NATS

NATS Holdings Limited

Annual Report and Accounts 2022

Year ended 31 March

2022

nats.aero

Company Number: 04138218

Highlights

Financial highlights (year ended 31 March) £m (unless specified)	2022	2021	Change (%)
Revenue and regulatory allowances	**749.8**	823.0	-8.9
Profit/(loss) before tax	**8.7**	(37.8)	-
Cash used in operations	**(172.5)**	(264.5)	+34.8
Capital expenditure	**100.1**	78.8	+27.0
Net debt[a]	**849.5**	502.8	+69.0
Gearing[b] (%)	**60.1%**	49.6%	+21.2
Dividends	**nil**	nil	-

Notes: [a] see note 29 to the financial statements. Net debt excludes derivative financial instruments; [b] ratio of NERL's net debt (as defined by its licence) to regulatory assets[1]

Financial highlights

- We handled 1.29m flights (2021: 661,000) as Covid travel restrictions lifted. Whilst a 95% increase on the prior year, this was still only equivalent to 50% of pre-pandemic volumes, resulting in an operating cash outflow before capital investment and financing of £172.5m (2021: £264.5m outflow).
- The group reported a profit of £8.7m, after refinancing costs of £41.7m. As for the prior year, the result includes an assessment of regulatory allowances for the Covid revenue shortfall which are being determined by the CAA's retrospective reconciliation of revenue and costs. The prior year loss included redundancy costs (of £65.2m) and a goodwill impairment charge (of £111m).
- In June 2021, NERL completed a full refinancing of its debt structure. It secured £1.6bn of funding by issuing £750m of unsecured bonds and agreed £850m of new unsecured bank facilities. This enabled the repayment of more expensive secured bonds in place since 2003 and of existing bank borrowings. The refinancing ensures the group is well placed for a range of recovery outcomes.
- In December 2021, we acquired the remaining 50% of Searidge, a leader in digital towers and advanced airport solutions.

Operational highlights

- Covid continued to have a significant impact on our operation. Our priority continued to be the health and wellbeing of our employees while maintaining a safe and resilient service for our customers. We have retained the skills and capacity to safely support the recovery of aviation.
- We maintained our strong safety performance with no risk-bearing airprox[2] attributed to our operation. We carefully monitored and mitigated risks to safety as flight volumes started recovering.
- Following one of the biggest airspace changes undertaken, we removed long-established air routes over Scotland, freeing aircraft to choose a more direct flight path. We also amended Luton Airport arrival routes.
- We presented our business plan for the next five-year price control (NR23: 2023 to 2027) to the Civil Aviation Authority (CAA) for its review and decision later this year. The plan reflected an extensive consultation with stakeholders. It delivers a safe and resilient air traffic service at affordable prices to airspace users while ensuring NERL is able to finance its activities. It provides capacity for flight volumes to grow back above 2019 levels during NR23 while enabling environmental and fuel benefits.
- The Secretary of State for Transport extended NERL's licence notice period from 10 to 15 years.
- We extended our ATC and engineering contract with London Heathrow Airport by five years to 2030. We have also started the transition of Gatwick Airport's contract which we will operate from October 2022.

[1] A number of explanatory notes are provided on page 169 of this report. Abbreviations used in this report are provided on page 168.

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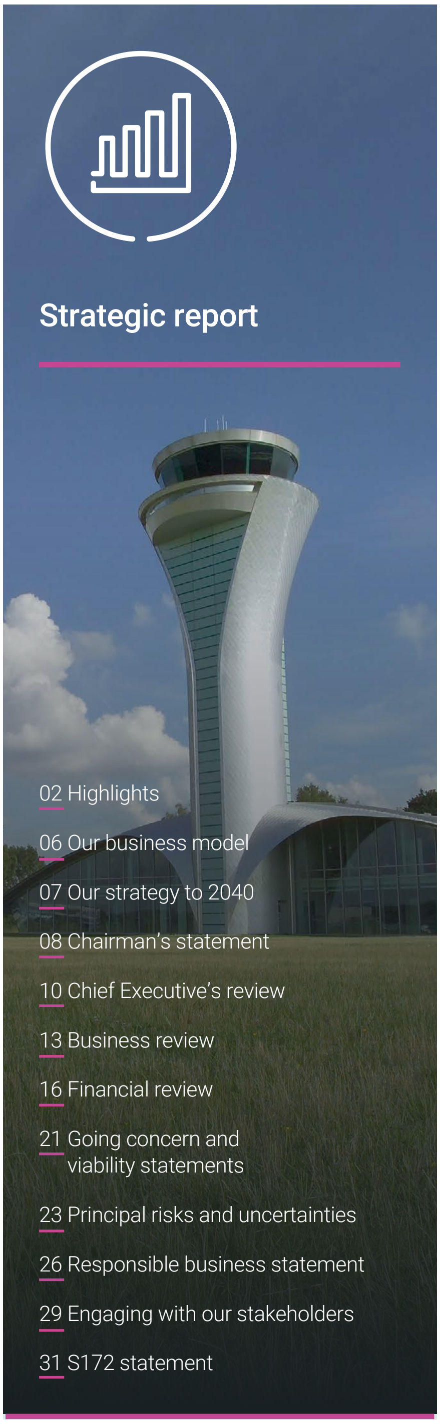

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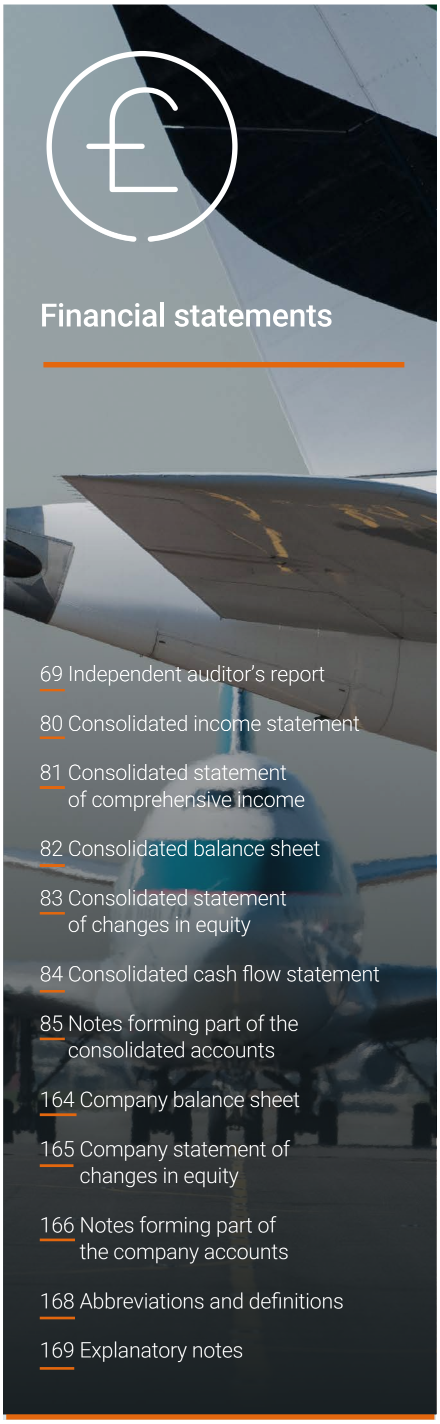

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Strategic report

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Our business model

We generate income from Air Traffic Control (ATC) and related services in the UK and overseas, mainly conducted through NERL and NATS Services.

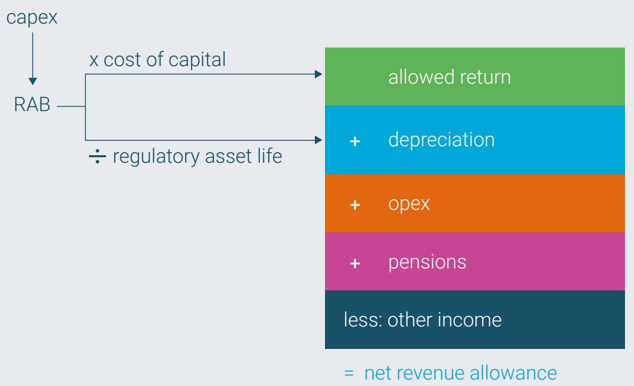
NATS (En Route) plc (NERL)

NERL is our core business and is the sole provider of ATC services for aircraft flying en route in UK airspace and the eastern part of the North Atlantic. It operates under a licence granted under the Transport Act 2000 as amended by the Air Traffic Management and Unmanned Aircraft Act 2021 and is economically and safety regulated by the CAA.

Under the regulatory framework, the CAA establishes revenue allowances for a price control period which remunerate efficient investment (capex), operating costs (opex), pensions and an allowed return on the capital invested in the Regulatory Asset Base (RAB) to recover the cost of capital. The CAA has a duty to ensure that it is not unduly difficult for NERL to finance its activities. The CAA is determining a new five-year price control for 2023 to 2027 (NR23).

The RAB represents the value ascribed to the capital employed in the regulated businesses. Income from other activities is deducted under a 'single till', leaving a net revenue allowance. A price per service unit is set to recover this based on forecast traffic for the price control period. This model is illustrated below.

The economic regulatory framework



The CAA's price control framework also sets targets, and provides incentives, for service, environmental performance, capital investment and gearing levels. If regulatory assumptions are borne out and NERL efficiently meets its targets then NERL would earn a return at the cost of capital. It can outperform if it is more cost efficient than the CAA's assumptions, finances at lower cost, if traffic volumes (after risk sharing - see below) are higher than forecast or if it beats service targets. NERL would earn lower returns if the opposite applied. Regulatory mechanisms mitigate the impact of variations in traffic volumes, inflation and pension contributions from the level assumed and result in adjustments to charges in future periods.

