	-	-
Net cash generated from operating activities	0.4	0.9

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

	2019 £m	2018 £m
Amounts contracted but not provided for in the accounts	-	-
Minimum lease payments under operating leases recognised in the income statement	0.2	0.2

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

	2019 £m	2018 £m
Within one year	0.9	1.1
In the second to fifth years inclusive	1.0	0.9
After five years	-	-
	1.9	2.0

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 2019	No. employee shares outstanding at 31 March 2018
Free share awards			
21 September 2001	3,353,742	256,923	284,317
20 October 2003	2,459,000	241,384	265,886
10 September 2004	1,966,000	360,957	396,957
11 January 2008	1,071,840	285,717	314,859
18 September 2009	963,200	314,557	351,657
Partnership shares			
1 March 2011	694,783	288,096	325,365
26 September 2012	714,959	367,007	422,365
30 May 2014	496,738	386,500	406,176
31 October 2016	530,303	471,506	495,273
31 October 2018	635,048	622,117	-
Matching shares			
1 March 2011	694,783	287,127	325,624
26 September 2012	714,959	364,656	421,028
30 May 2014	496,738	386,575	406,176
31 October 2016	530,303	471,506	495,273
31 October 2018	635,048	622,117	-
		5,726,745	4,910,956
Dividend shares issued on 28 June 2005	247,017	30,625	33,701
Total employee shares in issue at 31 March		5,757,370	4,944,657

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 2019	Movement in the no. of shares during the year ended 31 March 2018
Balance at 1 April	4,944,657	5,655,376
Granted during the year	1,270,096	-
Forfeited during the year	(15,206)	(7,350)
Exercised during the year	(442,177)	(703,369)
Balance at 31 March	5,757,370	4,944,657

These shares are valued every six months by independent valuers using discounted cash flows and income multiple methods of valuation. As at 31 March 2019 the price of an employee share was valued at £3.90 (2018: £3.40). A valuation at 30 June 2018 valued the shares at £3.75. The liability for the employee shares at 31 March 2019 was £19.1m (2018: £16.1m) included in other accruals and deferred income. The income statement includes a charge of £2.9m (2018: £2.8m credit). The payments made to employees for the shares they exercised during the year was £1.6m (2018: £2.4m).

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 2019	No. employee shares outstanding at 31 March 2018
Free share awards		
21 September 2001	1,204	1,204
20 October 2003	2,500	2,500
10 September 2004	2,800	2,800
11 January 2008	2,420	2,420
18 September 2009	2,600	2,600
Partnership shares		
1 March 2011	2,800	2,800
26 September 2012	3,314	3,314
30 May 2014	2,250	2,250
31 October 2016	3,078	3,078
31 October 2018	4,400	-
Matching shares		
1 March 2011	2,720	2,720
26 September 2012	3,314	3,314
30 May 2014	2,250	2,250
31 October 2016	3,078	3,078
31 October 2018	4,400	-
	<u>43,128</u>	<u>34,328</u>
Dividend shares issued on 28 June 2005	264	264
Total employee shares in issue at 31 March	<u>43,392</u>	<u>34,592</u>

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 2019	Movement in the no. of shares during the year ended 31 March 2018
Balance at 1 April	34,592	31,800
Granted during the year	8,800	-
Forfeited during the year	-	(98)
Exercised during the year	-	(898)
Staff transfers between group companies	-	3,788
Balance at 31 March	<u>43,392</u>	<u>34,592</u>

The liability on the balance sheet that relates to NATS Limited for the employee shares at 31 March 2019 was £0.1m (2018: £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 (2018: £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 2019 employer contributions of £11.1m (2018: £8.5m), excluding employee salary sacrifice contributions of £5.9m (2018: £4.3m), represented 15.3% of pensionable pay (2018: 15.0%). Employee contributions for staff employed directly by the company of £0.1m (2018: £0.1m), excluding employee salary sacrifice contributions of £0.1m (2018: £nil), represented 14.1% of pensionable pay (2018: 15.2%).

The defined contribution scheme had 1,616 members at 31 March 2019 (2018: 1,276), of which 17 were company members (2018: 13).

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 six employer (NATS and CAA) and six member-nominated trustees, as well as an independent chair.

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 pay were limited to a maximum increase in the retail price index (RPI) plus 0.5%. A defined contribution scheme was also introduced for new joiners (see above). Finally, pension salary sacrifice arrangements were introduced with effect from 1 April 2009.

