

NATS (Services) Limited
Financial statements
Year ended 31 March 2020

Company Number: 04129270

Highlights

- **Results:** revenue of £191.9m (2019: £197.5m); a loss before tax of £5.5m (2019: £14.5m profit).
- **Commercial developments:** the Aberdeen Glasgow and Southampton airports group extended its air traffic control contract to 2029;
- **Safety performance:** the UK Airprox Board determined that our operation had contributed to a Category B airprox¹ in February 2019, the previous financial year.
- **Covid-19:** the volume of aircraft movements reduced from March 2020. Our priority was to protect staff, ensure a safe operation and support our customers and facilitate the sector's recovery.

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Company Secretary

Richard Churchill-Coleman

Registered office

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

Registered in England and Wales
Company No. 04129270

Auditor

BDO LLP

¹ A number of explanatory notes are provided on page 71 of this report.

Our strategy and business model

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

- Deliver a safe, efficient and reliable service to our airport customers; and
- Win and retain commercial business and explore sound international opportunities as they arise.

Our UK Airports service provides ATC to 13 major UK airports as well as engineering support and airport optimisation services. We operate in a contestable market and compete with other air navigation service providers (ANSPs) and airports using an in-house service. To maintain our existing market position, we work hard to fulfil our customer's requirements for a safe, efficient and reliable service every day in a changing market place. We are developing more compelling propositions for airport operators through value adding innovations in technology, like digital towers, and operations which also deliver improved price performance. Through performance-led strategic partnerships, as we have with Heathrow Airport, we can support airport operators to deliver improvements for airlines and therefore an improved passenger experience for the travelling public.

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

systems integrators, equipment manufacturers and specialist engineering consultancies.

Our Defence services provide ATC and related engineering services to the UK MOD. This is mainly through support to Aquila, our joint venture with Thales, which is fulfilling the Project Marshall contract. Project Marshall is a 22-year concession for the provision of engineering and ATC services and a seven-year asset provision contract to upgrade MOD ATC infrastructure.

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

While the UK is our core market we continue to grow our business overseas where we can demonstrate our value to governments and airport operators. Our overseas strategy is to focus on those customers and territories most likely to provide long term sustainable business at manageable levels of risk. Our areas of focus are the Asia Pacific region where rapid growth in the demand for air travel will require airport expansion and advanced airspace management and the Middle East. Our activities are also targeted to specific international airports and Air Navigation Service Providers (ANSPs). Our subsidiaries have offices in Dubai, Hong Kong, and Singapore to support our customers in these regions.

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

surveillance. This investment will enable us to shape the future of surveillance services to the benefit of customers and ensure that we play a leading role in the development of this technology.

Business review

Commercial developments

We are recognised for our world-class capabilities in managing busy and complex traffic flows and we are being sought out for this capability and our innovation in ATC. This year we were awarded a contract extension by the Aberdeen, Glasgow and Southampton airports group (AGS) to 2029. AGS has exciting plans for the future and we are very pleased to have been chosen to support them. We are also working with Toronto Pearson Airport and Amsterdam's Schiphol Airport to deploy our Intelligent Approach system, that dynamically separates arrivals by time instead of distance, thereby cutting headwind delays and improving airport punctuality.

Enhancements to our Demand Capacity Balancing tool were implemented at Heathrow, delivering an increased level of control over aircraft arriving into the airfield and a closer link between Heathrow and NATS (En Route) plc's (NERL) Terminal Control centre at Swanwick when applying flow regulation.

NATS' digital tower solutions continue to generate interest in the market and to feature as technical requirements in new tenders. One of our aims this year was developing the digital tower ATC service for London City Airport. We achieved site acceptance testing on the operational systems and we will re-evaluate the timing of the deployment as Covid-19 restrictions are lifted.

Our contract with the Civil Aviation Authority of Singapore (CAAS) to develop a smart digital tower prototype at Changi Airport has made good progress, having advanced into shadow operations in 2019. Handling 68.3 million passenger movements in 2019, Changi is trialling the technology with a view to understanding how a smart tower could meet its challenging operational requirements by enhancing air traffic management and the safety of runway and ground operations, and to increase operational efficiencies at the airport.

Safety performance

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

We monitor the internal safety performance of our airports service using the Risk Analysis Tool (RAT²) which measures the severity and risk of air traffic events and we set ourselves ambitious internal targets to drive the appropriate safety culture across the business. We were not able to meet this stretching target this year. On a 12-month rolling basis to 31 December 2019, our performance generated a RAT score of 27.9 per 100,000 flights relative to our internal target of 24.2 (calendar year 2018: 18.8, adjusted after moderation). This increase in RAT points was primarily the result of an increase in reporting of low severity runway incursion events at Heathrow, many of which were identified using post event technical analysis. Notwithstanding that we were unable to meet this stretching internal target, the considerable work that has been undertaken to meet the target will enable long term improvement

and has undoubtedly created a safer operation than had we not set such stretching targets.

We also measure our safety performance over a financial year based on airprox incidents, which are assessed independently by the UK Airprox Board. Although the event took place in the previous reporting year, the UK Airprox Board determined during its December 2019 Board that NATS Services contributed to a Category B airprox in February 2019. A risk bearing B airprox incident is extremely rare and, as one would expect, a structured and thorough investigation process has been undertaken to identify causal factors and implement recommendations, reviewed by the Board and its Safety Review Committee. All necessary actions were taken following the NATS investigation and no further action was required following the UK Airprox Board's conclusion.

During the year, local safety training and skills development for staff at airport units focused on the human factor including planning and decision making, scanning and memory, and abnormal and emergency situations.

Covid-19

Covid-19 is presenting an unprecedented challenge to the aviation sector, in terms of its impact on the demand for air travel and the level of uncertainty of its recovery. The UK's aviation sector was most affected from March 2020 as governments introduced measures to contain the virus. In March 2020, where we provide the airport ATC service, we handled c40% fewer aircraft movements than March 2019, with volumes falling to just 10% of prior year levels by the end of that month. Aircraft movements remained at this level

through to June 2020 and made some recovery to 40% by the end of September 2020.

As provider of the essential ATC service to airport operators, our role throughout this crisis has been to continue to provide customers and the public with the safe and resilient service they expect and to ensure that we are well placed to facilitate the recovery.

We worked closely with our airport customers to align our ATC service with the reduced level of aircraft movements and adjusted our charges accordingly to reflect the cost savings we made.

Our workforce

I am immensely grateful to, and proud of, our people who have maintained the ATC service during the pandemic.

Our overriding priority from the start of the Covid-19 outbreak was the health and safety of the company's workforce. At the outset we took protective measures to ensure operational staff at airports and those supporting other customers could operate under social distancing rules and to provide resilience to the service.

We closed our corporate centre, initiating working from home for all non-operational staff enabled by the digital workspace we implemented earlier in the year. This has allowed us to continue to collaborate and communicate effectively during the crisis, including regular updates to staff on business developments. It is clear that our digital workspace has enabled a more flexible way of working for much of the workforce and we intend to integrate the positive aspects of this fully into our future operating model.

I am also grateful to staff who were furloughed during this period of uncertainty as this enabled us to use the government's job retention scheme.

We have also conducted regular wellbeing surveys to enable us to gauge how best to support staff through this challenging period and we are now starting to develop plans for what a return to the office by non-operational staff might look like, though we do not expect large numbers to return before early 2021.

It is never desirable to have to announce job reductions, but there is no escape from the fact that there will be less demand for some of our services for a number of years. As a result, in August 2020 we announced a voluntary redundancy programme, and we will not be recruiting until at least next summer.

Notwithstanding Covid-19 and the challenging operating environment, our people strategy remains to attract, develop and retain the highly skilled and increasingly diverse workforce we need to meet the demands of our industry.

Brexit and the regulatory environment

The UK Government has confirmed that the UK will no longer participate in the EC's Single European Sky or European Aviation Safety Agency (EASA) after the transition period ends in December 2020. This means that market contestability of UK airport ATC contracts and safety regulatory decisions will be taken by the CAA in the future. In practice we expect close European and global alignment and cooperation in aviation safety and air traffic management to continue.

We are also planning on the basis that measures put forward by the UK and the EU will ensure that

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

As noted above, we are continuing to innovate to offer our service cost effectively.

Guy Adams

Commercial Director

Financial review

The company reported a loss before tax of £5.5m (2019: profit before tax £14.5m). This mainly reflected a reduction in ad hoc airport engineering and project-related activity, a write down in assets under development and the impairment of investments in subsidiaries. The latter have interests in Aireon and Searidge Technologies, which are assumed to grow more slowly as a consequence of Covid-19.

	Profit/(loss) before tax	
	£m	£m
2019 profit before tax		14.5
Revenue changes		
Airports	(5.4)	
Other UK Business	(1.2)	
Other (net)	1.0	
		(5.6)
Operating cost changes		
Staff costs (excluding pensions)	(0.3)	
Pension costs	(2.5)	
Impairment of tangible, intangible, and right-of-use assets	(3.5)	
Impairment of investment in subsidiaries	(7.4)	
Other (net)	(0.1)	
		(13.8)
Investment income and finance cost changes		(0.6)
2020 loss before tax		(5.5)

New accounting standard

The adoption of IFRS 16: Leases during the year increased net debt at 31 March 2020 by £3.6m and required recognition of right of use assets of £3.6m. The standard also resulted in lower operating rental costs for the year by £2.1m, offset by £2.0m of higher depreciation and impairment, and £0.2m of higher interest cost.

Revenue

	2020	2019
	£m	£m
Airports	139.4	144.8
Defence	27.1	26.6
Other UK business	12.7	13.9
International	12.7	12.2
Total	191.9	197.5

Overall, revenue at £191.9m (2019: £197.5m) was slightly lower than last year. By service line the significant developments were:

Airports: our core airport contract income is indexed to inflation. This uplift was offset by a reduction in engineering and other projects.

Defence: income reflects the performance of the Project Marshall contract. The scope of the service contracts was expanded while less revenue was recognised for the asset provision contract, reflecting the delivery schedule.

Other UK business: slightly lower revenue from our support to windfarm developers with services to mitigate their impacts on ATC systems.

International: we are supplying our Intelligent Approach solution to Toronto International Airport and Amsterdam Schiphol Airport.

Operating costs

	2020	2019
	£m	£m
Staff costs	(106.4)	(103.6)
Non-staff costs	(77.5)	(80.5)
Depreciation, amortisation and impairment (net of grants)	(8.8)	(3.5)
Impairment of investments in subsidiaries	(7.5)	(0.1)
Profit on disposal of non-current assets	0.8	2.1
Operating costs	(199.4)	(185.6)

Operating costs were £13.8m higher than the prior year mainly due to the impairment of assets and investments.

Staff costs were 2.7% higher and mainly reflected a higher accrual rate for the defined benefit pension scheme (see below) and a slight increase in headcount. These were partly offset by lower employee share scheme costs.

Non-staff costs were £3.0m lower than the prior year following the adoption of IFRS 16 (see above) and the cost impact of lower engineering and project related activity. These factors were partly offset by the costs of delivering Intelligent

Approach, foreign exchange and an increase in expected credit losses.

Asset depreciation and amortisation charges reflected an asset impairment charge and the effect of adopting IFRS16.

Investment income

The company earned £2.2m (2019: £2.6m) for interest on bank deposits and joint venture loans and a dividend from FerroNATS.

Balance sheet

	2020	2019
	£m	£m
Intangible fixed assets	4.5	2.6
Property, plant and equipment	15.7	18.2
Right-of-use assets	3.6	-
Investments	50.5	58.0
Pension scheme surplus/(deficit)	48.9	(4.7)
Loans to joint ventures (including interest)	18.4	22.5
Other non-current assets	1.8	2.5
Cash and short term deposits	79.4	83.0
Other assets (net)	10.9	8.2
Derivatives	-	(0.1)
Deferred tax (liability)/asset	(7.6)	1.9
Lease liabilities	(3.6)	-
Net assets	222.5	192.1

The increase in net assets in the year mainly reflects the change from a deficit to a surplus in the IAS19 funding position of the defined benefit pension scheme, which reported a surplus of £48.9m (2019: deficit £4.7m- see below) partly offset by the net loss for the year and dividends.

Defined benefit pensions (see note 26)

The company bears an economic share of the parent company's final salary defined benefit pension scheme. The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place.

a. IAS 19 charge and funding position

The cost (including salary sacrifice and past service) of defined benefit pensions at £16.9m (2019: £15.5m) reflected a higher accrual rate of 42.1% (2019: 35.9%) of pensionable pay.