NATS Services (NSL)

NSL operates in contestable markets and services UK and international customers. It earns c98% of its revenue in the UK and c76% from UK Airports.

The UK Airports service currently provides ATC to 13 major UK airports as well as engineering support and airport optimisation services. The company's strategy is to win and retain UK ATC service or engineering support contracts by developing price competitive and innovative solutions.

NSL provides ATC and related engineering services to the UK MOD mainly through the Project Marshall[3] contract that is delivered in partnership with Thales by our Aquila joint venture. Other UK Business includes aeronautical information management, design and data services, digital tower services, consultancy and ATC training to airlines and airspace users.

Our International activities focus on providing the same range of services to the Asia Pacific and Middle East markets and is also targeted to specific international airports and ANSPs. We now own 100% of Searidge Technologies, a Canadian provider of digital tower technology. Our FerroNATS joint venture provides ATC services to airports in Spain. We hold a minority interest in Aireon[4] which provides space-based air traffic surveillance.

Our strategy to 2040

Our purpose

Advancing aviation, keeping the skies safe.

Our values

We are **safe**

We are **courageous**

We are **one team**

We are **respectful**

Our company in 2040

Passionate about aviation, we step forward and seize the opportunities across our evolving industry. Our talented team creates and operates sustainable solutions for all airspace users. Advanced products and services using the latest data, technology and automation result in the skies being safe, efficient and cleaner for everyone. It is why we are proud to connect airspace users, partners and customers in the UK and around the world.

Our strategy to 2040

In the period since the initial outbreak of Covid, the Board assessed the group's strategy and in May 2022 it adopted the outcome of that review. While the company demonstrated its ability to withstand the pandemic, which was the most significant shock ever to its business model, the Board sought to ensure that following Covid the group has a clear strategy for the long-term, reflective of the post-Covid world. In completing the review, the Board considered the value the company will bring to its customers, employees, investors and society more generally.

The strategy is designed to drive the company's purpose of **Advancing aviation, keeping the skies safe**, which is at the heart of why we do what we do and what we are passionate about. The Board also considered the guiding principles underpinning the company's culture and its core values. The review resulted in the Board setting four long-term objectives for delivery by 2040:

- **We will be a top 25 UK company to work for.** We recognise that our employees are our future. We want to retain our brilliant people and attract the best new talent. Inclusion, career development and wellbeing are front and centre of our approach.
- **Every airspace user will rely on our services.** We have a relentless focus on maintaining safety for all airspace users, whoever they are now and whoever they may be in the future, and we will develop the UK's critical national airspace infrastructure to seamlessly integrate their requirements.
- **We will be carbon negative.** We will run our operation sustainably and we will be pro-active in supporting the reduction of the wider aviation industry's impact on the environment.
- **We will be delivering an additional £500m in revenue per year.** We will achieve this by providing competitive and market leading propositions to UK and international customers aligned with their strategies which we will develop by working alongside our partners.

Chairman's statement

Covid

The economic effects of the measures taken by governments to control the Covid-19 pandemic continued to have a significant impact on aviation and our operation. Our licence requires us to provide a service capable of meeting on a continuing basis any reasonable level of demand. While air traffic volumes improved on the prior year, the income we received for this level of flights fell far below the cost of keeping airspace open during the pandemic. Accordingly, our financial focus continued to be on our liquidity and continuing to limit expenditure to what was essential.

Last summer we completed a full debt refinancing which bolstered our financial resilience to the benefit of the aviation sector overall and to ensure we are well placed for a range of recovery outcomes. Operationally, we maintained our focus on protecting our employees while delivering a safe and resilient ATC service. We have taken the actions necessary to support the recovery in aviation by retaining critical skills while also operating cost efficiently.

NR23

We consulted extensively in the year on a new price control (NR23: 2023 to 2027) business plan with airlines, airports, passengers and the CAA. Alongside service quality, our plan focuses on resilience and enables us to progress our technology and airspace transformation programmes. The CAA will make its decision on our price control in the first quarter on 2023. It is essential that the outcome provides the resources necessary to support the sector's recovery and for investment in the UK's ATC infrastructure. This is alongside recovering the costs for maintaining the service and infrastructure throughout the Covid period, in recognition of the financeability obligations of the CAA and of DfT.

External factors, including Ukraine

Since February the Board has been monitoring the dire situation unfolding in Ukraine and assessing the risks to our business. Air traffic volumes have not yet recovered to pre-pandemic levels. The conflict makes forecasting air traffic volumes in the near term and through NR23 even more challenging. The associated economic consequences will inevitably impact the sector's recovery, potentially prolonging it substantially. In particular, the significant increase in aviation fuel costs will add to already elevated inflationary pressures on air fares, with associated consequences for the demand for air travel which is likely to be affected by the increased cost of living generally.

Cash flow, results and dividends

For a second consecutive year, the cash receipts from our customers failed to cover our daily operating costs let alone the replacement of critical systems. Overall, after the essential investments we continued to make in our infrastructure and the costs of financing our operation, our net cash outflow this year was £124m (2021: net cash outflow £266m).

Total revenue and regulatory allowances of £750m were lower than the prior year (2021: £823m). These have been determined in accordance with applicable accounting standards, in the absence of the CAA determination for 2020 to 2022 (which is due in early 2023). Following Covid, the regulatory mechanism is expected to allow NERL to recover its costs, which were lower in the year and lower than RP3 allowances, allowing airlines to benefit from efficiencies made in response to Covid. The profit for this year of £9m after refinancing costs of £42m, was £47m better than the prior year loss of £38m, which included redundancy costs and asset impairment charges.

The company did not pay a dividend in the year (2021: nil). The Board remains committed to restoring regular dividends once the business and regulatory outlook is more stable.

Strategy

During the period since Covid, the Board has assessed the group's strategy (see page 7), its resilience and considered the opportunities likely to arise post-pandemic. This review, which was completed this year, considered longer-term objectives for the business through to 2040. It recognises the group's role as provider of the nation's critical airspace infrastructure and anticipates: growth in demand from new airspace users, the importance of our talented employees and our role in a sustainable future for aviation.

NERL's licence extension

In September the Secretary of State for Transport extended NERL's licence termination notice period from 10 to 15 years. This is a clear affirmation of NERL's critical role in supporting the aviation sector and its contribution to the UK's prosperity. This was positive news for all our stakeholders.

Chairman's statement

Environmental sustainability

We are committed to a net zero estate by 2035 with a target aligned with the Science Based Target initiative (SBTi) and during the year we were rated A- by CDP (formerly known as the Carbon Disclosure Project), demonstrating our commitment to environmental stewardship, decarbonisation and best practice. I was pleased that for the second year in a row NATS was included in the Financial Times' list of Europe's Climate Leaders.

Improving fuel efficiency to reduce CO_2 emissions is one of the greatest challenges for the aviation industry. Since early 2020, multiple reports have been published about pathways to decarbonise aviation. These are largely consistent in estimating air traffic management's contribution to decarbonisation at between 4–6% of the overall emissions aviation needs to reduce or offset to achieve net zero by 2050. Free route airspace and, in future, the wider redesign of the airspace network will enhance airspace efficiency, supporting the industry's net zero targets and increase network capacity as traffic volumes grow. There is a significant dependency on airports to agree and deliver their respective changes to lower airspace. Synchronised airspace change of this scale requires the continued commitment of the DfT and the CAA which have sponsored the Airspace Change Organising Group (ACOG), which is under NATS' auspices, to coordinate the programme.

Our Board and employees

The membership of the Board remained unchanged since last year's annual report, providing stability as we responded to the challenging environment. The composition, skills and experience of the Board is always kept under review, and over the next year we will need to recruit new members given planned retirements.

The Board has continued to focus on diversity and inclusion, which is explained in more detail on page 31, and maintained its focus on employee wellbeing in response to the pandemic. It has been another very challenging year for our employees and I would like to thank them for their resilience, dedication and commitment in maintaining a safe service for all our customers.

Dr Paul Golby, CBE FREng
Chairman

Chief Executive's review

The aviation sector appears to be at something of an an inflection point now with respect to Covid. Air traffic volumes have grown strongly since the start of 2022, albeit with considerable variability from week to week and day by day, and reached close to 90% of pre-pandemic levels during May 2022. While this has presented challenges across the sector, throughout the pandemic we have retained the essential skills to support the recovery in aviation. This was one of our key considerations when assessing our options for cost reductions in response to Covid which were necessary to protect our liquidity. Our focus throughout has been ensuring we could safely support traffic regeneration while continuing to protect our employees. We remain of the view that this was the right decision for us to take.

We set three priorities for this financial year to: deliver a safe, efficient and resilient service; secure our long-term finances; and simplify our business to take advantage of opportunities which we expect to arise post-Covid. We have maintained these priorities for this coming year as they remain important and have added a fourth, which is to progress our carbon target zero plan. We are committed to both decarbonising our own estate as well as supporting the aviation sector in meeting its targets.

Air traffic volumes

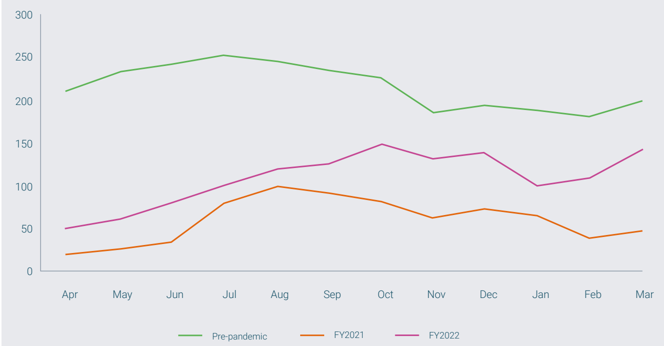
	2022 ('000s)	2021 ('000s)	Change (%)
Chargeable Service Units*	**6,504**	3,389	91.9%
UK flights	**1,289**	661	95.0%
Oceanic flights	**305**	164	86.0%

* a CSU is a function of aircraft weight and distance flown in UK airspace, and is the billing unit for UK en route charges.