During 2013 the company consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable pay 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 and expenses was 47.6% of pensionable pay (41.8% employer and 5.8% employee). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

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 are paid at 31.8% of pensionable pay until 31 December 2019, increasing to 41.7% payable from 1 January 2020 onwards. The NATS group paid deficit recovery contributions at £40.8m in the 2018 calendar year and will pay £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 £100.0m (2018: £104.1m). This amount included £8.9m (2018: £9.7m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 58.0% (2018: 55.3%) of pensionable pay. Contributions for staff working directly for NATS Limited were £0.6m (2018: £0.6m). This included salary sacrifice contributions of £0.1m (2018: £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 2020 is £98.8m, including salary sacrifice contributions estimated at £8.7m. 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.

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2019 (based on 31 December 2018 membership data). The major assumptions used by the actuary for the purposes of the IAS 19 figures at the relevant year ends are set out in the table and narrative below:

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

The mortality assumptions have been drawn from actuarial tables 97% S2PMA light and 102% S2PFA light (2018: 97% S2PMA light and 102% S2PFA light) with future improvements in line with CMI 2016 (2018: CMI 2016) projections for male/female members, subject to a long-term improvement of 1.5% p.a. (2018: 1.5% p.a.) These tables assume that the life expectancy, from age 60, for a male pensioner is 29.0 years and a female pensioner is 29.6 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (46), when these members reach retirement, life expectancy from age 60 will have increased for males to 30.2 years and for females to 30.9 years.

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

- 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 have taken and continue to review 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. As discussed further below, the Scheme has implemented a liability driven investment programme to partially protect the funding position from changes in inflation. Furthermore, some of the scheme's assets (such as equities) are real in nature and so provide some additional inflation protection, but overall, an increase in inflation will adversely impact on the funding position.
- 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	Increase/decrease by 0.5%	Decrease by 10.3%/increase by 12.0%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.6%/decrease by 10.1%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 2.6%/decrease by 2.5%
Rate of mortality	1 year increase in life expectancy	Increase by 3.3%

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

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

	2019 £m	2018 £m
Current service cost	(67.6)	(81.9)
Past service cost	(1.0)	-
Net interest credit/(expense)	4.2	(7.6)
Administrative expenses	(1.9)	(3.1)
Components of defined benefit costs recognised within operating profit	<u>(66.3)</u>	<u>(92.6)</u>

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

	2019 £m	2018 £m
Return on plan assets (excluding amounts included in net interest expense)	180.5	36.5
Actuarial gains and losses arising from changes in financial assumptions	(311.3)	214.2
Actuarial gains and losses arising from changes in demographic assumptions	-	162.4
Actuarial gains and losses arising from experience adjustments	(35.6)	36.8
	<u>(166.4)</u>	<u>449.9</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:

	2019 £m	2018 £m
Present value of defined benefit obligations	(4,789.8)	(4,375.0)
Fair value of scheme assets	<u>4,767.7</u>	<u>4,485.6</u>
(Deficit)/surplus in scheme	<u>(22.1)</u>	<u>110.6</u>

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

	2019 £m	2018 £m
At 1 April	(4,375.0)	(5,786.3)
Current service cost	(67.6)	(81.9)
Past service cost	(1.0)	-
Interest expense on defined benefit scheme obligations	(114.4)	(132.1)
Actuarial gains and losses arising from changes in financial assumptions	(311.3)	214.2
Actuarial gains and losses arising from changes in demographic assumptions	-	162.4
Actuarial gains and losses arising from experience adjustments	(35.6)	36.8
Benefits paid	<u>115.1</u>	<u>1,211.9</u>
At 31 March	<u>(4,789.8)</u>	<u>(4,375.0)</u>

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

	2019 £m	2018 £m
Active members	1,945.0	1,749.5
Deferred members	516.9	457.0
Pensioners	<u>2,327.9</u>	<u>2,168.5</u>
	<u>4,789.8</u>	<u>4,375.0</u>

21. Retirement benefit scheme (continued)

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

	2019 £m	2018 £m
At 1 April	4,485.6	5,435.5
Interest income on scheme assets	118.6	124.5
Return on plan assets (excluding amounts included in net interest expense)	180.5	36.5
Contributions from sponsoring company	100.0	104.1
Benefits paid	(115.1)	(1,211.9)
Administrative expenses	(1.9)	(3.1)
At 31 March	<u>4,767.7</u>	<u>4,485.6</u>

The major categories of scheme assets were as follows:

	2019 £m	2018 £m
Cash and cash equivalents	31.5	154.4
Equity instruments		
- UK	-	132.1
- Europe	-	36.0
- North America	-	106.1
- Japan	-	14.8
- Pacific (excluding Japan)	-	40.9
- Emerging markets	145.4	130.7
- Global	813.6	889.6
	<u>959.0</u>	<u>1,350.2</u>
Bonds		
- Fixed income	1,633.0	1,092.6
- Index-linked gilts over 5 years	1,550.4	1,394.7
	<u>3,183.4</u>	<u>2,487.3</u>
Other investments		
- Property	247.0	245.5
- Hedge funds	225.4	223.5
- Private equity funds	125.8	125.6
	<u>598.2</u>	<u>594.6</u>
Derivatives		
- Futures contracts	(4.4)	(100.9)
	<u>4,767.7</u>	<u>4,485.6</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. During 2018 it was agreed to further increase the level of hedging of interest rates and inflation to 65%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2019 was £299.1m (2018: £161.0m).