IAS19 pension surplus	£m
At 1 April 2019	(4.7)
Charge to income statement*	(16.9)
Actuarial gains/(losses):	
- on scheme assets	(45.9)
- on scheme liabilities	93.6
Employer contributions*	22.8
At 31 March 2020	48.9
Represented by:	
Scheme assets	984.2
Scheme liabilities	(935.3)
Surplus	48.9

* including salary sacrifice

At 31 March 2020, under international accounting standards (IAS19) using best estimate assumptions, the company's economic share of the scheme's assets exceeded liabilities by £48.9m (2019: £4.7m deficit). The real yield on AA corporate bonds used to value pension obligations increased by 50 basis points during the year, which reduced liabilities by more than the fall in the scheme's assets. The size of the scheme relative to the company means changes in financial market conditions can have relatively large impacts on the results and financial position.

b. Trustee valuation and funding obligations

The funding of the defined benefit scheme is subject to agreement between the company's parent (as the employer) and the scheme's Trustees based on the outcome of their formal valuation. This valuation uses a wide range of financial and demographic assumptions for measuring pension liabilities, and legislation requires a margin for prudence. As a result, the Trustees' valuation gives a different outcome to the valuation under IAS 19 for the company's financial statements.

The Trustees completed a formal valuation as at 31 December 2017 which reported a funding deficit of £270.4m (NATS Services' economic share of this deficit is c.£62m). The scheme's

actuary also determined that the cost of employee benefits accruing in future was 41.8% of pensionable earnings (excluding salary sacrifice). Contributions have reflected this from January 2020 as well as a recovery plan to restore the funding position by December 2026, whereby the company's parent makes deficit contributions of £25.4m from 2020 increasing by 2.37% in each of the following three years. NATS Services economic share of these contributions is c.23% and will be met from its cash reserves. The next formal valuation by Trustees will be as at 31 December 2020.

Cash flow

	2020	2019
	£m	£m
Net cash (outflow)/inflow from operating activities	(0.4)	14.9
Net cash generated from/(used in) investing	1.3	(43.9)
Net cash used in financing activities	(4.5)	(2.0)
Decrease in cash and cash equivalents	(3.6)	(31.0)
Cash and cash equivalents at end of year	69.4	73.0

Cash and cash equivalents decreased by £3.6m in the year to £69.4m (2019: £73.0m). There was a net cash outflow from operating activities on lower revenue receipts and higher operating cost payments. Investing activities generated £1.3m mainly following net repayments of joint venture loans and proceeds from the disposal of radio mast sites. In the prior year an investment in a subsidiary was made to fund the minority interest in Aireon. Net cash used in financing activities included lease payments classified under IFRS 16 as financing rather than operating cash flows. The company also paid dividends of £2.0m (2019: £2.0m) to its parent.

Alistair Borthwick
Chief Financial Officer

Principal risks and uncertainties

The Board takes the management of risk very seriously, paying particular attention to key risk areas.

The system for the identification, evaluation and management of emerging and principal risks is embedded within the company's management, business planning and reporting processes, accords with the Code, and is aligned with the ISO31000 risk management standard. Detailed risk identification, assessment, and control mapping is carried out at business unit, departmental, and executive levels and is recorded and measured in a structured and controlled enterprise-wide database. NATS' risks are mapped against risk tolerance statements which have been agreed by the Board. Risk update reports are submitted to the NATS Executive team which address changes in risk, risk tolerance, business controls and the progress of mitigating actions associated with NATS' risks. Regular reviews are also carried out by the Audit, Safety and Transformation Committees in accordance with their remits.

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

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

Our risk management framework has identified the key risks that the Board believes are likely to have the most significant potential impact on our business, financial position, results and reputation based on the severity and likelihood of risk exposure and has undertaken a robust assessment of those that would threaten its business model, future performance, solvency or liquidity.

The list below is not intended to be exhaustive and reflects the Board's assessment as at the date of this report. NATS processes categorise risks according to their linkage to strategic objectives. The risks outlined are the most important safety, strategic, operational, transformation and financial risks currently facing the company in seeking to achieve its strategic objectives (other risk categories assessed by the Board are commercial, governance and legal risks). The company focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

Safety: the risk of an aircraft accident

A failure of NATS air traffic management controls that results in an accident in the air or on the ground would significantly impact NATS Services and its reputation. The reputational damage could result in the loss of future contracts and a reduction in revenue.

As a provider of a safety critical service, safety is the company's highest priority. To further embed our existing safety culture across the organisation and to mitigate safety risk, NATS maintains a Strategy for the Future Safety of ATM to 2030 and an Implementation Plan. NATS also maintains an explicit Safety Management System. The latter includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk.

The impact of the Covid-19 pandemic has been analysed to understand and manage the hazards. Key issues identified are i) managing the safety of the operation during periods of very low traffic volume by maintaining controller vigilance, ii) managing the skills competency of controllers and engineers to ensure a safe operation as traffic volumes recover and iii) adjusting the operation for traffic patterns and densities which may have changed significantly.

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

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

Operational: business continuity

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

Resilience is considered for people, operational technical systems and facilities using NATS

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

The outbreak of Covid-19 is being managed under NATS business continuity incident management procedures. The potential risk of a loss of operational staff at the outset of the pandemic was mitigated initially by the lower traffic volumes, before strict social distancing measures, separate rosters and absence tracking measures could be implemented.

Operational: physical security

The most significant physical security risk is an internal threat which would impact on reputation, operational effectiveness and the wellbeing of the workforce.

NATS seeks to mitigate this risk by operating a range of security measures founded on national security vetting of the workforce. The threat is overseen by a steering group which assesses personnel security using a CPNI model and through developing risk assessments for all roles in NATS. Insider issues are included within employee awareness training. During the period of the Covid-19 pandemic site security has been a focus and work has continued with all key emergency services and support agencies.

Operational: systems security

A malicious cyber-attack could affect the integrity, availability or resilience of NATS operational ATC and business IT systems

adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny.

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

The risk has elevated slightly since Covid-19 due to home working and is being managed by raising staff awareness of cyber threats. Close working relationships are maintained between NATS and the UK's security services, including the National Cyber Security Centre to minimise the risk of a damaging cyber attack.

Operational: employee relations

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

The impact of Covid-19 on the workforce and the company's financial position has required more dialogue with trades unions on a range of challenging issues, including staff redundancies. These matters have the potential to increase the risk of industrial action. The company continues to maintain close dialogue with unions representatives through the Working Together approach.

Financial: Defined benefit pension scheme

Adverse movements in the value of scheme assets and liabilities arising from factors such as lower investment returns, lower real interest rates and improving life expectancy may increase the

size of the funding deficit and result in significant contributions to fund pension benefits.

The Trustees will determine the funding position at their next formal valuation as at 31 December 2020, reflecting market conditions then.

The scheme was closed to new entrants in 2009, pensionable pay rises are capped through an agreement with our trades unions and future service benefits are linked to the Consumer Prices Index. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction strategies.

NATS Services maintains adequate cash reserves to meet its share of pension contributions.

The directors monitor the funding position of the scheme. The company's cash reserves, its projected operating cash flows and the long term nature of its airport contracts enable the company to meet the contributions required.

Financial: other risks

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme) the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 18.

Non-financial risks

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

Our stakeholders	Why are they important to us?	How do we engage and have regard to their views in our decisions?
CUSTOMERS	A safe ATC service is an essential given for customers in the aviation industry to whom we provide our services and expertise, and the travelling public. Their requirements are key drivers of our business plan, defining the demand for our services, our staffing and capital investment.	When bidding for airport and other contracts we tender our cost effective and innovative solutions. We engage with airport operators to deliver improvements for airlines and therefore the travelling public. We have engaged since Covid-19 on the scope of our services and support to our customers.
WORKFORCE	Our ATC service and infrastructure depends on the skill and professionalism of our workforce. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. Most of our employees are members of trades unions.	Through our Working Together partnership we have an open dialogue with trades unions. We receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. We operate a Just Safety culture, enabling staff to raise safety matters and the company maintains a whistleblowing facility. Every few years we conduct an employee opinion survey. In the last year, and since Covid-19, the Board has increased its focus on mental health and wellbeing, as well as workforce diversity.
REGULATOR:	Our regulator ensures we provide our services in accordance with international safety standards and assesses the contestability of the UK market for airport ATC services.	The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA's economic regulator assesses the contestability of the UK's airport ATC market.
GOVERNMENT	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	NATS' Chief Executive maintains a regular dialogue with the Department for Transport. The government engages on matters of aviation policy, including airspace modernisation.
SHAREHOLDERS	We are a wholly owned subsidiary within the NATS group. Our decisions have regard to the group's ultimate shareholders as well as the parent company. These parties provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which it expects a return.	The Board meets with the group's ultimate shareholders twice a year, including the Annual General Meeting. The NATS Strategic Partnership Agreement enables shareholders to appoint representatives to the Board. Shareholders wish to see remuneration policies which drive executive management to deliver strong sustainable performance aligned with the interests of key stakeholders.
COMMUNITIES AND ENVIRONMENT	Local communities around airports expect the aviation sector to pay attention to aircraft noise and emissions. Our ATC service can help mitigate some environmental impacts. We are a significant employer where our UK operations are based. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2050.	Airspace changes must follow the CAA's guidance on public consultation of airspace use, aircraft movements and environmental impacts. Communities generally identify noise, tranquillity, fuel emissions, local air quality and other quality of life concerns. We work with communities affected by flights below 7,000ft at an early stage of any change, to ensure they have a voice in airspace design. Changes mean some communities may be subject to more overflights than previously, while others are no longer overflown. Following consultation, we appraise design options before making our recommendation to the CAA.
SUPPLIERS	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions.	Our supply chain team engages day to day for procurement. In addition, we engage on joint projects, hold supplier conferences and supplier workshops. Our joint interests are an open and constructive relationship based on fair terms, good contractual performance and high standards of business conduct.

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

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

How our Board and its committees operate, and the way decisions are reached, including the matters discussed during the year, are set out in the Governance section on pages 15 to 20. Set out below are two examples which illustrates how the directors had regard to section 172(1).

The Board's consideration of the political unrest in Hong Kong

During the year, the Board considered the political unrest in Hong Kong and its impact on the operation of its Hong Kong subsidiary. In particular the Board had regard to the safety and wellbeing of the workforce employed locally, the ability of its subsidiary to continue to fulfil the customer's contract for sourcing air traffic controllers and the merits of maintaining a strategic presence in the territory in the long term interests of the company and the wider NATS group.

The Board assessed the severity of the position on the ground, including attempts by protesters to disrupt the operation of the territory's airport, and the mitigations available to ensure the safety of the workforce and its ability to fulfil the contract. The Board determined that following mitigations, including close monitoring of the situation, enhanced communications and advice to staff on personal safety and through close engagement and collaboration with the customer, it was appropriate for the workforce and the company to remain in the territory to fulfil its contract obligations.

The Board's engagement with stakeholders during Covid-19

Following the outbreak of Covid-19, the Board established a committee to oversee the company's response. This committee has received updates and monitors measures taken to protect the company's workforce and ensure ATC service resilience and reviewed scenarios of air traffic volumes, liquidity projections and options for cost saving actions and risks.

As air traffic control is a critical part of the UK's national infrastructure, and the scale of impact of Covid-19 on the aviation sector, the company and the Board have engaged with a broad range of stakeholders through this crisis and provided updates on the matters set out above:

Workforce: since the crisis the safety and wellbeing of staff has been the company's priority. This has required changes to operational working practices, home working, a focus on wellbeing and regular communications on business developments. Critical facilities were identified for safety, hygiene and maintenance activities including airport towers, engineering systems and key sites. Consultations have taken place with trades unions on staff furloughing, pay and benefits, and voluntary redundancy.

Customers: close dialogue on the measures to ensure ATC service safety and resilience and actions by the company to reduce the cost base. To support airport customers, the company extended the settlement period for charges and passed on direct cost savings.

Shareholders: the company's Board has engaged regularly with that of the parent company, providing more granular reports and forward-looking information.

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

The Strategic report was approved by the Board of directors on 22 October 2020 and signed by order

of the Board by:



Richard Churchill-Coleman, Secretary

Governance framework

Introduction

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

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

The Board and Directors

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

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

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

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

Executive Directors

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

Non-Executive Directors

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

Changes to the Directors

From 1 April 2019 to the date of approval of the accounts, the changes to the directors were:

<i>Executive Directors</i>	
Nigel Fotherby	Resigned 30 June 2019
Alistair Borthwick	Appointed 3 October 2019

Access to legal and professional advice

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

Board meetings

The NATS group has nested board meetings with NSL Board meetings taking place as part of the NHL meetings. The NSL Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to review the company's performance.

Compliance with the UK Corporate Governance**Code**

NATS is committed to maintaining the highest standards of corporate governance. The company applied the principles of the Corporate Governance Code 2018 from 1 April 2019, to the extent considered appropriate by the Board. A number of the principles and provisions in the Code are not relevant to the partnership nature of NATS' ultimate ownership structure and the principal areas where the company did not comply are summarised below.

Provision 3: Engagement with major shareholders

Within the PPP structure NSL is a wholly owned subsidiary of NATS Limited which is in turn a

wholly owned subsidiary of NHL. There are no institutional or public shareholders. The NHL Board's Chair has regular discussions with the group's shareholders in addition to the formal shareholder meetings.