This year we handled 1.29m flights as air traffic volumes recovered to an average of 50% of 2019 volumes (2021: 661,000 or 26%). While undoubtedly positive, this is a relative improvement that needs to be put in context. We estimate that, since travel restrictions to control Covid were first introduced in March 2020 up to 31 March 2022, there have been 3.2 million fewer flights in UK airspace compared with pre-pandemic levels. The loss of revenue this has entailed has required a continuing focus on operating efficiency and liquidity.

During the year, air traffic volumes started to recover from May 2021 with the gradual lifting of domestic and international travel restrictions, reflecting progress with vaccination programmes in the UK and Europe. This growth was not uniform across our network with some airspace sectors and airports much busier than others. The emergence of the Omicron variant later in the year briefly curtailed the recovery but volumes picked up from February 2022.

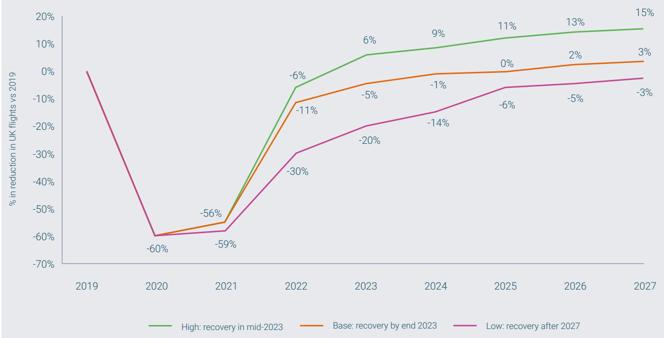
UK air traffic volumes ('000s)



While recent traffic levels have been encouraging, it remains to be seen whether the rate of recovery will endure through the summer and beyond given the challenging economic environment and geopolitical situation. Both factors make for an uncertain outlook and there is currently no consensus longer-term forecast across the industry.

Understanding the level of demand for our service underpins our operational resourcing, investment plans, service performance and our charges. NERL's NR23 plan was developed as the aviation industry started its recovery from the Covid pandemic and was based on October 2021 forecasts from Eurocontrol, Europe's network manager. Their seven-year recovery projections set out three scenarios which reflected assumptions on the strength of the UK's economic recovery and the ongoing response to Covid and its impact on aviation.

UK 7-year traffic recovery scenarios % reduction on 2019 flights (source: Eurocontrol)



The plan was based on the base traffic forecast, which assumes a recovery to pre-pandemic levels by 2025 and then to historically high levels during the plan period, with additional growth in the years beyond that.

Normally we would have stable trends and reliable estimates of future air traffic forecasts as we develop our price control plans. However, we now have had to offer a business plan covering a broad range of possible scenarios and outcomes. The ATC industry has never faced such a prolonged period of volatility and for this reason we have also planned for a plausible range of scenarios and indicated the trades-offs that would have to be made under each.

Chief Executive's review

In June 2022, Eurocontrol published a new three-year outlook for 2022 to 2024, which projects traffic levels for 2022 at below the base case recovery scenario shown in the graph above but rising above that level in 2023 and 2024. However the implications for air travel demand in the short and medium term remains unclear given cost of living pressures and the potential for higher jet fuel prices to impact air fares. Eurocontrol will provide its next seven-year forecast (covering the NR23 period) in October 2022. Given this uncertainty, it will be critical for the CAA to assess its proposals for NR23 in light of the latest forecast available to ensure prices and service performance outcomes are calibrated as closely as possible to projected traffic levels. We stand ready to assist the CAA with this assessment.

Securing a revised regulatory settlement

The development of NERL's business plan for the NR23 price control was a significant focus this year. It was developed in consultation with airline and airport customers, as well as being informed by passenger research (see page 29-30 for more information on the Board's engagement with stakeholders in this respect).

Customers generally supported the continuation of safety, capacity and environmental metrics and targets while ensuring these are appropriately calibrated and sufficiently stretching for the level of flights forecast. They also supported a margin of resilience in operational resourcing to accommodate the potential for traffic to exceed base case demand. Passengers valued safety, environmental factors and resilience more than cost.

Overall our plan delivers:

- a safe air traffic system under any recovery scenario, which continues to be our top priority;
- an efficient service level, similar to RP2 (2015-2019), underpinned by operational and technical resilience;
- cost effective prices to support industry recovery, including deferring recovery of the 2020 to 2022 revenue shortfall;
- capacity increases to support 2027 traffic growth up to 15% higher than 2019 volumes, which themselves were the highest levels ever experienced;
- enhanced environmental and fuel benefits consistent with achieving UK aviation's target of net zero carbon emissions by 2050 and meeting increased societal expectations of aviation; and
- appropriate financial resilience against a slower recovery or future traffic/economic shocks, essential for maintaining the critical national infrastructure we manage.

In order to achieve these objectives during NR23 we will continue to develop and train the next generation of air traffic controllers to mitigate expected retirements, safely meet projected demand and provide further operational resilience. We will also progress our technology transformation programme, started in RP2 (2015 to 2019), while sustaining our legacy technical equipment, and we will advance airspace modernisation to improve environmental performance and accommodate future traffic growth. We will invest in solutions which support our target of net zero carbon emissions across our estate by 2035.

The CAA is expected to reach its final decision in the first quarter of 2023 on the NR23 price control, as well as its retrospective review of 2020 to 2022 for the impact of Covid. In order to achieve the plan the price control will need to provide the resources to deliver the operational service, technology change and airspace modernisation to meet stakeholder priorities for the future.

Strengthening our UK Airports portfolio

Our airport customers have continued to recognise the support that we have been providing to them during this very challenging period. I was delighted that we were able to extend our strategic partnership agreement with London Heathrow Airport to 2030. We have also started to work on the transition of Gatwick Airport's ATC and engineering service which we will provide from October 2022. We now have the longest order book of contracts with airport customers in recent years and can focus on supporting them with the return of traffic and implementing new technology to support service performance and efficiency.

Employee relations

Alongside the company, our employees have faced exceptional challenges, both professional and personal during this period. The company has experienced its worst ever financial threat and continues to face significant uncertainties from Covid, the rate of traffic regeneration and the geopolitical situation. Meanwhile we are financing the deferral of the recovery of our revenue entitlement in order to support the sector's recovery. Nevertheless, we have done everything we can to support our employees, protecting everyone as much as possible, both in terms of health and wellbeing as well as job security and pay.

While the economic environment has made for difficult conversations and a challenging period for industrial relations, we have sought to recognise everyone's contribution in supporting the company over the past two years. Despite the challenges the company has faced there have been several actions taken to protect employees during the pandemic, including for furloughed staff. At the peak of the pandemic's impact on traffic volumes in summer 2020, we had 2,180 staff actively furloughed, almost all of whom continued to receive 100% of their pay. We also continue to provide attractive benefits, such as the defined benefit pension scheme for which we will contribute 66% of pay from 2023 while its 1,600 employee members generally contribute 6%. We recently offered staff a pay rise from January 2022, together with a lump sum to recognise the impact of current inflationary spikes. While, similar to many companies, challenges inevitably remain we continue to engage and consult in a constructive and positive manner seeking to balance the recognition of the contribution our employees make and the wider challenges facing the aviation sector.

A central priority is to significantly advance our progress toward creating a truly diverse and inclusive business at all levels to ensure that we retain and attract the very best talent. I feel that this year we made some real progress on that journey. We established a diversity and inclusion (D&I) steering group, which I chair, which includes D&I leads from across the business and our employee networks and trade union representatives.

Chief Executive's review

This followed the creation of a D&I vision by employees during National Inclusion Week, which we marked for the first time this year with a series of virtual sessions on D&I which engaged people across all areas and levels of the business. This is the first time that, despite the measures we have taken over the years to improve diversity, we have had a forward-looking and, rightly, ambitious D&I vision, which states what type of organisation we want to be. The most valuable aspect though comes from creating an inclusive, safe and enjoyable place to work for all of us. We have started to recruit again, after freezing new hires due to Covid, and we have reviewed our processes to ensure that we attract a broad range of talent enabled by a fair and inclusive process.

We are continuing to develop our operational service resilience as traffic recovers, and this is reflected already in our response to operational training. Our training college, which was closed during Covid, is now undertaking ab initio operational training. We have also continued to extend the sector validations of our air traffic controllers, achieving more new validations than planned.

Our S172 statement provides a comprehensive review of the Board and executive engagement with employees in the year.

Our role in a sustainable future

In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050 and during consultations on the NR23 plan customers and passengers supported ambitious environmental targets. Our plan aims for a reduction in carbon emissions of 4.4% between 2020 and 2035, in line with independent assessments of the contribution air traffic control can make to overall aviation emissions reduction.

We will achieve this through a range of measures including optimising flight paths to reduce aircraft fuel burn and CO_2 emissions and delivering airspace modernisation. This will sit alongside the benefits of our current environmental programme, which has delivered annual emissions savings of around 1.5 million tonnes of CO_2 each year compared with 2006 levels.

While the greatest CO_2 savings for aviation are expected to be made through new aircraft and engine technology and sustainable fuels, these are still many years away. In the short-term, managing our airspace to enable more efficient flying can play a crucial role in mitigating emissions. During the year we implemented free route airspace over Scotland by removing the long-established air routes above 25,000 ft, allowing aircraft the freedom to plan and fly their optimal route. This flexibility has not previously been possible, with our airspace structure requiring aircraft to follow predefined routes. Up to 2,000 flights a day use this crucial part of UK airspace, which supports 80% of transatlantic traffic. This introduction, which is the biggest ever geographical airspace change in the UK, will help reduce airline costs, flight time, fuel burn and save 10,500 tonnes CO_2 emissions annually. We are now targeting free route airspace over Wales and South West England in 2023.