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:

	2019 £m	2018 £m
Current service cost	(0.4)	(0.5)
Net interest credit/(expense)	0.2	(0.3)
Administrative expenses	(0.1)	(0.2)
Components of defined benefit costs recognised within operating profit	<u>(0.3)</u>	<u>(1.0)</u>

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

	2019 £m	2018 £m
Return on plan assets (excluding amounts included in net interest expense)	27.6	5.0
Actuarial gains and losses arising from changes in financial assumptions	(29.7)	6.9
Actuarial gains and losses arising from changes in demographic assumptions	-	5.2
Actuarial gains and losses arising from experience adjustments	(3.4)	1.2
	<u>(5.5)</u>	<u>18.3</u>

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

	2019 £m	2018 £m
Present value of defined benefit obligations	(203.3)	(170.3)
Fair value of scheme assets	202.4	174.6
(Deficit)/Surplus in scheme	<u>(0.9)</u>	<u>4.3</u>

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

	2019 £m	2018 £m
At 1 April	(170.3)	(225.2)
Current service cost	(0.4)	(0.5)
Interest expense on defined benefit scheme obligations	(4.4)	(5.1)
Actuarial gains and losses arising from changes in financial assumptions	(29.7)	6.9
Actuarial gains and losses arising from changes in demographic assumptions	-	5.2
Actuarial gains and losses arising from experience adjustments	(3.4)	1.2
Benefits paid	4.9	47.2
At 31 March	<u>(203.3)</u>	<u>(170.3)</u>

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

	2019 £m	2018 £m
Active members	36.0	14.9
Deferred members	57.8	54.8
Pensioners	109.5	100.6
	<u>203.3</u>	<u>170.3</u>

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

	2019 £m	2018 £m
At 1 April	174.6	211.6
Interest income on scheme assets	4.6	4.8
Return on plan assets (excluding amounts included in net interest expense)	27.6	5.0
Contributions from company	0.6	0.6
Benefits paid	(4.9)	(47.2)
Administrative expenses	(0.1)	(0.2)
At 31 March	<u>202.4</u>	<u>174.6</u>

21. Retirement benefit scheme (continued)

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

	2019 £m	2018 £m
Cash and cash equivalents	1.3	6.0
Equity instruments		
- UK	-	5.1
- Europe	-	1.4
- North America	-	4.1
- Japan	-	0.6
- Pacific (excluding Japan)	-	1.6
- Emerging markets	6.2	5.1
- Global	34.5	34.6
	<hr/>	<hr/>
	40.7	52.5
Bonds		
- Fixed income	69.4	42.6
- Index-linked gilts over 5 years	65.8	54.3
	<hr/>	<hr/>
	135.2	96.9
Other investments		
- Property	10.5	9.6
- Hedge funds	9.6	8.7
- Private equity funds	5.3	4.8
	<hr/>	<hr/>
	25.4	23.1
Derivatives		
- Futures contracts	(0.2)	(3.9)
	<hr/>	<hr/>
	202.4	174.6
	<hr/> <hr/>	<hr/> <hr/>

The company's share of the actual return on scheme assets for the year ended 31 March 2019 was £32.2m (2018: £9.8m).

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.

	2019 £m	2018 £m
Short term employee benefits	6.7	7.4
Post-employment benefits	0.2	-
Other long term benefits	2.8	0.6
Termination benefits	-	-
	<hr/>	<hr/>
	9.7	8.0
	<hr/> <hr/>	<hr/> <hr/>

The remuneration of key management personnel incurred directly by NATS Limited was £0.3m (2018: £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
Direct holding:				
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
Indirect holding:				
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite based navigation	100%	England and Wales	United Kingdom
NATS Services (Asia 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. PH1-12, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates	ATM consultancy	100%	UAE	UAE
NATS Services (Hong Kong) Limited, 31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
NATS 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 2018 and 31 March 2019:

244.6

The company holds investments directly in NATS (En Route) plc (NERL) and NATS (Services) Limited. Pursuant to a loan agreement entered into by NERL, 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

In May 2019, the Board approved and the company paid an interim dividend for the year ending 31 March 2020 of 21.28 pence per share, totalling £30.0m. In May 2019, the company received dividends totalling £30.0m from its subsidiaries: NATS (En Route) plc and NATS (Services) Limited.