Report of the directors

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 March 2020.

The Governance report is set out on pages 15 and 16 and forms part of this report.

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

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

Dividends

The company paid two interim dividends of £1.0m (£10.00 per share) during the year, totalling £2.0m (2019: £2.0m). The Board recommends a final dividend for the year of £nil (2019: £nil).

Directors and their interests

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

Guy Adams

Alistair Borthwick

Martin Rolfe

None of the directors had any interests in the share capital of the company. The following directors held interests in ordinary shares of NATS Holdings Limited, the company's ultimate parent undertaking at 31 March 2020:

Guy Adams	3,801
Martin Rolfe	1,024

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

Directors' indemnities

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

Employee engagement

Contracts of employment with employees are held by the company's parent company, NATS Limited (NATS). The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board of the company and NHL. Maria Antoniou is the designated non-executive director for workforce engagement with the Board of NHL.

Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The directors encourage the involvement of employees in the company's performance through the All-Employee Share Ownership Plan. Following the outbreak of Covid-19, the directors had regard to the health and well-being of employees and consulted on and implemented adjustments to the working environment, including social distancing measures and home working, to protect the workforce and the company's operation. The CEO, CFO and the Commercial Director maintain high visibility with employees through visits to NATS sites where they talk to them about current business issues and take questions in an open and straightforward manner. As a result of coronavirus

travel restrictions, regular updates to staff were provided through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS) the recognised unions on all matters affecting employees. This has been enhanced through the Working Together programme aimed at working towards partnership principles as the basis for our relationship with the Trades Unions. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

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

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

NATS is also committed to improving employment opportunities for disabled people. The company will continue to promote policies and practices which

provide suitable training, retraining and development opportunities for disabled employees, including any individuals who become disabled, bearing in mind their particular aptitudes and abilities and the need to maintain a safe working environment.

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

Business relationships

We explain on pages 13 and 14 how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on principal decisions taken during the financial year.

Going concern and subsequent events

The directors' assessment of going concern is explained in note 3 to the financial statements. Significant events since the balance sheet date are disclosed in note 31 to the financial statements.

Directors' responsibilities

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to

ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic report includes a fair review of the development and performance of the business

and the position of the company, together with a description of the principal risks and uncertainties that it faces; and

- the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Auditor

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

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

A handwritten signature in black ink, appearing to read 'R C - Coleman', with a long horizontal flourish extending to the right.

Richard Churchill-Coleman, Secretary

22 October 2020

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

We have audited the financial statements of NATS (Services) Limited ("the company") for the year ended 31 March 2020 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 2020 and of its loss 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 2020 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.



Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading

United Kingdom

22 October 2020

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	2020 £m	2019 £m
Revenue	4	191.9	197.5
Staff costs	7	(106.4)	(103.6)
Services and materials		(20.4)	(23.7)
Repairs and maintenance		(5.3)	(7.6)
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	(9.1)	(3.8)
Impairment of investments in subsidiaries	6, 28	(7.5)	(0.1)
Change in expected credit losses	15	(0.7)	-
Other operating charges		(51.1)	(49.2)
Profit on disposal of non-current assets		0.8	2.1
Deferred grants released	6	0.3	0.3
Net operating costs		<u>(199.4)</u>	<u>(185.6)</u>
Operating (loss)/profit	6	(7.5)	11.9
Investment income	8	2.2	2.6
Finance costs	9	(0.2)	-
(Loss)/profit before tax		(5.5)	14.5
Tax	10	(0.6)	(1.7)
(Loss)/profit for the year attributable to equity shareholders		<u>(6.1)</u>	<u>12.8</u>

Statement of comprehensive income

for the year ended 31 March

	Notes	2020 £m	2019 £m
(Loss)/profit for the year after tax		(6.1)	12.8
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	26	47.7	(35.3)
Deferred tax relating to actuarial gain/(loss) on defined benefit pension scheme	21	(9.0)	6.2
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives	17	0.1	0.2
Transfer to income statement on cash flow hedges		(0.4)	(0.2)
Deferred tax relating to items that may be reclassified	21	0.1	(0.1)
Other comprehensive income/(loss) for the year, net of tax		<u>38.5</u>	<u>(29.2)</u>
Total comprehensive income/(loss) for the year attributable to equity shareholders		<u>32.4</u>	<u>(16.4)</u>

IFRS 16 was adopted on 1 April 2019 for statutory reporting without restating prior year figures. As a result, the primary financial statements are shown on an IFRS 16 basis for the year ended 31 March 2020 and on an IAS 17 basis for the year ended 31 March 2019. Further details are provided in note 30.

Balance sheet

for the year ended 31 March

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	12	4.5	2.6
Property, plant and equipment	13	15.7	18.2
Right-of-use assets	14	3.6	-
Investments	28	50.5	58.0
Loan to joint ventures	28	16.8	21.1
Deferred tax asset	21	-	1.9
Trade and other receivables	15	1.8	2.5
Retirement benefit asset	26	48.9	-
		<u>141.8</u>	<u>104.3</u>
Current assets			
Loan to joint ventures	28	1.6	1.4
Trade and other receivables	15	73.4	70.8
Current tax asset		0.1	-
Cash and cash equivalents	18	69.4	73.0
Short term investments	18	10.0	10.0
Derivative financial instruments	17	0.1	0.2
		<u>154.6</u>	<u>155.4</u>
Total assets		<u>296.4</u>	<u>259.7</u>
Current liabilities			
Trade and other payables	19	(49.3)	(46.6)
Current tax liabilities		-	(0.6)
Lease liabilities	16	(1.2)	-
Provisions	20	(0.1)	(1.0)
Derivative financial instruments	17	(0.1)	(0.3)
		<u>(50.7)</u>	<u>(48.5)</u>
Net current assets		<u>103.9</u>	<u>106.9</u>
Non-current liabilities			
Trade and other payables	19	(11.3)	(13.7)
Retirement benefit obligations	26	-	(4.7)
Deferred tax liability	21	(7.6)	-
Lease liabilities	16	(2.4)	-
Provisions	20	(1.9)	(0.7)
		<u>(23.2)</u>	<u>(19.1)</u>
Total liabilities		<u>(73.9)</u>	<u>(67.6)</u>
Net assets		<u>222.5</u>	<u>192.1</u>
Equity			
Called up share capital	22	0.1	0.1
Hedge reserve		-	0.2
Retained earnings		222.4	191.8
Total equity		<u>222.5</u>	<u>192.1</u>

IFRS 16 was adopted on 1 April 2019 for statutory reporting without restating prior year figures. As a result, the primary financial statements are shown on an IFRS 16 basis at 31 March 2020 and on an IAS 17 basis at 31 March 2019. Further details are provided in note 30.

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 22 October 2020 and signed on its behalf by:



Martin Rolfe
Chief Executive



Alistair Borthwick
Chief Financial Officer

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total £m
At 1 April 2018	0.1	0.3	210.1	210.5
Profit for the year	-	-	12.8	12.8
Other comprehensive loss for the year	-	(0.1)	(29.1)	(29.2)
Total comprehensive loss for the year	-	(0.1)	(16.3)	(16.4)
Dividends paid	-	-	(2.0)	(2.0)
At 31 March 2019	0.1	0.2	191.8	192.1
At 1 April 2019	0.1	0.2	191.8	192.1
Loss for the year	-	-	(6.1)	(6.1)
Other comprehensive (loss)/income for the year	-	(0.2)	38.7	38.5
Total comprehensive (loss)/income for the year	-	(0.2)	32.6	32.4
Dividends paid	-	-	(2.0)	(2.0)
At 31 March 2020	0.1	-	222.4	222.5

Cash flow statement
for the year ended 31 March

	Notes	2020 £m	2019 £m
Net cash (outflow)/inflow from operating activities	23	(0.4)	14.9
Cash flows from investing activities			
Interest received on short term investments		0.6	0.6
Purchase of property, plant and equipment and other intangible assets		(7.3)	(5.2)
Proceeds of disposal of property, plant and equipment		2.3	0.1
Changes in short term investments		-	(10.0)
Investment in subsidiaries		-	(51.0)
Dividends from joint ventures		0.5	0.8
Repayment of loan from fellow subsidiary		-	22.5
Loans to joint ventures		(16.7)	(5.3)
Repayments of loans to joint ventures		21.9	3.6
Net cash inflow/(outflow) from investing activities		1.3	(43.9)
Cash flows from financing activities			
Principal paid on lease liabilities		(2.3)	-
Interest paid on lease liabilities		(0.2)	-
Dividends paid		(2.0)	(2.0)
Net cash outflow from financing activities		(4.5)	(2.0)
Decrease in cash and cash equivalents during the year		(3.6)	(31.0)
Cash and cash equivalents at 1 April		73.0	104.0
Cash and cash equivalents at 31 March		69.4	73.0

IFRS 16 was adopted on 1 April 2019 for statutory reporting without restating prior year figures. As a result, the primary financial statements are shown on an IFRS 16 basis at 31 March 2020 and on an IAS 17 basis at 31 March 2019. Further details are provided in note 30.

1. General information

NATS (Services) Limited (NATS Services) is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 2. The nature of the company's operations and its principal activities are set out in the Strategic report and in the Report of the directors.

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

2. Basis of preparation and accounting policies

The financial statements have been prepared on the going concern basis, as explained on page 39, and in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). Therefore, the company financial statements comply with Article 4 of the EU IAS Regulation. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB).

Accounting standards adopted in the year

The company has adopted the requirements of IFRS 16: *Leases* and IFRIC 23: *Uncertainty over Income Tax Treatments* from 1 April 2019.

IFRS 16 provides a single lessee accounting model requiring the recognition of assets and liabilities for all leases, with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. As a lessee, the company has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains

substantially the same as under IAS 17, with the distinction between operating leases and finance leases being retained. Further details on the impact of this standard is given in notes 16 and 30. The revised accounting policy for leases is set out below. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- ◆ The company to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- ◆ The company to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- ◆ If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The adoption of IFRIC 23 has had no material impact on the company financial statements.

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

Future accounting developments

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

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

- ◆ IAS 1 and IAS 8 (amendments): *Definition of Material*
- ◆ IFRS 7, IFRS 9, IAS 39 (amendments): *Interest Rate Benchmark Reform*
- ◆ Revised Conceptual Framework for Financial Reporting

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The company is currently assessing the impact of these new accounting amendments but does not expect that their adoption will have a material impact on the financial statements in future periods.

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

The company entered into a Management Services Agreement with NATS on 25 July 2001. On 1 October 2009, this agreement was amended so that all relevant secondment obligations are now set out in an Inter-company Secondment Agreement (ISA). This agreement is the basis for the provision by NATS of personnel to the company. In addition, an

Inter-company Trading Agreement is the basis for the provision of central services by NATS to NATS Services. The cost of central services is recharged based on a fair allocation of costs taking into account the most important drivers for the services provided. The company is responsible for paying to NATS an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

The company also entered into an Inter-company Trading Agreement (ICTA) on 25 July 2001 (amended 16 December 2014) with NATS (En Route) plc (NERL). Under this agreement this company provides NERL with the following services:

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

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

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

The company commenced trading from 26 July 2001.

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

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

Revenue recognition

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

UK airports

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

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

Defence services

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

Other UK business

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

International

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

Income from other sources

Rental income from operating leases is recognised on a straight-line basis over the relevant lease term. Dividend income is recognised when a shareholder's rights to receive payment has been established. Interest income is recognised on a time proportion basis using the effective interest method. This is the rate that exactly discounts estimated future cash

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

Operating profit

Operating profit is stated after charging restructuring costs but before investment income, finance costs, impairment of investments in subsidiaries and taxation.

Operating segments

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

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment performance is assessed by service line revenue and contribution. Further information is provided in note 5.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. The cost of property, plant and equipment includes internal and contracted labour costs directly attributable to bringing the assets into working condition for their intended use.

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of property, plant and equipment over their estimated useful lives as follows:

- ◆ Freehold buildings: 10-40 years;

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

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

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

Government grants and other grants

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

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

Leases

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

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

Measurement at inception

At the lease commencement date the lessee will recognise:

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

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

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

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

Ongoing measurement

Subsequent to initial measurement, the lease liabilities increase as a result of interest charged at a

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

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

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

- ◆ If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- ◆ In all other cases where the renegotiated terms increase the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- ◆ If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of

the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Short term, low-value leases and expired leases

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

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

Comparative year

For the comparative year, leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other items were classified as operating leases.

Assets held under finance leases were recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor was included in the balance sheet as a finance lease obligation. Lease payments were apportioned between finance expenses and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance expenses were recognised immediately in profit or loss, unless they were directly attributable to qualifying assets in which case they were capitalised in accordance with the group's policy on borrowing costs.

Rentals payable under operating leases were 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 were also spread on a straight-line basis over the lease term.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the company's share of the net assets of the associate or joint venture, less any impairment in the value of individual investments.