Progress with the wider and more complex airspace modernisation of the South East and London area, which we have planned for NR23, has been slowed by Covid but remains a stakeholder priority which can only be delivered as a collaboration of ACOG, NATS, airlines, airports, the CAA and the UK government.

In spite of the challenges the pandemic has posed, jointly sponsored by London Luton Airport and following extensive public consultation in 2021, we implemented a change to the airport's arrival routes which segregated them from Stansted Airport to reduce complexity and ensure continued safety. This change increases capacity in the Luton and Stansted area in time for summer 2022 traffic. It also supports the resilience of our service at these airports to changing patterns of demand between these airports, which was a focus of the CAA's 2020 Project Palamon report.

Acquiring Searidge Technologies

During the year we acquired full ownership of Searidge, a Canadian digital tower and artificial intelligence company, in which we have held a 50% interest since 2017.

Since our initial investment in Searidge it has established itself as a world leader in the growing digital tower market. Today, it is involved in supporting our work with CAAS (Singapore's civil aviation authority) to deliver Singapore's innovative smart tower, as well as leading on Airport Authority Hong Kong's project to deploy a single digital tower and apron platform at Hong Kong International Airport. Searidge's work supporting us with Heathrow's 'tower in cloud' project is well known, and it has many direct customers in Europe and North America as well. We expect digital towers to become an important part of the future of ATM, and Searidge is pivotal in how we intend to support our customers in this systemised, digitised environment.

Concluding remarks

We clearly still have some way to go before the industry is recovered and while the sector is optimistic for a stronger summer this year than last year, the longer-term outlook for air travel demand remains uncertain due to the current geopolitical landscape, economic situation and continued presence of Covid. There is also the risk that the traffic levels recover unevenly across our network. We have become accustomed to operating with uncertainty over the last two years and have taken steps to ensure that we are more operationally and financially resilient to a range of recovery outcomes across our airspace and airports activities. In 2020 we agreed with the CAA that it was appropriate to defer the start of the next price control until 2023, in the expectation that the operating environment and outlook for air traffic volumes would be more stable and reliable as a basis for the NR23 price control. However, significant forecasting uncertainty remains. While our NR23 business plan is for a resilient service which can cope with more variability in outturn traffic from the levels currently forecast, we are looking to the price control to provide the resources and incentives for such an environment.

Martin Rolfe, FRAeS
Chief Executive

Business review

Delivering a safe, secure, efficient and resilient service

Service performance

Service performance: calendar year	2021		2020	
	Target	**Actual**	Target	Actual
C1: avg. en route delay all causes (seconds)	**19.2**	**0.4**	15.6	1.2
C2: NATS avg. delay per flight (seconds)	**15.0**	**0.3**	12.0	1.0
C3: delay impact (score)[5]	**30.0**	**0.6**	24.0	1.0
C4: delay variability (score)[5]	**1,800.0**	**0.0**	1,800.0	0.0
C3Di: 3Di metric (score)[6]	**25.9-28.6**	**22.8**	26.4-29.2	23.9

The C1 metric is a Functional Airspace Block (FAB) level target.
C3 target is the C3 Upper target unmodulated to reflect traffic for 2021 and 2020 which was significantly below CAA's price control forecast. Actual scores are stated after modulation.

Our service performance continued to reflect the low volumes of air traffic handled in the year, with negligible average delay per flight attributed to our operation and more fuel efficient flight profiles being achieved. These measures were well within the regulator's target which did not foresee the pandemic. As for the prior year, we have told customers and the regulator that we will not seek to recover our entitlement to a service bonus as performance has been driven largely by low traffic volumes associated with the impact of Covid.

While through the Covid period we have been able to contain average delay per flight at close to zero, as traffic recovers it is inevitable that this will increase. This is reflected in our proposed target for NR23 which is an average delay per flight of 10.8 seconds, consistent with pre-Covid levels of performance.

One of the stand-out events of the year was the 26th UN Climate Change Conference of the Parties (COP26) in November hosted by the UK in Glasgow. This was a highly complex ATC operation, of a level not seen since the London 2012 Olympic Games, and was managed safely and efficiently by our operational and engineering teams. It required months of careful logistical planning including coordination with DfT, Police Scotland, airlines and airports. The high numbers of priority VIP, business jet and helicopter flights were safely managed alongside the normal commercial traffic by Glasgow Airport ATC as well as Prestwick Centre ATC sectors.

Maintaining operational service resilience

Our priority following Covid has been to protect our employees while maintaining a safe and resilient air traffic control service for our airline and airport customers. Operational employees who continued to work from our two air traffic control centres, and at airports where we provide an ATC service, did so under social distancing rules.

As a result we had to suspend our training and simulations capability. The collapse in flight volumes in 2020 also required a careful assessment of our future staffing, which resulted in the suspension of our ab initio training. We also faced the complexity of maintaining air traffic controller validity when combining periods of furlough alongside attendances in a low traffic environment.

Throughout the period since the outbreak of the pandemic, we have ensured that we have maintained the critical operational skills to support the recovery in aviation. The gradual lifting of government travel restrictions, social distancing rules and the start of a recovery in air traffic volumes enabled a phased and carefully managed return to training operational employees last summer and ab initio training in March 2022. At the start of the financial year, in anticipation of a recovery in demand last summer, we implemented a simulation programme for operational employees at our centres to maintain skills on higher levels of traffic. We also provided specific training to Prestwick controllers ahead of the deployment of free route airspace over Scottish airspace and to our terminal controllers at Swanwick for the airspace change for London Luton and Stansted airports.

Notwithstanding the challenges presented by the pandemic, the training programme this year delivered more validations to our en route operation than in the year prior to Covid and has enabled us to maintain the overall rosterable supply of controllers in spite of employee retirements in the period.

Safety management

The focus of our safety management activities during the year was the mitigation of safety risk in anticipation of the recovery in air traffic volumes as Covid travel restrictions eased and eventually lifted. As reported below, we continued to maintain a safe ATC service during this challenging period.

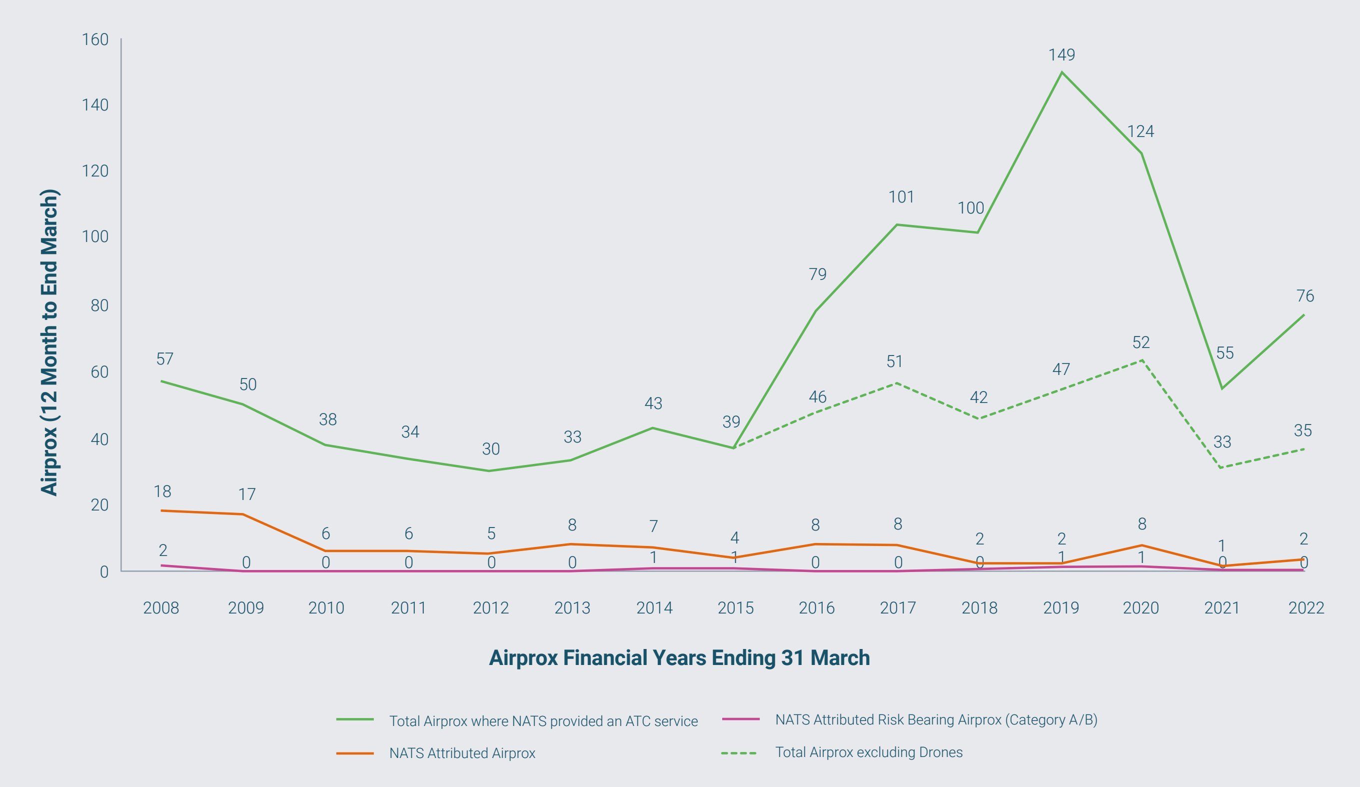
Since the start of the pandemic we have kept our occupational health and safety guidance under continuous review, to ensure the risks to the operation and our colleagues are carefully managed. While social distancing and other Covid restrictions across our sites have now been lifted, local Covid risk assessments remain in place.