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

Internally-generated intangible assets – research and development expenditure

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

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

- ◆ the technical feasibility of completing the intangible asset so that it will be available for use or sale;

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, typically over 3 to 12 years. Assets in the course of construction are not amortised until ready for use. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible, intangible and right-of-use assets

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

Recoverable amount is the higher of fair value less costs of disposal and the value in use. In assessing

value in use, the estimated future cash flows are discounted to their present value using the weighted average cost of capital.

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

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

Share-based payments

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

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

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

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance

sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

The Finance Bill 2020 was substantively enacted on 17 March 2020 and the main rate of corporation tax was maintained at 19% for the financial years 2020 and 2021 reversing the previous reduction to 17%. The rate of 19% applies from 1 April 2020.

Foreign currency translation

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

In order to hedge its exposure to certain foreign exchange risks, the company enters into forward contracts (see below for details of the company's

accounting policies in respect of such derivative financial instruments).

Retirement benefit costs

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

Past service cost is recognised immediately to the extent that the benefits are already vested.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

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

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

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 26. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution

scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent re-measurement depends on the company's business model for managing the financial asset and its cash flow characteristics.

The company has financial assets at amortised cost. The company does not have financial assets at fair value through the profit or loss or at fair value through other comprehensive income. Detailed disclosures are set out in notes 15 to 19.

Financial assets:

Amortised cost

These assets arise principally from the provision of goods and services to customers (such as loans and trade receivables), but also incorporate other

types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

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

Impairment provisions for other receivables are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether at each reporting date, there has been a significant increase in credit risk since initial recognition of the financial asset.

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

credit losses along with interest income on a net basis are recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other highly liquid investments (with a maturity of 3 months or less) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

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

Fair value through the profit or loss

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

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

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

Effective interest method

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

Equity

Equity instruments are also classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 17 and 18 to the accounts.

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

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

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

financial derivatives. The group documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

recognised in equity is transferred to net income or expense for the period.

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

3. Critical judgements and key sources of estimation uncertainty

Going concern and estimation uncertainties arising from Covid-19

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the Strategic Report above. In addition, note 18 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The coronavirus 2019 (Covid-19) pandemic and the government protection measures to curtail its spread, such as travel restrictions and social distancing rules, is having a significant impact on the UK economy and the demand for air travel which has a direct impact on the demand for the company's air traffic control services.

Given the current uncertainty and the variety of outcomes still possible related to the course of the pandemic, and its adverse impact on the economy and the demand for air travel, the company has considered a wide range of factors related to its future performance and financial position. These include: the economic outlook and the recovery in

demand for air travel; future cash flows; the feasibility and effectiveness of planned cost savings and deferral of capital investment and the extent of further support from government measures. The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long term contracts. Following an assessment of these factors and having regard to the impact of a range of scenarios and reverse stress tests, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

The directors have formed a judgement that taking into account the financial resources available to the company, it has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements for the year ended 31 March 2020.

Retirement benefits

The company accounts for its share of the NATS group's defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2020 the funding position of the scheme reported in the financial statements was a surplus of £48.9m. The defined benefit pension scheme has a diverse investment portfolio which includes property assets of £51.0m representing 5.2% of scheme assets. In valuing the scheme's property assets in the context of Covid-19, the asset manager considered that less weight could be given to previous market evidence for comparison purposes, to inform its opinion of value. As a result, the asset manager reported a

'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global and reported that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 26 of the notes to the accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Long term contracts

The company is fulfilling a number of long term contracts, including providing support to its Aquila joint venture which is undertaking Project Marshall. In assessing the amount of revenue to be recognised in respect of these contracts, judgements are made on the extent of contract completion and the proportion that costs incurred to date bear to the estimated total costs of the contract. Such judgements are reviewed regularly and may change over the course of the contract, impacting operating results in future periods should a reassessment of contract completion and costs to complete be made.

Leases

Determining the lease term

The lease term determined by the lessee comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Specific lease term judgements

have been taken in relation to airport equipment leases that have primary, secondary and tertiary periods. The lease term assumed is the period for which the company is reasonably certain to exercise the option to extend, being the period the lessee expects to use the asset in delivery of air navigation services.

Determining the incremental borrowing rate used for discounting future cash flows

The incremental borrowing rate is determined using a discount rate that represents the rate of interest that the lessee would have to pay to borrow the funds necessary, taking into consideration its deemed creditworthiness, over a similar term to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4. Revenue

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

	2020 £m	2019 £m
Revenue from contracts with customers	191.5	196.8
Revenue from other sources: rental and sub-lease income	0.4	0.7
Total revenue	191.9	197.5
Investment income (see note 8)	2.2	2.6
	194.1	200.1

a) Revenue disaggregated by operating segment

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

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

Principal activities

The following table describes the activities of each operating segment:

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

Segment information about these activities is presented below.

	2020			2019		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Revenue from contracts with customers						
UK Airports	126.4	12.9	139.3	131.7	12.7	144.4
Defence services	25.7	1.4	27.1	26.1	0.5	26.6
Other UK Business	7.5	4.9	12.4	8.2	5.4	13.6
International	7.6	5.1	12.7	6.3	5.9	12.2
Total revenue from contracts with customers	167.2	24.3	191.5	172.3	24.5	196.8
Revenue from other sources						
UK Airports	0.1	-	0.1	0.4	-	0.4
Other UK Business	0.3	-	0.3	0.3	-	0.3
	0.4	-	0.4	0.7	-	0.7
Total revenue	167.6	24.3	191.9	173.0	24.5	197.5

Intercompany revenue includes revenue for services to NATS (En Route) plc of £19.2m (2019: £18.6m), NATS Services (Asia Pacific) Pte. Limited of £3.8m (2019: £4.6m), NATS Services (Hong Kong) Limited of £1.2m (2019: £1.3m) and NATS Services DMCC £0.1m (2019: £nil).

4. Revenue (continued)**b) Revenue disaggregated by timing of recognition**

	2020			2019		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Over time						
Revenue from contracts with customers	165.7	24.3	190.0	171.0	24.5	195.5
Revenue from other sources	0.4	-	0.4	0.7	-	0.7
	<u>166.1</u>	<u>24.3</u>	<u>190.4</u>	<u>171.7</u>	<u>24.5</u>	<u>196.2</u>
At a point in time						
Revenue from contracts with customers	1.5	-	1.5	1.3	-	1.3
	<u>1.5</u>	<u>-</u>	<u>1.5</u>	<u>1.3</u>	<u>-</u>	<u>1.3</u>
	<u>167.6</u>	<u>24.3</u>	<u>191.9</u>	<u>173.0</u>	<u>24.5</u>	<u>197.5</u>

c) Revenue disaggregated by geographical area

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

	2020			2019		
	External revenue £m	Intercompany revenue £m	Revenue £m	External revenue £m	Intercompany revenue £m	Revenue £m
Revenue from contracts with customers						
United Kingdom	158.1	19.2	177.3	165.3	18.6	183.9
Other European countries	3.1	-	3.1	1.7	-	1.7
Countries in Asia	2.7	5.1	7.8	5.2	5.9	11.1
Countries in North America	3.3	-	3.3	0.1	-	0.1
Total revenue from contracts with customers	<u>167.2</u>	<u>24.3</u>	<u>191.5</u>	<u>172.3</u>	<u>24.5</u>	<u>196.8</u>
Revenue from other sources						
United Kingdom	0.4	-	0.4	0.7	-	0.7
	<u>167.6</u>	<u>24.3</u>	<u>191.9</u>	<u>173.0</u>	<u>24.5</u>	<u>197.5</u>

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

Information about major customers

Included in revenues arising from UK Airports are revenues of £47.1m (2019: £51.9m) which arose from the company's largest customer.

d) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 15 and 19. Significant changes in the contract assets and the contract liabilities balances during the year are as follows:

	Contract assets		Contract liabilities	
	2020 £m	2019 £m	2020 £m	2019 £m
At 1 April	21.3	19.2	(20.3)	(19.5)
Opening contract assets transferred to trade and other receivables	(17.3)	(14.8)	-	-
Cumulative catch-up adjustments	(0.5)	-	(0.6)	-
Additional contract asset balances recognised at the balance sheet date	19.6	16.9	-	-
Opening contract liabilities which have now been recognised as revenue	-	-	5.7	6.6
Increases due to cash received, excluding amounts recognised as revenue during the year	-	-	(4.8)	(7.4)
At 31 March	<u>23.1</u>	<u>21.3</u>	<u>(20.0)</u>	<u>(20.3)</u>

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

e) Revenue recognised from performance obligations satisfied in previous periods

For the year ended 31 March 2020, no revenue was recognised for performance obligations satisfied in previous periods (2019: £nil).

4. Revenue (continued)**f) Remaining performance obligations**

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

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

	2020				Total £m
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	
UK Airports	7.5	6.8	7.9	8.3	30.5
Defence services	1.9	-	-	-	1.9
Other UK Business	0.9	0.4	1.1	3.5	5.9
International	3.6	0.8	-	-	4.4
	13.9	8.0	9.0	11.8	42.7
	2019				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
UK Airports	14.8	0.9	-	-	15.7
Defence services	0.4	-	-	-	0.4
Other UK Business	0.8	0.4	-	-	1.2
International	2.1	-	-	-	2.1
	18.1	1.3	-	-	19.4

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

5. Operating segments: Operating (loss)/profit**Operating (loss)/profit**

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

A reconciliation of service line contribution to operating (loss)/profit is provided below:

	2020 £m	2019 £m
UK Airports	24.1	25.6
Defence services	1.2	1.2
Other UK Business	5.7	5.8
International	(1.4)	1.0
Service line contribution	29.6	33.6
Costs not directly attributed to service lines:		
Depreciation, amortisation and impairment (net of deferred grants released)	(8.8)	(3.5)
Impairment of investment in NATS (USA) Inc.	(2.8)	(0.1)
Impairment of investment in NATS (Services) Canada Inc.	(4.7)	-
Profit on disposal of non-current assets	0.8	2.1
Employee share scheme credits/(costs)	0.8	(0.5)
Redundancy and relocation costs	(1.1)	(1.2)
Foreign exchange gain	-	1.9
Other costs not directly attributed to service lines	(21.3)	(20.4)
Operating (loss)/profit	(7.5)	11.9

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

5. Operating segments: Operating (loss)/profit (continued)**Supplementary information**

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

	2020			2019		
	Airport air traffic services £m	Miscellaneous services £m	Total £m	Airport air traffic services £m	Miscellaneous services £m	Total £m
Revenue	126.1	65.8	191.9	107.4	90.1	197.5
Costs (net)	(122.6)	(76.8)	(199.4)	(95.7)	(89.9)	(185.6)
Operating (loss)/profit	3.5	(11.0)	(7.5)	11.7	0.2	11.9

Non-current asset additions

Additions to non-current assets (including additions to right-of-use assets for 2020) presented by service line are: UK Airports £3.9m (2019: £2.1m), Defence services £2.7m (2019: £2.5m), Other UK Business £0.3m (2019: £1.8m) and International £0.1m (2019: £nil).

Geographical segments

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £52.0m (2019: £59.3m) which the company holds in overseas entities (see note 28). These investments have been established to enable the company to undertake business abroad or to hold foreign equity investments.

6. Operating (loss)/profit for the year

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

	2020 £m	2019 £m
CAA regulatory charges for safety regulation at airports	0.1	0.1
Voluntary redundancy costs	0.8	1.0
Staff relocation costs (net of credits for revisions to estimates) following site closures	0.3	0.2
Amortisation of intangible assets (note 12)	0.3	0.7
Impairment of intangible assets (note 12)	0.2	1.0
Depreciation of property, plant and equipment (note 13)	2.5	2.1
Impairment of property, plant and equipment (note 13)	4.1	-
Depreciation of right-of-use assets (note 14)	1.8	-
Impairment of right-of-use assets (note 14)	0.2	-
Impairment of investment in NATS (USA) Inc.	2.8	0.1
Impairment of investment in NATS (Services) Canada Inc.	4.7	-
Deferred grants released	(0.3)	(0.3)

The company incurs voluntary redundancy costs in the normal course of business.

A portion of the company's costs are denominated in foreign currencies and are cash flow hedged. Included in operating (loss)/profit is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating costs is a £0.4m gain (2019: £0.2m gain).

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

6. Operating (loss)/profit for the year (continued)

Transactions with group companies

	2020 £m	2019 £m
Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below)	107.3	104.4
Charges for services provided by NATS Limited	2.4	2.5
Charges for services provided by NATS (En Route) plc	26.4	25.9
Charges for services provided by NATS Solutions Limited	4.9	4.0
Charges for services provided by NATS Services DMCC	1.9	1.9
Charges for services provided by NATS Services (Asia Pacific) Pte. Limited	0.5	0.4

NATS Limited, the immediate parent company, is responsible for employing the staff engaged in the activities carried out by NATS Services. Under the terms of the Inter-company Secondment Agreement (ISA) dated 1 October 2009, the services of certain employees are seconded to NATS Services by NATS Limited. NATS Services is responsible under the ISA for reimbursing NATS Limited for all other staff related costs which it incurs on behalf of the employees seconded to NATS Services (including all taxes and social security, redundancy and pension costs) together with appropriate staff related costs and expenses and disbursements. Under the Inter-company Trading Agreement (ICTA) NERL provides certain services to NATS Services. The ISA and ICTA are explained in more detail in note 2. NATS Solutions Limited provides support services to NATS Services for air traffic control at military airfields. NATS Services (Asia Pacific) Pte. Limited and NATS Services (Hong Kong) Limited provide support to NATS Services contracts in the Asia Pacific region and NATS Services DMCC provides support to NATS Services contracts in the Middle East.