The low volume of air traffic movements for much of the year required continued heightened operational vigilance and situational awareness. We undertook comprehensive assessments of the risks associated with this environment and proactively reviewed the operational effectiveness of mitigating actions. The traffic regeneration board oversaw the safe regeneration of air traffic volumes across the network, with appropriate assurance measures in place to ensure the operation is well prepared.

In line with our top priority on safety, an organisation-wide safety survey was also completed as traffic volumes recover.

Business review

Safety performance



We monitor our safety performance to identify any adverse trends in order to ensure timely and effective remedial action can be taken. Our internal safety targets measure the number of serious or risk-bearing incidents to ensure we continually reduce our contribution to operational risks. These targets cover the safety performance of our en route and airport ATC services to which all NATS operational, engineering and corporate functions contribute.

Our safety performance is measured using the Risk Analysis Tool (RAT[7], as a proxy for safety risk) to assess the severity of safety events and to drive the appropriate safety culture across the whole business, as well as the number of airprox incidents, which are assessed independently by the UK Airprox Board.

There were no-risk bearing category A or B airprox attributable to NATS during the financial year (2021: none). There was an increase in the total number of airprox where NATS provided a service during the year accounted for by an increase in Remotely Piloted Aircraft System (RPAS or drone) related events. The total number of airprox in NATS airspace remains well below a pre-pandemic peak when traffic volumes had been at historically high levels.

The RAT point score is measured on a calendar year basis. For 2021 we recorded 444 points (2020: 409). This included four severity B events against our target of less than 10. For each of the events a thorough investigation was performed and corrective actions have been taken. We met all our internal safety targets for the group.

Finally, the overall number of infringements of controlled airspace has recently exceeded the average for 2015 to 2019, although the number of associated losses of separation remains well below the average for this period. We continue to participate in the CAA Airspace Infringement Working Group (AIWG) and assist in production of educational material to publicise hotspots and promote Threat & Error Management to general aviation pilots through the Airspace & Safety Initiative website.

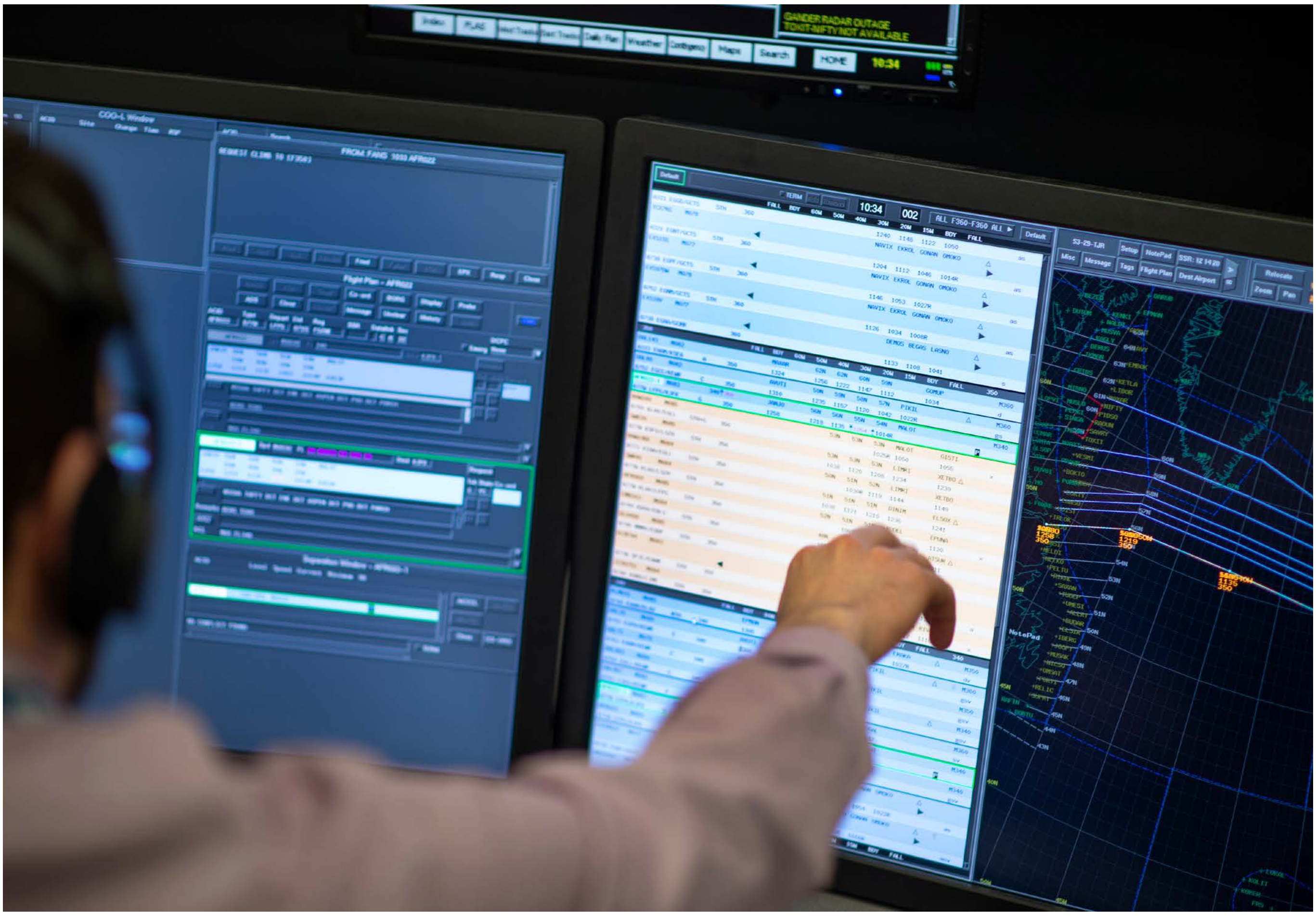
Business review

Technology transformation

In response to Covid, in the prior year, we paused much of our capital investment portfolio to address the significant liquidity challenge and reduce on-site attendance to protect both our employees and suppliers. Before restarting the programme, we engaged with customers to reassess future needs considering the impact of the pandemic, historical and also ongoing constraints, and we agreed a revised plan that takes account of the challenges we have faced this year in attracting the right technical engineering resources and skills as well as the ability of our suppliers to scale up following Covid.

Following customer feedback and in light of these after-effects of Covid, we have extended the delivery timeframe for new technology to replace ageing systems, increased investment to sustain the resilience of legacy equipment in the interim, and are proposing capital investment of between £110m and £120m per annum (in 2020 prices) in NR23 to reflect our capacity to implement change in this period. Alongside this we will continue to progress airspace modernisation (discussed above). This ensures we can meet our service performance targets, deliver customers' priorities and provide the necessary capacity for future demand.

This financial year we invested £92m (2021: £71m, reflecting the pause). This included £57m for our DP En Route & Voice platforms. These will provide a common technology platform across our two air traffic control centres for our domestic en route services with a new controller working position, flight data processing capability and a new voice communications system. We are now in the final stages of the build phase. During the year we tested the performance of our controller tools operating fully integrated on the core strategic infrastructure, using live operational data feeds. We are now well placed to scale up the infrastructure and complete further testing and assurance in advance of deployment during NR23. This is a highly complex system with significant challenges and risks to both delivery timescales and cost. It is fundamental to our strategy of replacing ageing legacy assets with modern systems and an enabler for airspace modernisation which is strategically important for us and customers.



Financial review

Results overview

The group reported a profit before tax of £8.7m (2021: £37.8m loss) and an operating cash outflow of £172.5m (2021: £264.5m outflow) as Covid continued to have a significant impact on our financial performance. The principal year on year movements explaining the result are summarised below:

	£m	£m
2021 loss before tax		**(37.8)**
Revenue and regulatory allowance changes		
Airspace	(65.1)	
Airports	9.0	
International	(9.0)	
Other (net)	(8.1)	
		(73.2)
Operating cost changes		
Salaries and pensions	2.0	
Job retention scheme grant	(31.6)	
Voluntary redundancies	63.3	
Capitalised internal labour	13.6	
Staff costs		**47.3**
Depreciation and asset impairment	20.8	
Other non-staff costs net	1.6	
		22.4
Goodwill impairment		**111.0**
Fair value gain on previously held interest in joint venture		**4.4**
Finance cost changes		
Fair value movements	(40.5)	
Refinancing-related costs	(41.7)	
Other net finance costs	16.8	
		(65.4)
2022 profit before tax		**8.7**

The improvement in the result mainly reflected:

- in the prior year, costs of staff redundancies (of £65.2m) to reduce the cost base in response to Covid and goodwill impairment (of £111.0m);

the impacts of which were partly offset in this financial year by:

- lower furlough grant income support;
- the cost of refinancing the debt structure to provide additional liquidity for the recovery of aviation; and
- a fair value charge on derivatives, mainly reflecting the market's expectation of higher inflation.

After the tax charge, which is explained below, the group reported a loss of £27.6m (2021: £50.6m loss).

Protecting our liquidity in response to Covid

Despite a recovery in air traffic volumes from the unprecedented low levels of 2021, volumes for the financial year averaged just 50% of pre-pandemic levels. At this level, the income we received was far below the cost we incurred for operating the UK's national airspace infrastructure and resulted in a net cash outflow from our operating activities for the second successive year. While the CAA is undertaking a retrospective reconciliation of our income and costs to establish the shortfall in regulatory allowances we will be able to recover, this recovery will be spread over a five to seven year period from 2023 consistent with affordable charges that support the recovery in traffic levels.

Given this cash shortfall, our focus since the pandemic has been to protect our liquidity and to limit our expenditure to what is essential. This year has also included focus on sustaining the benefits of the significant cost reductions made in the prior year. In particular, we maintained the freeze on new employee recruitment in place since April 2020 until March 2022, when we judged it necessary to restart ab initio training to safeguard the operational skills to meet future demand, and we continued to furlough employees under the government's job retention scheme while balancing our resources to support the sector as travel restrictions eased.