7. Staff costs**a) Staff costs**

	2020 £m	2019 £m
Salaries and staff costs were as follows:		
Wages and salaries	75.8	75.6
Social security costs	9.2	9.0
Pension costs (note 7b)	22.3	19.8
	<u>107.3</u>	<u>104.4</u>
Less: amounts capitalised	(0.9)	(0.8)
	<u>106.4</u>	<u>103.6</u>

Wages and salaries include a charge of £0.7m (2019: £1.0m) for redundancy, share based payment charges, other allowances and holiday pay.

b) Pension costs (see note 26)

	2020 £m	2019 £m
Defined benefit pension scheme costs	16.9	15.5
Defined contribution pension scheme costs	5.4	4.3
	<u>22.3</u>	<u>19.8</u>

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

c) Staff numbers

	2020 No.	2019 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers	464	451
Air traffic service assistants	111	112
Engineers	129	124
Others	224	217
	<u>928</u>	<u>904</u>

8. Investment income

	2020 £m	2019 £m
Dividends from investments	0.5	0.8
Interest on bank deposits	0.6	0.6
Other interest receivable	1.1	1.2
	<u>2.2</u>	<u>2.6</u>

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

9. Finance costs

	2020 £m	2019 £m
Interest on lease liabilities (see note 16)	0.2	-

10. Tax

	2020 £m	2019 £m
Corporation tax		
Current tax	(0.2)	0.8
Adjustments in respect of prior year - UK taxation	0.1	0.1
Foreign taxation	0.1	-
	<u>-</u>	<u>0.9</u>
Deferred tax (see note 21)		
Origination and reversal of temporary timing differences	0.5	2.0
Adjustments in respect of prior year	0.2	(1.2)
Effects of tax rate change on opening balance	(0.1)	-
	<u>0.6</u>	<u>0.8</u>
	<u>0.6</u>	<u>1.7</u>

Corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year.

	2020		2019	
	£m		£m	
The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:				
(Loss)/profit on ordinary activities before tax	(5.5)		14.5	
Tax on profit on ordinary activities at standard rate in the UK of 19% (2019: 19%)	(1.0)	19.0%	2.8	19.0%
Tax effect of change in corporation tax rate from 17% to 19% (2019: 19% to 17%) (see below)	(0.1)	1.7%	(0.1)	(0.7%)
Tax effect of prior year adjustments - current tax	0.1	(1.7%)	0.1	0.7%
Tax effect of prior year adjustments - deferred tax	0.2	(3.8%)	(1.2)	(8.2%)
Impairment of investment in NATS (USA) Inc. and NATS (Services) Canada Inc.	1.5	(27.8%)	-	-
Employee share scheme	0.1	(1.7%)	-	-
Foreign permanent establishment exemption	(0.1)	1.7%	-	-
Dividends from joint ventures	(0.1)	1.7%	(0.1)	(0.7%)
Other permanent differences	-	-	0.2	1.6%
Tax charge for year at an effective tax rate of (10.9%) (2019: 11.7%)	<u>0.6</u>	(10.9%)	<u>1.7</u>	11.7%
Deferred tax (charge)/credit taken directly to equity (see note 21)	<u>(8.9)</u>		<u>6.1</u>	

The Finance Bill 2020 was substantively enacted on 17 March 2020 and the main rate of corporation tax was maintained at 19% for the financial years 2020 and 2021 reversing the previous reduction to 17%. The rate of 19% applies from 1 April 2020.

11. Dividends

	2020 £m	2019 £m
Amounts recognised as dividends to equity shareholders in the year:		
First interim dividend of £10.00 per share (2019: £10.00 per share)	1.0	1.0
Second interim dividend of £10.00 per share (2019: £10.00 per share)	1.0	1.0
	<u>2.0</u>	<u>2.0</u>

12. Intangible assets

	Operational software £m	Non-operational software £m	Assets in course of construction £m	Total £m
Cost				
At 1 April 2018	4.5	3.2	2.4	10.1
Additions internally generated	-	-	0.1	0.1
Additions externally acquired	-	0.5	1.5	2.0
Disposals during the year	(0.5)	(1.1)	-	(1.6)
Transfers during the year	-	0.1	(1.8)	(1.7)
At 31 March 2019	4.0	2.7	2.2	8.9
Additions externally acquired	-	0.1	2.3	2.4
At 31 March 2020	4.0	2.8	4.5	11.3
Accumulated amortisation				
At 1 April 2018	4.3	1.9	-	6.2
Charge for the year	0.2	0.5	-	0.7
Impairment provision recognised in income statement	-	0.8	0.2	1.0
Disposals during the year	(0.5)	(1.1)	-	(1.6)
At 31 March 2019	4.0	2.1	0.2	6.3
Charge for the year	-	0.3	-	0.3
Impairment provision recognised in income statement	-	-	0.2	0.2
Transfer of impairment provision	-	0.2	(0.2)	-
At 31 March 2020	4.0	2.6	0.2	6.8
Carrying amount				
At 31 March 2020	-	0.2	4.3	4.5
At 31 March 2019	-	0.6	2.0	2.6
At 1 April 2018	0.2	1.3	2.4	3.9

An annual review is performed to assess the carrying value of other intangible assets, including assets in the course of construction. The accumulated amortisation of assets in the course of construction represents impairment provisions. During the year impairment charges of £0.2m were made in respect of assets in the course of construction (2019: £1.0m in respect of non-operational software and assets in the course of construction).

13. Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Assets in course of construction and installation £m	Total £m
Cost						
At 1 April 2018	0.1	4.9	34.3	2.8	4.6	46.7
Additions during the year	-	0.5	1.5	-	2.3	4.3
Disposals during the year	-	-	(1.8)	-	-	(1.8)
Other transfers during the year	-	-	2.9	-	(1.2)	1.7
At 31 March 2019	0.1	5.4	36.9	2.8	5.7	50.9
Adjustment on initial application of IFRS 16 (see note below)	-	(0.5)	-	-	-	(0.5)
At 1 April 2019 (as restated for IFRS 16)	0.1	4.9	36.9	2.8	5.7	50.4
Additions during the year	-	-	-	0.1	4.0	4.1
Other transfers during the year	-	-	(0.1)	-	0.1	-
At 31 March 2020	0.1	4.9	36.8	2.9	9.8	54.5
Accumulated depreciation and impairment						
At 1 April 2018	0.1	4.9	24.6	2.8	-	32.4
Provided during the year	-	-	2.1	-	-	2.1
Disposals during the year	-	-	(1.8)	-	-	(1.8)
At 31 March 2019	0.1	4.9	24.9	2.8	-	32.7
Adjustment on initial application of IFRS 16 (see note below)	-	(0.5)	-	-	-	(0.5)
At 1 April 2019 (as restated for IFRS 16)	0.1	4.4	24.9	2.8	-	32.2
Provided during the year	-	0.1	2.4	-	-	2.5
Impairment provision recognised in income statement	-	-	-	-	4.1	4.1
At 31 March 2020	0.1	4.5	27.3	2.8	4.1	38.8
Carrying amount						
At 31 March 2020	-	0.4	9.5	0.1	5.7	15.7
At 1 April 2019 (as restated for IFRS 16)	-	0.5	12.0	-	5.7	18.2
At 31 March 2019	-	0.5	12.0	-	5.7	18.2
At 1 April 2018	-	-	9.7	-	4.6	14.3

The company conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the company incurred impairment charges of £4.1m (2019: £nil) relating to the reduction in value in use of UK Airports assets in the course of construction and installation reflecting a reassessment of certain projects and assets, and the likelihood of benefits being realised in full.

The company has assets relating to reinstatement provisions that were included under Improvements to leasehold land and buildings above. At 31 March 2019, the carrying value of these assets were £nil. From 1 April 2019 leased assets are reported within right-of-use assets on the balance sheet, see notes 14 and 16. Refer to note 30 for details about the change in accounting policy.

14. Right-of-use assets

	Leasehold land and buildings £m	Air traffic control systems, plant and equipment £m	Vehicles, furniture and fittings £m	Total £m
Cost				
At 1 April 2018 and 31 March 2019	-	-	-	-
At 1 April 2019 (as restated for IFRS 16)	1.8	3.9	0.2	5.9
Additions during the year	-	0.3	0.2	0.5
Effect of modification to lease terms	-	(0.1)	-	(0.1)
Terminations during the year	-	(0.4)	-	(0.4)
At 31 March 2020	<u>1.8</u>	<u>3.7</u>	<u>0.4</u>	<u>5.9</u>
Accumulated depreciation and impairment				
At 1 April 2018 and 31 March 2019	-	-	-	-
At 1 April 2019 (as restated for IFRS 16)	0.5	-	-	0.5
Charge during the year	0.3	1.4	0.1	1.8
Impairments during the year	-	0.2	-	0.2
Terminations during the year	-	(0.2)	-	(0.2)
At 31 March 2020	<u>0.8</u>	<u>1.4</u>	<u>0.1</u>	<u>2.3</u>
Carrying amount				
At 31 March 2020	<u>1.0</u>	<u>2.3</u>	<u>0.3</u>	<u>3.6</u>
At 1 April 2019 (as restated for IFRS 16)	<u>1.3</u>	<u>3.9</u>	<u>0.2</u>	<u>5.4</u>
At 31 March 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1 April 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The company conducts annual reviews of the carrying values of its right-of-use assets. During the year, impairment charges of £0.2m (2019: £nil) were made in respect of air traffic control systems, plant and equipment reflecting a reassessment of certain assets.

Leasehold land and buildings contains right-of-use assets (2019: Cost £0.5m, Accumulated depreciation and impairment £0.5m) which were previously recognised as Improvements to leasehold land buildings (see note 13).

15. Financial and other assets

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

Trade and other receivables

	2020 £m	2019 £m
Non-current		
Receivable from customers gross (£nil provision for impairment)	1.6	1.6
Prepayments	0.2	0.9
	<u>1.8</u>	<u>2.5</u>
Current		
Receivable from customers gross	21.7	25.8
Less: provision for impairment	(0.8)	(0.1)
	<u>20.9</u>	<u>25.7</u>
Amounts recoverable under contracts	2.9	1.6
Contract spare parts	0.5	0.5
Contract assets	23.1	21.3
Other debtors	1.1	2.3
Prepayments	2.7	3.2
Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited)	17.9	13.3
Amounts due from subsidiary undertaking (NATS Services DMCC)	0.7	0.5
Amounts due from subsidiary undertaking (NATS (USA) Inc.)	0.5	0.5
Amounts due from subsidiary undertaking (NATS Services (Hong Kong) Limited)	3.1	1.9
	<u>73.4</u>	<u>70.8</u>

From 1 April 2019, rent payments made in advance are no longer shown within prepayments above. These amounts are now taken into consideration when calculating the right-of-use asset value under IFRS 16 (see note 16).

Contract assets, which are all current, are expected to transfer to receivables from customers by 31 March 2021.

The average credit period taken on sales of services is 33 days (2019: 33 days). An allowance has been made for estimated irrecoverable amounts from sales to customers of £0.8m (2019: £0.1m).

Movement in the impairment provision

	2020 £m	2019 £m
Balance at the beginning of the year	0.1	0.1
Increase in allowance recognised in the income statement	0.7	-
Balance at the end of the year	<u>0.8</u>	<u>0.1</u>

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of the trade receivables and contract assets have been considered. Based on this, trade receivables and contract assets have been grouped into sub-groups as they are considered to have different credit risk characteristics: UK Airports; Defence services and Other UK Business; and International. For each of these sub-groups separate provision matrices based on the days past due have been used to summarise historic loss patterns. The historical loss rates calculated reflect the economic conditions in place during the period to which the historical data relates and does not reflect forward looking macro-economic factors. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period for each of these sub-groups at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2020 to reflect the increase in default risk by customers due to the significant impact of Covid-19 on the aviation sector and the historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

Contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for the contract assets.