Financial review

Refinancing

As a further response to the impact of Covid, in June 2021 NERL completed a full refinancing of its bank facilities and its publicly traded bonds enabled by £750m of new fixed rate bonds and £850m of new bank facilities.

The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid by 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consisted of a £400m three-year revolving credit facility and a £450m two-year bridge facility, the terms for both being extended by a further year in March 2022. This new debt was arranged on a senior unsecured basis, meaning that the project finance style senior Whole Business Securitisation (WBS) secured debt structure that had existed since 2003 was replaced by a debt structure that is more typical of a strong investment grade company such as NERL. The new structure also removed all but a net debt to RAB ratio financial covenant and provides greater flexibility and optionality for accessing additional funding in future.

The strong demand from both bond investors and banks to support NERL enabled the company to reduce the rate of interest on new debt to below the level assumed by the Competition and Markets Authority's (CMA) decision on the RP3 price control and leaves a more efficient and financially resilient debt structure. Our customers will benefit from both the reduction in the cost of debt when cost of capital is redetermined for the new price control as well as the additional resilience that enables NERL to fund an extended recovery of the revenue shortfall from 2023, making charges more affordable and aligned with traffic regeneration.

In conjunction with the June 2021 refinancing, we amended the inflation hedging arrangements with new RPI swaps at a notional value of £200m and terminated part of the RPI swap in place since 2003.

The combination of the refinancing and the ongoing actions to preserve liquidity has provided the company with long-term, suitable, efficiently incurred funding to deal with the impact of Covid and a range of recovery outcomes ahead of a new regulatory price control settlement, and the recovery of the revenue shortfall.

Revenue and regulatory allowances

	2022 £m	2021 £m
Airspace	**593.2**	658.3
Airports	**113.9**	104.9
Defence	**21.0**	28.2
Other UK business	**11.0**	11.9
International	**10.7**	19.7
Total	**749.8**	823.0

Overall, revenue and regulatory allowances at £749.8m (2021: £823.0m) were £73.2m lower than last year. By service line the significant developments were:

Airspace: £65.1m (9.9%) lower than last year overall. While revenue from contracts with customers and other revenue at £391.2m (2021: £241.1m) improved by £150.1m as a result of the growth in traffic volumes, regulatory allowances of £202.0m (2021: £417.2m) were £215.2m lower mainly reflecting our assessment under accounting guidelines of the outcome of the CAA's retrospective reconciliation. In light of Covid, we agreed the CAA should determine the shortfall in regulatory allowances by reference to actual costs and revenue from flights in the three years 2020 to 2022. The practical effect of this mechanism is to enable NERL to recover its efficient costs for operating the UK's airspace infrastructure notwithstanding the collapse in flights and income to fund this licence obligation. Accordingly, alongside recovering more income from flights handled, NERL's ability to operate its service at lower cost during the financial year is reflected in a reduction in the regulatory allowances required to make up the shortfall. In the prior year, regulatory allowances also included £36.9m to recover higher pension contributions in the Reference Period 2 (RP2) price control than the CAA had forecast.

Revenue from North Atlantic en route services increased, reflecting the recovery in air traffic volumes, with no volume risk sharing mechanism allowed for in the licence.

Airports: revenue was £9.0m (8.6%) higher mainly reflecting the unwinding of price concessions provided to airport operators in the prior year. However, engineering project income was lower as airport operators continued to curtail their asset enhancement programmes in light of Covid.

Defence: at £21.0m was £7.2m lower (25.5%), reflecting the delivery schedule for the Project Marshall asset provision contract, which is expected to complete in 2023.

Other UK business: revenue reduced by £0.9m (7.6%) on lower windfarm mitigation activity.

International: revenue was lower by £9.0m (45.7%) as customers continued to delay their capacity enhancement projects in response to Covid. This was particularly prevalent in Hong Kong where the demand for our supply contract has been curtailed alongside the reduction in traffic volumes there.

Operating costs

Operating costs before goodwill impairment decreased by £69.7m or 9.7%, in large part reflecting staff redundancies net of furlough grant support in the prior year.

Financial review

Operating costs (continued)

	2022 £m	2021 £m
Staff costs (excl. redundancies and furlough grants)	**(440.5)**	(456.1)
Staff redundancies	**(1.9)**	(65.2)
Job retention scheme grant	**5.5**	37.1
Non-staff costs	**(132.9)**	(134.6)
Depreciation and amortisation, net of grants	**(84.9)**	(105.7)
Profit on disposal of assets	**0.4**	0.4
Other operating income	**2.8**	2.9
Operating costs before goodwill impairment	**(651.5)**	(721.2)
Goodwill impairment charge	**-**	(111.0)
Total operating costs	**(651.5)**	(832.2)

Staff costs, excluding redundancies and furlough grants, were £15.6m lower at £440.5m (2021: £456.1m). This reflected the benefit of a lower headcount following redundancies in the prior year as well as an increase in labour capitalised following the pause in the prior year of all but essential and sustaining capital investment. The number of employees in post at 31 March 2022 at 4,099 was a reduction of 128 on the prior year.

Non staff costs reduced by £1.7m. This included the write back of expected credit loss provisions made in the prior year when the settlement period for en route charges was extended to support airlines, and lower contract project delivery costs. These were partly offset by higher utility costs and satellite surveillance charges supporting more North Atlantic flights.

Depreciation and amortisation (net of grants) were £20.8m lower at £84.9m (2021: £105.7m) mainly reflecting lower asset impairment charges.

NERL's goodwill was not impaired in 2022, supported by its fair value less cost of disposal represented by the regulatory asset base with a premium of 5% (2021: 0%). The prior year's result included an impairment charge of £111m which reflected the impact of Covid on the demand for air travel and uncertainties in respect of the timing and extent of traffic returning, the outcome of the CAA's retrospective reconciliation and its NR23 price control determination.

Net finance costs and fair value movements on financial instruments

One-off refinancing costs of £41.7m were associated with the debt refinancing transactions explained above. Excluding these costs, net finance costs of £9.8m (2021: £26.6m) were £16.8m lower than the prior year reflecting the lower cost of new debt.

A fair value charge of £44.5m (2021: £4.0m) this year mainly related to a change in the valuation of RPI swaps reflecting the market's expectation of higher inflation in future. The swaps provide a partial economic hedge for NERL's revenue allowance for financing charges but are not eligible for hedge accounting under IFRS.

Taxation

The tax charge of £36.3m (2021: £12.8m) mainly reflects a charge of £37.6m for deferred tax balances expected to be realised after April 2023 which have now been provided for at 25%, up from 19% previously, following the increase in the main rate of corporation tax from that date.

NATS' taxes generally arise in the UK, though it undertakes business in other countries. Wherever we operate we organise our operations to pay the correct and appropriate amount of tax at the right time, according to relevant national laws, and ensure compliance with the group's tax policies and guidelines.

The group also pays other taxes such as employer's national insurance contributions, business rates and the apprenticeship levy, which are significant operating costs. The group's tax strategy can be viewed at www.nats.aero.

Regulatory return

NERL's regulatory return for calendar year 2021 was a pre-tax real profit of 0.27% (2020 calendar year: a pre-tax real loss of 2.53%) compared with the expected regulatory return of 3.48% in the CMA's RP3 price control decision. This mainly reflects the regulatory mechanism put in place to deal with Covid, with the CAA undertaking a retrospective reconciliation of cost and revenue over the 2020 to 2022 period to determine the revenue shortfall.

Financial review

Balance sheet

	2022 £m	2021 £m
Goodwill	**45.7**	38.3
Tangible and intangible fixed assets	**1,099.7**	1,077.6
Right-of-use assets	**42.9**	47.0
Investments	**40.3**	39.1
Pension scheme surplus/(deficit)	**331.5**	(31.5)
Regulatory allowances recoverable	**724.6**	444.9
Regulatory allowances payable	**(169.1)**	(139.4)
Cash and cash equivalents	**148.0**	272.1
Derivatives (net)	**(77.0)**	(102.5)
Borrowings	**(938.9)**	(711.0)
Lease liabilities	**(58.6)**	(63.9)
Deferred tax liability	**(242.7)**	(118.7)
Other net balances	**(94.0)**	(142.9)
Net assets	**852.4**	609.1

Regulatory allowances recoverable reflect the shortfall in revenue arising from Covid, which will be determined by the CAA through a retrospective reconciliation of income and costs in 2020 to 2022.

Overall, net assets increased in the year mainly following the change in the IAS 19 funding position of the defined benefit pension scheme to a surplus of £331.5m (2021: deficit £31.5m - see below), and the loss after tax for the year.

Capital investment

	2022 £m	2021 £m
SESAR deployment	**56.5**	51.5
Airspace modernisation	**8.1**	5.0
Infrastructure	**7.1**	4.2
Operational systems	**18.5**	6.9
Other	**1.3**	3.0
Regulatory capex	**91.5**	70.6
Military systems	**0.3**	0.1
Other non-regulatory capex	**8.3**	8.1
Capital investment	**100.1**	78.8

The group invested £21.3m more in the year as the capital investment programme was remobilised following a six month pause during the prior year of all but essential and sustaining capital investment. That pause protected liquidity and enabled the scope of plans to be reviewed against the revised priorities of our customers and the regulator.

Searidge Technologies Inc

In December the group paid £4.3m to acquire full ownership of Searidge, previously a 50% joint venture (see note 34 to the accounts). The group's original 50% interest was revalued, resulting in an income statement gain of £4.4m. The transaction also resulted in acquisition goodwill of £7.4m and the recognition of intangible assets of £3.3m representing Searidge's developed technology and contract backlog.