15. Financial and other assets (continued)

At 31 March 2020 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	2020							Total £m
	Unbilled income	Receivables - months past due					In administration	
		Current	1 month	2-3 months	4-6 months	>6 months		
UK Airports service line								
Expected credit loss rate (%)	0.0%	3.3%	10.0%	8.3%	10.0%	0.0%	100.0%	
Gross carrying amount	3.5	20.0	0.1	-	-	-	-	23.6
Lifetime expected credit loss (£m)	-	0.7	-	-	-	-	-	0.7
Defence and Other UK Business service lines								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount	0.6	16.6	0.1	-	-	-	-	17.3
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-	-
International service line								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	
Gross carrying amount	-	5.1	0.1	0.2	-	0.1	-	5.5
Lifetime expected credit loss (£m)	-	-	-	-	-	0.1	-	0.1
Total expected credit losses (£m)	-	0.7	-	-	-	0.1	-	0.8
2019								
	Unbilled income	Receivables - months past due					In administration	Total £m
		Current	1 month	2-3 months	4-6 months	>6 months		
UK Airports, Defence services and Other UK Business service lines								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Gross carrying amount	4.7	36.2	1.4	0.1	0.3	-	-	42.7
Lifetime expected credit loss (£m)	-	-	-	-	-	-	-	-
International service line								
Expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	
Gross carrying amount	-	5.4	0.4	0.1	-	0.1	-	6.0
Lifetime expected credit loss (£m)	-	-	-	-	-	0.1	-	0.1
Total expected credit losses (£m)	-	-	-	-	-	0.1	-	0.1

15. Financial and other assets (continued)

Non-current trade and other receivables consist mainly of discounts paid to UK Airport customers that are being released against billed revenue over the remaining life of the airport ATC contract. Of these amounts £0.3m will be released by 31 March 2021, £1.0m by 31 March 2025 and £0.3m by 31 March 2029 (2019: £0.6m will be released by 31 March 2021, £0.8m by 31 March 2024 and £0.2m by 31 March 2025). None of those receivables has been subject to a significant increase in credit risk since initial recognition and there are no non-current receivable lifetime expected credit losses.

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

As at 31 March 2020, trade receivables of £0.1m (2019: £0.1m) had lifetime expected credit losses of the full value of the receivables.

There are no receivables in the allowance for doubtful debts which are in administration, receivership or liquidation (2019: £nil).

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the company and short term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets approximates to their fair value.

Overall, the maximum credit risk for the items discussed above and for loans to joint ventures, excluding prepayments and contract spare parts, would be £169.6m (2019: £174.2m).

16. Leases

As indicated in note 2 above, the company has adopted IFRS 16: *Leases* which has resulted in changes in accounting policies and to the amounts recognised in the financial statements. The company has chosen not to restate the comparative year.

IFRS 16 results in lessees accounting for most leases in a manner similar to the way in which finance leases were previously accounted for under IAS 17: *Leases*. Lessees recognise a right-of-use asset and a corresponding financial liability on the balance sheet. The asset is 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 balance sheet shows the following amounts relating to leases:

	31 March 2020 £m	1 April 2019 £m
Right-of-use assets		
Leasehold land and buildings	1.0	1.3
Air traffic control systems, plant and equipment	2.3	3.9
Vehicle, furniture and fittings	0.3	0.2
	<u>3.6</u>	<u>5.4</u>
Lease liabilities	<u>(3.6)</u>	<u>(5.7)</u>

Additions to the right-of-use assets during the year ended 31 March 2020 were £0.5m.

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

	31 March 2020 £m	1 April 2019 £m
Due within one year or less	1.3	2.5
Due between one and two years	0.7	1.2
Due between two and five years	1.5	1.8
Due in more than five years	0.4	0.7
	<u>3.9</u>	<u>6.2</u>
Less: future finance charges	<u>(0.3)</u>	<u>(0.5)</u>
	<u>3.6</u>	<u>5.7</u>
Analysed as:		
	31 March 2020 £m	1 April 2019 £m
Current	1.2	2.3
Non-current	2.4	3.4
	<u>3.6</u>	<u>5.7</u>

16. Leases (continued)

The income statement shows the following amounts relating to leases:

	2020 £m	2019 ^(a) £m
Depreciation and impairment charge for right-of-use assets		
Leasehold land and buildings	0.3	-
Air traffic control systems, plant and equipment	1.6	-
Vehicle, furniture and fittings	0.1	-
	<u>2.0</u>	<u>-</u>
Interest on lease liabilities (see note 9)	<u>0.2</u>	<u>-</u>

(a)

The company has chosen to adopt IFRS 16: *Leases* from 1 April 2019 using the modified retrospective approach which does not require comparatives to be restated.

Minimum lease payments under operating leases recognised in the income statement are £0.1m (2019: £3.0m).

Nature of leasing activities

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

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

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

(b) The fixed/variable payment percentage is calculated based on the value of the lease liability outstanding as at 31 March 2020, divided by the company's total lease liability outstanding at that date.

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

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

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

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

Sale and leaseback transactions entered into before 1 April 2019, are not reassessed to determine whether the transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. The company entered into two new sale and leaseback arrangements in the year to 31 March 2020, additions to right-of-use assets are £0.3m (note 14) and lease liabilities £0.3m.

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

17. Derivative financial instruments**Fair value of derivative financial instruments**

	2020 £m	2019 £m
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	0.1	0.2
	<u>0.1</u>	<u>0.2</u>
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	(0.1)	(0.3)
	<u>(0.1)</u>	<u>(0.3)</u>

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

18. Financial instruments**Capital risk management**

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

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

Categories of financial instrument

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

	2020 £m	2019 £m
Financial assets:		
Financial assets at amortised cost		
Trade and other receivables	71.8	68.7
Loans to joint ventures	18.4	22.5
Cash and cash equivalents and short term investments	79.4	83.0
	<u>169.6</u>	<u>174.2</u>
Derivative financial instruments		
In designated hedge accounting relationships	0.1	0.2
	<u>0.1</u>	<u>0.2</u>
	<u>169.7</u>	<u>174.4</u>
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and other payables	(38.4)	(35.6)
Lease liabilities	(3.6)	-
	<u>(42.0)</u>	<u>(35.6)</u>
Derivative financial instruments		
In designated hedge accounting relationships	(0.1)	(0.3)
	<u>(0.1)</u>	<u>(0.3)</u>
	<u>(42.1)</u>	<u>(35.9)</u>

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £2.9m (2019: £4.1m) and contract spare parts of £0.5m (2019: £0.5m)), loans to joint ventures, cash and cash equivalents and short term investments.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £20.0m (2019: £20.3m), deferred income of £1.4m (2019: £1.7m) and VAT of £0.8m (2019: £2.7m)) and lease liabilities.

Financial risk management objectives

The NATS group's treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets at least three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2020.

18. Financial instruments (continued)**Market risk**

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

Foreign currency risk management

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

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

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

	Assets		Liabilities	
	2020 £m	2019 £m	2020 £m	2019 £m
Euro	4.6	0.9	(1.9)	(1.4)
Canadian dollar	1.8	1.8	(0.2)	-
Kuwaiti dinar	0.4	0.3	-	-
Norwegian krone	0.3	-	(0.1)	-
Philippine peso	0.4	0.4	-	-
Qatari riyal	1.2	1.1	-	-
Singapore dollar	0.7	2.2	(0.1)	(0.1)
Swedish krona	0.3	0.3	-	(0.3)
Thai baht	0.6	3.7	-	(0.1)
UAE dirham	1.0	1.2	-	-
US dollar	0.6	1.7	(0.4)	(0.4)
	<u>11.9</u>	<u>13.6</u>	<u>(2.7)</u>	<u>(2.3)</u>

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £6.7m at 31 March 2020 (2019: £5.4m) in euro, Canadian dollars, Kuwaiti dinar, Norwegian krone, Qatari riyal, Singapore dollars, Swedish krona, Thai baht, UAE dirham and US dollars. Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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

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

Currency	2020 Impact £m	2019 Impact £m
Euro	(0.3)	(0.7)
Canadian dollar	(0.3)	(0.2)
Kuwaiti dinar	(0.1)	-
Philippine peso	(0.1)	(0.1)
Qatari riyal	(0.1)	(0.1)
Singapore dollar	0.2	-
Thai baht	(0.1)	(0.4)
UAE dirham	(0.1)	(0.1)
US dollar	(0.1)	(0.2)
	<u>(1.0)</u>	<u>(1.8)</u>

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

18. Financial instruments (continued)**Forward foreign exchange contracts**

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

The following contracts were outstanding at year end:

	2020			2019		
	£m	€m	Average exchange rate	£m	€m	Average exchange rate
Euro sold						
91-365 days	-	-	-	5.8	6.6	0.8853
	-	-	-	5.8	6.6	0.8853
Euro bought	€m	£m		€m	£m	
0-90 days	0.2	0.2	0.8703	6.1	5.2	0.8639
91-365 days	0.1	0.1	0.8719	8.6	7.6	0.8889
	0.3	0.3	0.8707	14.7	12.8	0.8760
Canadian dollar bought	C\$m	£m		C\$m	£m	
0-90 days	0.6	0.4	1.7649	-	-	-
91-365 days	0.5	0.3	1.6791	0.4	0.2	1.9855
> 365 days	1.6	0.9	1.7765	-	-	-
	2.7	1.6	1.7563	0.4	0.2	1.9855
Norwegian krone bought	NOKm	£m		NOKm	£m	
0-90 days	-	-	-	1.1	0.1	11.0369
	-	-	-	1.1	0.1	11.0369
Singapore dollar sold	£m	SGDm		£m	SGDm	
0-90 days	2.3	4.2	1.8125	1.2	2.1	1.7840
91-365 days	-	-	-	1.1	2.1	1.8428
	2.3	4.2	1.8125	2.3	4.2	1.8129
Swedish krona bought	SEKm	£m		SEKm	£m	
0-90 days	-	-	-	1.3	0.1	11.1058
91-365 days	-	-	-	3.3	0.3	11.0590
	-	-	-	4.6	0.4	11.0723
US dollar bought	\$m	£m		\$m	£m	
91-365 days	1.1	0.9	1.3069	1.1	0.8	1.3675
	1.1	0.9	1.3069	1.1	0.8	1.3675

At 31 March 2020, the aggregate amount under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £nil (2019: unrealised gain of £0.2m). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement for hedges relating to revenue expenditure or capitalised and depreciated for those relating to capital expenditure.

Interest rate risk management

The company had no debt at 31 March 2020 or 31 March 2019 and therefore was not exposed to any interest rate risk on borrowings.

18. Financial instruments (continued)**Economic interest rate exposure**

The company held cash and short term deposits as follows:

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

Currency	2019						
	Cash			Short term deposits			Total
	Amount £m	Economic interest rate %	Average maturity days	Amount £m	Economic interest rate %	Average maturity days	Amount £m
Sterling	67.6	0.8	26	10.0	1.0	128	77.6
Euro	0.2	-	1	-	-	-	0.2
Canadian dollar	0.3	-	1	-	-	-	0.3
Kuwaiti dinar	0.3	-	1	-	-	-	0.3
Qatari riyal	0.6	-	1	-	-	-	0.6
Singapore Dollar	1.1	-	1	-	-	-	1.1
Swedish krona	0.3	-	1	-	-	-	0.3
Thai baht	0.9	-	1	-	-	-	0.9
UAE dirham	0.5	-	1	-	-	-	0.5
US dollar	1.2	-	1	-	-	-	1.2
	<u>73.0</u>			<u>10.0</u>			<u>83.0</u>

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

Interest rate sensitivity analysis

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

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

	2020 Impact £m	2019 Impact £m
Cash at bank and short term deposits (2020: £79.4m, 2019: £83.0m)	<u>0.8</u>	<u>0.8</u>

18. Financial instruments (continued)**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 15. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's and Fitch Ratings.

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

Currently, the company's investments take the form of bank time deposits and money market fund investments. Investments in bank time deposits with maturities up to three months and between three and six months are only entered into with institutions holding a long term minimum credit rating of AA- and A+ respectively from Standard & Poor's or Fitch Ratings and Aa3 from Moody's. However, dependent on market conditions, tighter restrictions on rating requirements and lower limits may be placed on the duration of deposits. Money market fund investments are restricted to AAAm rated liquidity funds.

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

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

Rating (Standard & Poor's)	2020			2019		
	Number of institutions	£m	By credit rating %	Number of institutions	£m	By credit rating %
AAAm	5	33.6	42.3	5	37.3	45.0
AA-	2	21.5	27.1	3	32.5	39.2
A+	1	15.0	18.9	-	-	-
A-	1	9.3	11.7	1	7.5	9.0
BBB+	-	-	-	1	5.7	6.8
		<u>79.4</u>	<u>100.0</u>		<u>83.0</u>	<u>100.0</u>

The deposits of £nil (2019: £5.7m) with a BBB+ rated institution were held in various current accounts that are not subject to the above investment limits.

Liquidity risk management

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

To provide liquidity, NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2020 (31 March 2019: uncommitted overdraft of £1.0m undrawn).

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

	2020			2019		
	Lease liabilities £m	Other liabilities £m	Total £m	Lease liabilities £m	Other liabilities £m	Other liabilities £m
Due within one year or less	1.3	38.3	39.6	-	35.5	35.5
Between one and two years	0.7	-	0.7	-	-	-
Due between two and five years	1.5	-	1.5	-	-	-
Due in more than five years	0.4	0.1	0.5	-	0.1	0.1
	<u>3.9</u>	<u>38.4</u>	<u>42.3</u>	<u>-</u>	<u>35.6</u>	<u>35.6</u>
Less: future finance charges	(0.3)	-	(0.3)	-	-	-
	<u>3.6</u>	<u>38.4</u>	<u>42.0</u>	<u>-</u>	<u>35.6</u>	<u>35.6</u>

18. Financial instruments (continued)**Fair value measurements**

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

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

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

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

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

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments in designated hedge accounting relationships	-	0.1	-	0.1	-	0.2	-	0.2
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	-	(0.1)	-	(0.1)	-	(0.3)	-	(0.3)

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

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

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

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

19. Financial and other liabilities**Trade and other payables**

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

	2020 £m	2019 £m
Current		
Trade payables	2.8	3.0
Other payables	1.3	3.7
Contract liabilities	9.6	7.8
Amounts due to parent company	16.1	15.2
Amounts due to fellow subsidiary undertaking (NATS (En Route) plc)	4.5	2.9
Amounts due to subsidiary undertaking (NATS Solutions Limited)	0.3	0.3
Accruals and deferred income (including deferred grants)	14.7	13.7
	<u>49.3</u>	<u>46.6</u>
Non-current		
Other payables	0.1	0.1
Contract liabilities	10.4	12.5
Accruals and deferred income (including deferred grants)	0.8	1.1
	<u>11.3</u>	<u>13.7</u>
	<u>60.6</u>	<u>60.3</u>

From 1 April 2019, rent payments made in arrears and rent free periods are no longer shown within accruals and deferred income above. These amounts are now taken into consideration when calculating the right-of-use asset value under IFRS 16 (see note 16).

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 37 days (2019: 29 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

20. Provisions

	Total £m	
At 1 April 2019		1.7
Additional provision in the year		0.6
Utilisation of provision		(0.3)
At 31 March 2020		<u>2.0</u>
	2020	2019
	£m	£m
Amounts due for settlement within 12 months	0.1	1.0
Amounts due for settlement after 12 months	1.9	0.7
	<u>2.0</u>	<u>1.7</u>

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

21. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Other £m	Total £m
At 1 April 2018	(0.2)	3.9	(0.3)	3.4
(Credit)/charge to income	(0.5)	1.5	(0.2)	0.8
(Credit)/charge to equity	-	(6.2)	0.1	(6.1)
At 31 March 2019	<u>(0.7)</u>	<u>(0.8)</u>	<u>(0.4)</u>	<u>(1.9)</u>
At 1 April 2019	(0.7)	(0.8)	(0.4)	(1.9)
(Credit)/charge to income	(0.2)	1.1	(0.3)	0.6
Charge/(credit) to equity	-	9.0	(0.1)	8.9
At 31 March 2020	<u>(0.9)</u>	<u>9.3</u>	<u>(0.8)</u>	<u>7.6</u>

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

	2020 £m	2019 £m
Deferred tax liabilities	9.3	-
Deferred tax assets	(1.7)	(1.9)
	<u>7.6</u>	<u>(1.9)</u>

22. Share capital

	Authorised Number of shares	£m	Called up, allotted and fully paid Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2019 and 31 March 2020	<u>100,000</u>	<u>0.1</u>	<u>100,000</u>	<u>0.1</u>

23. Notes to the cash flow statement

	2020 £m	2019 £m
Operating (loss)/profit from continuing operations	(7.5)	11.9
Adjustments for:		
Depreciation of property, plant & equipment	2.5	2.1
Depreciation of right-of-use assets	1.8	-
Amortisation of intangible assets	0.3	0.7
Impairment charges	4.5	1.0
Impairment of investments in subsidiaries	7.5	0.1
Deferred grants released	(0.3)	(0.3)
Profit on disposal of non-current assets	(0.8)	(2.1)
Adjustment for pension funding	(5.9)	(7.8)
Operating cash flows before movements in working capital	2.1	5.6
Increase in amounts recoverable under contracts	(1.3)	(0.6)
Decrease in trade and other receivables	3.7	3.1
(Decrease)/increase in trade, other payables and provisions	(0.7)	4.3
(Decrease)/increase in amounts due to other group undertakings	(4.1)	3.0
Cash (used by)/generated from operations	(0.3)	15.4
Tax paid	(0.1)	(0.5)
Net cash(outflow)/inflow from operating activities	(0.4)	14.9

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.

Reconciliation of net financial assets

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

	Assets		Liabilities	Net financial assets
	Cash and cash equivalents £m	Short term investments £m	Lease liabilities £m	Total £m
Net financial assets as at 1 April 2018	104.0	-	-	104.0
Cash flows	(31.0)	10.0	-	(21.0)
Net financial assets as at 31 March 2019	73.0	10.0	-	83.0
Adjustment on initial application of IFRS 16 (see notes 16 and 30)	-	-	(5.7)	(5.7)
Net financial assets as at 1 April 2019 (as restated for IFRS 16)	73.0	10.0	(5.7)	77.3
Cash flows	(3.6)	-	2.3	(1.3)
New leases in the period	-	-	(0.5)	(0.5)
Effect of modification to lease terms	-	-	0.1	0.1
Terminations	-	-	0.2	0.2
Net financial assets as at 31 March 2020	69.4	10.0	(3.6)	75.8

24. Financial commitments

	2020 £m	2019 £m
Capital commitments contracted but not provided for in the accounts	0.8	1.2

Guarantees

NATS Services has committed to providing its subsidiaries NATS Solutions Limited, NATS Services DMCC, NATS Services (Asia Pacific) Pte.Limited, NATS Services (Hong Kong) Limited, and NATS Services LLC with financial support to enable them to continue trading and to meet all liabilities known or reasonably foreseeable at the year end as they fall due. NATS Solutions Limited had net liabilities at 31 March 2020 of £4,914 (2019: net assets of £3,551). NATS Services DMCC had net assets at 31 March 2020 of £0.3m (2019: £0.3m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2020 of £6.5m (2019: £6.7m). NATS Services (Hong Kong) Limited had net assets at 31 March 2020 of £1.8m (2019: £0.3m). NATS Services LLC had net assets at 31 March 2020 of £0.3m (2019: £0.3m).

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

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

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

Bid and performance bonds

As part of the tendering process for new contracts, NATS Services may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2020 was £7.9m (2019: £8.2m).

25. Share based payments

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

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

	No. employee shares outstanding at 31 March 2020	No. employee shares outstanding at 31 March 2019
Date of share awards		
Free share awards		
21 September 2001	42,750	45,158
20 October 2003	38,102	40,204
10 September 2004	57,637	64,437
11 January 2008	44,909	49,749
18 September 2009	50,200	56,200
Partnership shares		
1 March 2011	43,928	49,340
26 September 2012	57,472	67,044
30 May 2014	54,218	76,790
31 October 2016	87,397	90,810
31 October 2018	119,547	122,831
Matching shares		
1 March 2011	43,676	48,988
26 September 2012	57,192	65,844
30 May 2014	53,968	76,790
31 October 2016	87,397	90,810
31 October 2018	119,547	122,831
	957,940	1,067,826
Dividend shares issued on 28 June 2005	4,822	5,158
Total employee shares in issue at 31 March	962,762	1,072,984

25. Share based payments (continued)

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

	Movement in the no. of shares during the year ended 31 March 2020	Movement in the no. of shares during the year ended 31 March 2019
Balance at 1 April	1,072,984	944,558
Granted during the year	-	252,862
Forfeited during the year	(3,332)	(6,288)
Exercised during the year	(120,563)	(105,099)
Staff transfers between group companies	13,673	(13,049)
Balance at 31 March	962,762	1,072,984

These shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid-19 had a significant and material impact. The fair value of an employee share was estimated by reference to a comparable listed company at 31 March 2020 to be £2.85. The independent valuation at 30 June 2019 was £3.85. The liability for the employee shares at 31 March 2020 was £2.6m (2019: £3.6m) included in amounts due to parent company. The income statement includes a credit of £0.8m (2019: £0.5m charge). The payments made to employees for the shares they exercised during the year was £0.5m (2019: £0.4m).

26. Retirement benefit schemes**Defined contribution scheme**

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

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2020 employer contributions of £3.5m (2019: £2.8m), excluding employee salary sacrifice contributions of £1.9m (2019: £1.5m), represented 16.1% of pensionable pay (2019: 15.6%).

The defined contribution scheme had 405 members at 31 March 2020 (2019: 312).

Defined benefit scheme

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

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

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

Trustees' funding assessment

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

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

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

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

26. Retirement benefit schemes (continued)**Contributions to the pension scheme**

Following the 2017 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 2026. Under the schedule of contributions, normal contributions are paid at 41.7% payable from 1 January 2020 onwards. The NATS group paid deficit recovery contributions of £40.8m in the 2018 calendar year and £41.8m in the 2019 calendar year. 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 at £2.3m per year. NATS Services' share of deficit recovery contributions is c.23%.

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

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

During the year the company paid cash contributions to the scheme of £22.8m (2019: £23.3m). This amount included £1.9m (2019: £2.0m) 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 58.6% (2019: 58.0%) of pensionable salaries.

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

The estimated contributions expected to be paid by the company to the scheme during the financial year ending 31 March 2021 is £22.3m, including salary sacrifice contributions estimated at £2.0m.

Company's accounting valuation under international accounting standards

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

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

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

An actuarial valuation for IAS19 purposes was carried out at 31 March 2020 (based on 31 December 2019 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:

	2020	2019	2018
RPI inflation	2.45%	3.10%	3.00%
CPI inflation	1.85%	2.00%	1.90%
Increase in:			
- salaries	1.85%	2.00%	1.90%
- deferred pensions	2.45%	3.10%	3.00%
- pensions in payment	2.45%	3.10%	3.00%
Discount rate for net interest expense	2.30%	2.45%	2.65%

The mortality assumptions have been drawn from actuarial tables 97% S2PMA light and 102% S2PFA light (2019: 97% S2PMA light and 102% S2PFA light) with future improvements in line with CMI 2016 (2019: CMI 2016) projections for male/female members, subject to a long term improvement of 1.5% p.a (2019: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 29.1 years and a female pensioner is 29.7 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (47), 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.

26. Retirement benefit schemes (continued)

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

- a) asset volatility: for accounting purposes, scheme liabilities are determined using a discount rate set by reference to high quality corporate bond yields. If scheme assets under-perform relative to this yield, this will create a deficit. As explained below, NATS and Trustees have taken and continue to review measures to de-risk the scheme by investing more in assets which better match the liabilities.
- b) changes in bond yields: a decrease in the yield on high quality corporate bonds will increase scheme obligations, although this is partly mitigated by an increase in the value of the scheme's holdings of bonds.
- c) inflation risk: the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. As discussed further below, the Scheme has implemented a liability driven investment programme to partially protect the funding position from changes in inflation. Furthermore, some of the scheme's assets (such as equities) are real in nature and so provide some additional inflation protection, but overall, an increase in inflation will adversely impact on the funding position.
- d) life expectancy (mortality): the majority of the scheme's obligations are to provide benefits for the life of a member, so an increase in life expectancy will result in an increase in the scheme's obligations.