Financial review

Defined benefit pensions

The group operates a final salary defined benefit pension scheme with 1,591 employee members at 31 March 2022 (2021: 1,653). The scheme was closed to new entrants in 2009 and a defined contribution scheme was put in place. More information on our pension arrangements is provided in note 32 to the financial statements.

a. IAS 19 charge and funding position

The cost of defined benefit pensions at £81.6m (2021: £66.5m) reflected a higher accrual rate of 60.6% (2021: 43.7%) of pensionable pay, reflecting lower real interest rates at the start of the financial year.

IAS 19 pension surplus	£m
At 1 April 2021	(31.5)
Charge to income statement*	(81.6)
Actuarial gains/(losses):	
- on scheme assets	393.3
- on scheme liabilities	(38.6)
Employer contributions*	89.9
At 31 March 2022	**331.5**
Represented by:	
Scheme assets	5,289.2
Scheme liabilities	(4,957.7)
Surplus	**331.5**

*including salary sacrifice

At 31 March 2022, the scheme's assets exceeded its liabilities by £331.5m (2021: £31.5m deficit) as measured under International Accounting Standards (IAS 19) using best estimate assumptions. The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 20 basis points, reducing liabilities alongside a rise in asset values. The size of the scheme relative to the group 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 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 at 31 December 2020 which reported a funding deficit of £171.9m (equivalent to a funding level of 97%). This is a £98.5m improvement in the funding position since the 2017 valuation. The scheme's actuary also determined that the cost of employee benefits accruing in future was 66.2% of pensionable pay. This is a 24.4 percentage point increase on the 2017 valuation (of 41.8%) and the highest cost we have ever faced. Contributions will reflect this from January 2023, as well as a recovery plan agreed with Trustees which aims to repair the deficit by December 2029. This will require deficit payments of £27.2m from calendar year 2023, increasing annually by 2.37%.

During this financial year the company paid deficit contributions of £26.2m and paid contributions at a rate of 41.7% of pensionable pay under the schedule of contributions agreed following the 2017 valuation.

Net debt, liquidity and cash flows

At 31 March 2022, the group's net debt was £849.5m (2021: £502.8m). It comprised £747m in bonds and £200m of drawings under bank facilities, less unamortised costs and fees, and £58.6m of lease liabilities recognised under IFRS 16. These were partly offset by £148.0m of cash and cash equivalents.

	Cash and cash equivalents £m	Borrowings (including lease liabilities) £m	Net debt £m
Balance at 31 March 2021	272.1	(774.9)	(502.8)
Cash flow	(124.3)	(245.5)	(369.8)
Non-cash movements	0.2	22.9	23.1
Balance at 31 March 2022	**148.0**	**(997.5)**	**(849.5)**

Net debt increased in the year as the low traffic levels yielded revenue receipts which continued to fall below the level required to finance our operation day to day as well as our capital investment programme. This was in spite of the extensive measures taken to reduce the cost base and preserve liquidity.

Following the refinancing in June 2021, we have secured sufficient liquidity to provide financial resilience for a range of traffic recovery scenarios, as well as an extended period for recovering the shortfall in regulatory allowances owing from 2020 to 2022.

At 30 June 2022 the group had available liquidity of around £780m. Our cash flow forecasts show that the group should be able to operate within the level of its bank facilities and within its financial covenant for a period of at least twelve months from the date of issue of this report including under plausible stress scenarios, where appropriate mitigating actions would also be undertaken.

Alistair Borthwick
Chief Financial Officer

Going concern and viability statements

Going concern

The group's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the financial statements describes critical judgements and key sources of estimation uncertainties and note 21 the group's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

Despite the challenges that Covid continued to pose over the last financial year to aviation and for the demand for air travel and, more recently, the challenging economic and geopolitical environment, as described in the Financial review the group successfully completed a full refinancing in June 2021 with issuance of £750m of unsecured bonds and agreement to a £400m unsecured revolving credit facility and a £450m unsecured bridging facility, the terms for both facilities being extended by one year in March 2022. The refinancing enabled pre-existing secured bonds and secured bank facilities to be repaid. At 31 March 2022, the group had cash of £148.0m and access to undrawn committed bank facilities totalling £650m: the £450m bridging facility expiring in May 2024 and £200m of the revolving credit facility expiring in May 2025. At 30 June 2022, the group had cash and undrawn bank facilities of around £780m.

Management has prepared and the directors have reviewed cash flow forecasts covering a period to September 2023, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination. These reflect the significant estimation uncertainty as to the timing, rate and extent of recovery in air traffic volumes in light of the economic and geopolitical situation, the possibility of further waves of the Covid pandemic, alongside unforeseen costs arising from other principal risks. The group does not assume government support for staff furlough in its scenarios.

The severe traffic volume scenarios considered were: Eurocontrol's October 2021 pessimistic case (see page 10); a further prolonged wave of Covid and related travel restrictions whereby volumes remain at 20% of pre-pandemic levels for a 12-month period from July 2022, being the most severe traffic scenario; that this Covid scenario results in a 20% loss of airport contract income, in the event of airport closures; that the Covid revenue shortfall is recovered evenly over a 10 year period (compared to a base case assumption of a 75% recovery in NR23 and 25% in NR28). Finally, a combination scenario was also performed of lower air traffic volumes (at 50% of pre-pandemic levels), a recovery of the revenue shortfall evenly over a 10-year period and an inefficiency adjustment applied to the revenue shortfall assumed by the CAA. Under the most severe scenario the group maintains adequate liquidity (of £184m) and headroom (NERL gearing at 71%) to meet its covenant (NERL gearing at 85%), prior to mitigating actions (such as cost savings and deferring investment).

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. The reverse stress tests considered severe traffic volumes, unplanned expenditure and the recoverability of regulatory allowances. Taking all this into account, the group's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the group and company should be able to operate within the level of its available bank facilities and within its financial covenant for the foreseeable future.

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the group and company have 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.

Going concern and viability statements

Viability statement

The directors have assessed the viability of the group based on its current position and future prospects, its business strategy and available financial resources. The directors have also assessed the potential financial and operational impacts in plausible downside scenarios of the principal risks and uncertainties facing the business, set out on page 23, and the effectiveness of currently available mitigating actions. In particular, the directors assessed the solvency and liquidity risks arising from further waves of the Covid pandemic alongside a combination of other risk factors materialising, which the Board considered represented a reasonable worst-case scenario, as well as a reverse stress test. On the basis of this assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities falling due over the three-year period to June 2025.

This period of assessment reflects the last six months of NERL's three-year price control ending 31 December 2022, which resulted from the CMA's review of the CAA's 2019 RP3 decision, and the first 30 months of the five-year NR23 price control starting 1 January 2023, which is being redetermined by the CAA to take account of the impact of Covid on air traffic volumes and NERL's operations. Notwithstanding the significant estimation uncertainty as to the rate and extent of recovery in air traffic volumes and its endurance in light of the macroeconomic outlook, the Board considers that there is greater certainty around forecasting assumptions over a three-year period than a longer period, taking into account the CAA's ongoing consultation on the redetermination of the new price control which the Board expects will be completed in the first quarter of 2023, after approval of this Annual Report.

Specific consideration has been given to:

- Covid: the consequences for the group's en route and airport ATC income of a further wave of the pandemic on the aviation sector and the reasonably possible mitigating actions available to the group to manage its financial resources;
- The CAA's regulatory commitment (CAP 2119) to the recovery of the Covid-related revenue shortfall and the redetermination of a new five-year price control from 2023, taking into account the general duties of the CAA and the Secretary of State for Transport under the Transport Act 2000 to exercise their functions in the manner they think best calculated to secure that NERL will not find it unduly difficult to finance its licenced activities;
- The term of NERL's bank facilities: the directors have a reasonable expectation that NERL will meet the conditions of its banking covenant and be able to raise funds in the bank or debt capital markets as required;
- Defined benefit pensions: the trustee's formal valuation at 31 December 2020 and the agreed schedule of contributions. The directors consider that NERL's contributions will be recovered through the new price control starting 2023, and future reference periods, including any additional contributions required arising from unforeseen changes in financial market conditions during NR23. This is further supported by the CAA's issuance of a Pension Regulatory Policy Statement in April 2021. Contributions from NATS Services will be met from operating cash flows.

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

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 the 'top risks' particularly if the change means a risk falls outside agreed appetite.

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

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

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

These risks, including the impact of Covid and risks to our finances, are reflected in and have been considered in assessing viability and going concern on page 21. Further explanation of the impact of Covid on specific key risks is included in the commentary which follows. The estimation uncertainties arising from Covid are explained in note 3 of the financial statements. A summary of risk management and internal control processes is on page 47.

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

This risk is related to a failure of NATS ATM controls that results in an accident in the air or on the ground which would have significant impact on customers or NATS. The reputational damage could result in the loss of future contracts and a reduction in revenue. The financial loss could also be significant. If notice were given by the Secretary of State requiring NERL to take action as a result of the accident and NERL were unable or failed to comply then ultimately this could result in revocation of NERL's licence.

As a provider of a safety-critical service, safety is the company's highest priority. NATS targets compliance with all targets set out in the regulatory price control. 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. The group 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.

Traffic regeneration and forecasting has remained a consistent area of focus throughout the Covid pandemic. A NATS wide Regeneration Review Board has met on a fortnightly basis to review the ongoing risks and ensure appropriate activities are in place to mitigate these. A range of training packages were delivered to support the expected increase in traffic, supplemented by an Operations wide safety campaign which raised awareness of potential risks associated with traffic regeneration from across the aviation industry.