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

Assumption:	Change in assumption:	Impact on scheme liabilities:
Discount rate (bond yields)	Increase/decrease by 0.5%	Decrease by 9.9%/increase by 11.5%
Rate of inflation	Increase/decrease by 0.5%	Increase by 11.1%/decrease by 9.7%
Rate of salary growth	Increase/decrease by 0.5%	Increase by 2.5%/decrease by 2.4%
Rate of mortality	1 year increase in life expectancy	Increase by 3.1%

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

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

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

	2020 £m	2019 £m
Current service cost	(16.7)	(15.8)
Past service cost	-	(0.2)
Net interest expense	0.2	0.9
Administrative expenses	(0.4)	(0.4)
Components of defined benefit costs recognised within operating profit	<u>(16.9)</u>	<u>(15.5)</u>

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

	2020 £m	2019 £m
Return on plan assets (excluding amounts included in net interest expense)	(45.9)	65.3
Actuarial gains and losses arising from changes in financial assumptions	91.5	(90.3)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	2.1	(10.3)
	<u>47.7</u>	<u>(35.3)</u>

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

	2020 £m	2019 £m
Present value of defined benefit obligations	(935.3)	(1,014.8)
Fair value of scheme assets	984.2	1,010.1
Surplus/(deficit) in scheme	<u>48.9</u>	<u>(4.7)</u>

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

	2020 £m	2019 £m
At 1 April	(1,014.8)	(899.1)
Current service cost	(16.7)	(15.8)
Past service cost	-	(0.2)
Interest expense on defined benefit scheme obligations	(24.5)	(23.5)
Actuarial gains and losses arising from changes in financial assumptions	91.5	(90.3)
Actuarial gains and losses arising from changes in demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	2.1	(10.3)
Benefits paid	27.1	24.4
At 31 March	<u>(935.3)</u>	<u>(1,014.8)</u>

26. Retirement benefit schemes (continued)

The average duration of the scheme's liabilities at the end of the year is 21.2 years (2019: 21.6 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2020 £m	2019 £m
Active members	398.9	448.5
Deferred members	133.8	142.3
Pensioners	402.6	424.0
	<u>935.3</u>	<u>1,014.8</u>

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

	2020 £m	2019 £m
At 1 April	1,010.1	921.9
Interest income on scheme assets	24.7	24.4
Return on plan assets (excluding amounts included in net interest expense)	(45.9)	65.3
Contributions from sponsoring company	22.8	23.3
Benefits paid	(27.1)	(24.4)
Administrative expenses	(0.4)	(0.4)
At 31 March	<u>984.2</u>	<u>1,010.1</u>

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

	2020 £m	2019 £m
Cash and cash equivalents	8.6	6.7
Equity instruments		
- Emerging markets	23.1	30.8
- Global	163.5	172.4
	<u>186.6</u>	<u>203.2</u>
Bonds		
- Fixed income	385.5	345.9
- Index-linked gilts over 5 years	279.9	328.5
	<u>665.4</u>	<u>674.4</u>
Other investments		
- Property	51.0	52.3
- Hedge funds	46.2	47.7
- Private equity funds	27.6	26.7
	<u>124.8</u>	<u>126.7</u>
Derivatives		
- Futures contracts	(1.2)	(0.9)
	<u>984.2</u>	<u>1,010.1</u>

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

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

NATS and the Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. The strategy includes establishing trigger levels which define the rates of interest and inflation rates at which hedging transactions will be executed. In addition, and as an acceleration of the existing strategy, NATS and the Trustees agreed during 2014 to increase the level of hedging of interest rates and inflation to 50%, as measured on the Trustee funding basis. During 2018 it was agreed to further increase the level of hedging of interest rates and inflation to 65%, as measured on the Trustee funding basis. Swap transactions are executed with carefully scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

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

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

The actual return on scheme assets for the year ended 31 March 2020 was a loss of £21.2m (2019: £89.7m gain).

27. Related party transactions

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

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

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

Transactions between the company and its joint ventures, which are related parties, are disclosed below and in note 28.

Trading transactions

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

	Sales		Purchases	
	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2020	Year ended 31 March 2019
	£m	£m	£m	£m
LHR Airports Limited	49.1	55.5	0.3	0.4
Ministry of Defence (MOD)	-	0.1	-	-
Meteorological Office	-	-	0.2	0.2
FerroNATS Air Traffic Services SA	0.5	0.4	-	-
Aquila Air Traffic Management Services Limited	22.5	25.3	0.5	0.1
Searidge Technologies Inc	0.1	0.1	2.3	0.9
	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2020	Year ended 31 March 2019
	£m	£m	£m	£m
LHR Airports Limited	5.8	10.3	0.1	-
Ministry of Defence (MOD)	-	-	-	-
Meteorological Office	-	-	-	0.2
FerroNATS Air Traffic Services SA	-	-	-	-
Aquila Air Traffic Management Services Limited	0.2	2.4	0.3	-
Searidge Technologies Inc	-	-	0.1	-

The company also entered into transactions with its parent, fellow subsidiary and subsidiary undertakings. Sales to these related parties are disclosed in note 4 and purchases in note 6. Amounts owed by and to these related parties are shown in note 15 and note 19 respectively.

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 24. No provisions (2019: £nil) have been made for doubtful debts in respect of amounts owed by related parties.

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

Directors' remuneration

The aggregate remuneration earned by the directors and the highest paid director of the company in the year was £555,000 (2019: £351,000). The number of directors paid by the company during the year was one (2019: one). The director does not participate in a company pension scheme.

Remuneration of key management personnel

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

	2020 £m	2019 £m
Short term employee benefits	1.4	1.3
Post-employment benefits	0.2	0.2
Other long term benefits	-	-
Termination benefits	-	-
	1.6	1.5

28. Subsidiaries, joint ventures and associates**Movements in the carrying value of subsidiaries and joint ventures**

	Subsidiary undertakings			Joint ventures		Total
	NATS (USA) Inc. £m	NATS (Services) Canada Inc. £m	NATS Services (Asia Pacific) Pte. Limited £m	FerroNATS Air Traffic Services SA £m	Aquila Air Traffic Management Services Limited £m	
Carrying value						
At 1 April 2019	50.9	4.7	0.1	2.2	0.1	58.0
Impairment charge	(2.8)	(4.7)	-	-	-	(7.5)
At 31 March 2020	48.1	-	0.1	2.2	0.1	50.5

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

Subsidiaries

The company's subsidiaries at 31 March 2020 were:

Name of company	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
Direct holding:				
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite based navigation	100%	England and Wales	United Kingdom
National Air Traffic Services Limited*	Dormant	100%	England and Wales	United Kingdom
NATS Services (Asia Pacific) Pte. Limited <i>3 Raffles Place, #06-01 Bharat Building, Singapore 048617</i>	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services DMCC <i>Suite 1201, Platinum Tower, Plot No. PH1-12, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates</i>	ATM consultancy	100%	UAE	UAE
NATS Services (Hong Kong) Limited <i>31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong</i>	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
NATS (USA) Inc. <i>The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States</i>	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc. <i>100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada</i>	Digital airport air traffic services	100%	Canada	Canada
Indirect holding:				
NATS Services LLC <i>PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman</i>	ATM consultancy	70%	Oman	Oman

The investment in NATS Services LLC is held by NATS Services DMCC.

* The registered office address of the entities registered in England and Wales is: 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom.

NATS (USA) Inc.

On 16 May 2018, the company made an investment of £51.0m (US\$68.75m) in its wholly owned subsidiary, NATS (USA) Inc. On the same day NATS (USA) Inc., invested the proceeds to acquire convertible preferred interests with voting rights of 9.1% of Aireon LLC, a limited liability company incorporated in Delaware USA which is developing a space-based air traffic surveillance system. During the year ended 31 March 2019, a new company was created, Aireon Holdings LLC, which now owns 100% of Aireon LLC. At the same time NATS (USA) Inc's holdings in Aireon LLC were transferred to identical holdings in Aireon Holdings LLC. The investment is intended to result in fully diluted ordinary interests with voting rights of 11.1% by 2 January 2022. NATS is entitled to appoint one of the eleven Board members. NATS Services' investment in NATS (USA) Inc. was greater than its net assets and resulted in an impairment charge of £2.8m in the year (2019: £0.1m).

28. Subsidiaries, joint ventures and associates (continued)**NATS (Services) Canada Inc.**

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

On 26 April 2018 there was a capital reduction in NATS (Services) Canada Inc. of CAD\$0.7m (£0.5m) which related to unpaid share capital. NATS Services' investment in NATS (Services) Canada Inc. was greater than its net assets and resulted in an impairment charge of £4.7m in the year (2019: £nil).

The financial transactions with these subsidiaries have been disclosed in note 4 and note 6 as appropriate and the balances due from/to these subsidiaries are disclosed in notes 15 and 19 as appropriate.

Joint ventures and associates

The company held interests in two joint ventures, FerroNATS Air Traffic Services SA and Aquila Air Traffic Management Services Limited, as at 31 March 2020. Its subsidiary entities, NATSNav Limited and NATS (Services) Canada Inc. held interests in European Satellite Services Provider SAS and Searidge Technologies Inc. respectively. Details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
European Satellite Services Provider SAS <i>18, Avenue Edouard Belin - BPI 02, 31 401 Toulouse Cedex 9,</i>	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA <i>Calle Principe de Vergara, 135, 28002, Madrid, Spain</i>	Airport air traffic services	28 January 2011	50%	Spain
Aquila Air Traffic Management Services Limited <i>2 Dashwood Lang Road, The Bourne Business Park, Addlestone, Surrey, KT15 2NX, United Kingdom</i>	Asset provision and ATM services to UK MOD	9 October 2014	50%	United Kingdom
Searidge Technologies Inc <i>19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada</i>	Digital airport air traffic services	26 April 2017	50%	Canada

European Satellite Services Provider SAS (ESSP)

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

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

FerroNATS Air Traffic Services SA (FerroNATS)

In January 2011, the company acquired 50% of the issued share capital of FerroNATS for a cash consideration of €0.1m (£0.1m). Since then, the company has purchased additional share capital for a cash consideration of €2.6m (£2.1m), maintaining a 50% holding of the issued share capital. FerroNATS is a joint venture with Ferrovial Servicios SA. FerroNATS provides air traffic control services at 13 airports across Spain.

NATS Services received a dividend of €0.6m (£0.5m) from FerroNATS in the year (2019: €0.8m, £0.8m).

Aquila Air Traffic Management Services Limited (Aquila)

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

During the year, Aquila repaid loan finance of £5.4m (net) (2019: £1.4m draw down). At 31 March 2020, the loan (including interest) outstanding was £16.8m (2019: £21.1m).

Searidge Technologies Inc. (Searidge)

On 26 April 2017, NATS (Services) Canada Inc. acquired 50% of the voting equity interest of Searidge Technologies Inc. The Searidge investment is a joint venture with NAVCanada. Searidge works with airports around the world, providing technology that helps reduce delays, increase efficiency, and overall safety. This includes the delivery of digital tower solutions, which see air traffic controllers managing aircraft from remote facilities instead of in traditional airport towers.

During the year, Searidge drew down loan finance of CAD\$0.3m (£0.2m) from the company (2019: CAD\$0.4m, £0.2m). At 31 March 2020, the loan, including interest, outstanding was CAD\$2.8m (£1.6m) (2019: CAD\$2.5m, £1.4m).

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

NATS Services has not presented summarised financial information relating to the year ended 31 March 2020. The summary financial information relating to the above joint ventures and associates is presented in the NATS Holdings Limited consolidated accounts.

29. Parent undertaking

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

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

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

30. Change in accounting policy

The company adopted IFRS 16 from 1 April 2019 using the modified retrospective approach and accordingly, has not restated comparatives. The reclassifications and transitional adjustments arising from initial application are recognised in the opening balance sheet on 1 April 2019. On adoption the company recognised right-of-use assets and lease liabilities in relation to property, plant, equipment and vehicles. The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and rent free periods. The liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessee, based on the duration and the nature of the lease, and the jurisdiction in which the lessee is based, at 1 April 2019. The company's weighted average incremental borrowing rate on 1 April 2019 was 3.46%.

Practical expedients applied on transition

In applying the modified retrospective approach, the company has taken advantage of the following practical expedients:

- Reliance on previous assessments on whether leases are onerous instead of performing an impairment review; and
- The use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

On transition the company reassessed its lease portfolio and whether a contract is or contains a lease at the date of initial application. The impact of this reassessment is shown in the reconciliation of operating lease commitments shown below.

The aggregate lease liability recognised in the balance sheet at 1 April 2019 and the company's operating lease commitment at 31 March 2019 can be reconciled as follows:

	1 April 2019 £m
Operating lease commitment at 31 March 2019	10.5
Agreements determined as not giving rise to a right-of-use asset under IFRS 16 ¹	(5.5)
Effect of discounting lease commitments within the scope of IFRS 16 at the date of initial application ²	(0.5)
Effect of extending the term on airport equipment leases ³	1.2
	<hr/>
Lease liabilities at 1 April 2019	5.7

¹ The company has reviewed each of its operating leases and other contracts to determine whether these agreements give rise to the recognition of a right-of-use asset under IFRS16. As a result of that review certain categories of assets have been determined as not giving rise to a right-of-use asset:

- Leases of land and buildings from airports. NATS Services does not have the right to direct the use of these assets, the purpose of which has been predetermined and cannot be changed. NATS Services' rights are limited to operating the asset for the provision of air navigation services;
- Property agreements which provide only access rights and impose restrictions or licences where no exclusive use of the property is granted; and
- Leases for cars provided as an employee benefit under IAS 19.

² The previously disclosed lease operating commitments were undiscounted, while the IFRS 16 obligations have been discounted based on the incremental borrowing rate.

³ The term on airport equipment leases assumed for the disclosure of operating lease commitments was the non-cancellable period of the lease. Under IFRS 16 the term has been assumed to be extended to include the period to which the company is reasonably certain that options to extend the leases will be exercised.

The company did not have any finance leases prior to 1 April 2019.

Adjustments recognised in the balance sheet on 1 April 2019

The change in accounting policy resulted in adjustments to the following items in the balance sheet at 1 April 2019:

	1 April 2019 £m
Recognition of right-of-use assets (net of depreciation of £0.5m)	5.4
Decrease in prepayments and accrued income	(0.2)
Decrease in accruals and deferred income	0.5
Recognition of lease liabilities	(5.7)
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Impact on retained earnings	-

31. Events after the reporting period

In September 2020 the company's parent, which second staff to NATS Services, entered into a voluntary redundancy programme to reduce its cost base to reflect the reduction in demand for air travel across the aviation sector as a result of Covid-19.

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

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

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