Strategy: air travel demand

The demand for air travel can be sensitive to macroeconomic and geopolitical conditions, including government travel restrictions to control pandemics and public concern as to the sustainability of aviation. NERL's regulatory allowances are recovered through charges based on the CAA's forecast of air traffic volumes during a price control period. The regulatory framework includes a traffic risk mechanism which enables NERL to recover shortfalls of income through future charges. A general duty on the CAA and Secretary of State to ensure that NERL does not find it unduly difficult to finance its licensed activities provides mitigation against severe traffic shocks, as has been the case with Covid, resulting in a redetermination of the price control. NATS Services contracts for the provision of ATC services to airport operators at fixed prices for a contract term. The financial strength of airport operators is monitored for the impact of reductions in air travel demand.

The conflict in Ukraine has also triggered a review across the business to determine the potential impacts on NATS over the short, medium and longer term, including those upon air travel demand. There has not been a significant impact so far, but the forecast is being closely monitored and recalibrated.

Principal risks and uncertainties

Strategy: regulatory settlement

NERL's ability to fulfil the safety, capacity, environmental and cost efficiency targets and other obligations of its licence requires a balanced price control settlement from the CAA. It is the CAA's duty under the Transport Act 2000 to ensure that any price control determination will not result in NERL finding it unduly difficult to finance its licensed activities. However, the economic settlement that is given effect by the price control decision could impose challenging cost efficiency targets on NERL's operating costs and conditions to regulate its capital expenditure.

The CAA's RP3 price control decision was referred to the CMA as NERL could not conceive a viable plan that would deliver the operational service, technology change and airspace modernisation that was needed by the aviation industry with the resources and the risks that the CAA was proposing. The CMA's findings improved NERL's position for RP3 from the CAA's decision. However, its review was overtaken by the financial impact of Covid on the aviation sector. For this reason, the CAA will reset the price control by the start of 2023. It will also reconcile costs and revenues for the period between January 2020 and December 2022 on the basis of estimates of efficient costs (which might be lower than actual costs if it finds evidence of inefficiency) and seek to allow the recovery of revenue consistent with supporting NERL's financeability. The CAA indicated that this recovery may be over a significantly more extended period than the current two-year lag and should be consistent with affordable charges that support the recovery in traffic levels. The impact of the CAA's assessment will not be known until the first quarter of 2023, alongside its impact on the associated revenues which will be allowed and the period over which any shortfalls in revenue not yet received may be recovered.

In seeking to mitigate regulatory risks, NATS maintains engagement with the CAA at CEO and Board level on a regular basis. NERL's regulatory strategy is overseen by a Board sub-committee established for this purpose, and day to day oversight is provided by the CFO.

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. While a resilience plan is required by NERL's licence, this has been expanded to cover all NATS operations.

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.

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

Operational: systems security

A malicious cyber-attack could affect the integrity, availability or resilience of NATS operational ATC and business IT systems, adversely impacting the provision of a safe and efficient ATC service and resulting in additional regulatory scrutiny. NATS seeks to mitigate the risk through robust security controls, including identity and access management and security patching, employee training, security monitoring and incident management. The risk has elevated since the invasion of Ukraine, which comes on top of a slight increase since Covid due to working from home. This is being managed by increased and focussed vigilance including additional technology security controls and heightening employee awareness of cyber threats. Close working relationships are maintained between NATS and the UK's security services, including the National Cyber Security Centre to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: employee relations

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

The impact of Covid on our employees and the group's financial position has required more dialogue with trades unions on a range of challenging issues, including redundancy and redeployment terms and employee pay. We strive for constructive relationships with our trades unions and we remain committed to the partnership approach, and to engaging and consulting in a constructive and positive manner recognising the contribution our employees make and the wider challenges facing the aviation sector.

Principal risks and uncertainties

Transformation: portfolio delivery

The complex deployment of new technology and retirement of legacy systems could affect our ability to maintain service levels during transition and require additional costs to sustain legacy systems and support deployment during this period. NATS targets to deliver the change portfolio within the constraints of the business plan agreed with the CAA. Demonstrably inefficient or wasteful expenditure on capital assets may also result in reduced recovery of such expenditure under the regulatory regime. We maintain good programme governance and risk management processes overseen by the Executive, the Transformation Review Committee and the Board. We have adopted industry best practice, by using a Portfolio, Programme and Project approach. We responded to the impact of Covid on the company's liquidity and the likely future capacity requirements of airline customers by suspending all but essential and sustaining capital investment for a six-month period during 2020/21. Before restarting this programme we engaged with customers to reassess future needs considering the impact of the pandemic. A revised capital programme is reflected in our NR23 business plan.

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 completed a formal valuation as at 31 December 2020, which reported a funding deficit of £172m reflecting market conditions at that date.

The scheme was closed to new entrants in 2009, pensionable pay rises are capped through an agreement with our trades unions and future service benefits are linked to the Consumer Prices Index. NATS regularly reviews the scheme's funding position and is consulted by Trustees on the design of risk reduction strategies. Also, subject to regulatory review, NERL is able to recover increases in contributions from changes in unforeseen financial market conditions. NATS Services maintains adequate cash reserves to meet its share of pension contributions.

The directors monitor the funding position of the scheme. The group's financing arrangements and cash reserves, its projected operating cash flows and mechanisms within the established economic regulatory framework for recovery of such costs enable the group to meet the contributions required.

Financial: availability of funding and other risks

The main financial risk to the group relates to the availability of funds to meet business needs (including meeting obligations to the pension scheme). In June 2021 NERL completed a full refinancing of its debt structure which ensures it is well placed for a range of air traffic volume regeneration outcomes and taking account of the extended period for recovery of the Covid revenue shortfall.

Other financial risks include 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 21 to the financial statements.

Responsible business statement

Our investors, customers, suppliers and other stakeholders are aware of the need for, and benefits of, NATS as a responsible business. Our commitment to the welfare of society, including our employees, and the natural world is an increasingly important measure of our overall performance. We recognise the growing expectations of the public and policymakers regarding transparent reporting on our outcomes.

Scope of non-financial information statement

This statement focuses on employee and environmental matters which are the material non-financial matters that have an indirect financial impact on our business. Our gender pay report[8] and a slavery and human trafficking statement[9] are published on our website.

Governance

The NATS board is responsible for non-financial policy and performance. The Board has reviewed how it has applied the principles of the Code of Corporate Governance in each of the main areas of culture, diversity, employees, stakeholders, remuneration and succession. The Board receives regular updates throughout the year on these topics and formally reviews the approach annually.

In addition to the Board, the Executive and various sub-groups monitor health and safety, employee relations and environment matters.

Strategy

We have adopted a wide-ranging approach to being a responsible business, including how we manage and report our impacts. Specific measures include:

> Our updated corporate strategy includes a target to operate a carbon negative estate by 2040. This is now one of our four key priorities as a business;

> Developing and monitoring appropriate policies, codes, management systems and targets, including a Responsible Business policy[10] which can be viewed at www.nats.aero, and net zero emission targets;

> Embedding environmental KPIs within our debt finance to enable sustainability linked finance;

> Monitoring performance and practices across our business and our supply chain;

> Undertaking internal and external audits;

> Raising awareness of responsibilities among employees and developing training;

> Managing relevant enterprise risks and monitoring trends;

> Transparently reporting non-financial performance information to our customers, key stakeholders and the public each year; and

> Monitoring levels of support provided through our employee assistance programme.

We maintain a range of certified ISO (or equivalent) management systems, which are externally assessed by DNV GL, including ISO 31000 (risk management) and ISO 14001 (environment management).

The Audit Committee oversees all verification and assurance activity.

a. Employee policies and outcome

This year has remained challenging for our people whose skills and professionalism is at the heart of what we do. They make a critical difference to our success, and our investment in them protects and strengthens our safety and business culture. We operate a Just Safety culture which encourages employees to raise safety related matters without fear of reprisal. During the first half of the financial year furlough and homeworking remained for many of our teams. In September 2021, we commenced a controlled re-opening of our non-operational locations, maintaining Covid safety protocols (such as hygiene, social distancing and masks) to protect our employees and our operation. We also introduced agile working giving staff more flexibility in their use of office space, while ensuring that the demands of the business were met. Throughout the challenges arising from the Covid pandemic we have maintained a strong focus on employee wellbeing and provided online resources and workshops that combined with our 24-hour peer support team, occupational health service and revised employee assistance programme, has been positively welcomed by employees.

We continue to strengthen our commitment to diversity and inclusion, ensuring our employees feel that they can bring their true selves to work and that our working environment creates a safe space in which our people are respected and valued for their differences. In October 2021 we launched our diversity and inclusion vision; Under the same sky. This vision celebrates the diversity within our organisation and how we are collectively united in our passion to advance aviation. As a commitment to realising this vision, following consultation with our employee networks and ongoing work with Business in the Community we committed this year to the Race at Work Charter.

b. Environment policies and outcome

Our sustainability strategy encompasses initiatives on sustainability linked finance, sustainable consumption and procurement, energy efficiency, reductions in greenhouse gas (GHG) emissions, climate change resilience and biodiversity improvements across our business and estate. It also includes initiatives to improve airspace efficiency, manage aircraft noise and to actively work with industry partners and others, including the UK Sustainable Aviation coalition, the Borealis Alliance, CANSO, Eurocontrol and the International Civil Aviation Organization, to ensure a coordinated approach to managing our shared environmental impacts.

During the year we were awarded an A- score for environmental performance by CDP (formerly known as the Carbon Disclosure Project) for our financial year 2020/21 disclosure. This score puts NATS in the top 2% of the 13,000 companies around the world which disclosed their data to CDP in 2021. This reflects NATS' commitment to measuring, managing and disclosing environmental performance.

Responsible business statement

Strategy (continued)

ANSPs influence aviation CO_2 emissions, noise and other environmental impacts. We seek to reduce this impact as much as possible through how we run our business and manage air traffic, through innovative solutions in partnership with our key suppliers and airport/airline customers for mutual benefit. For example, NATS directly supported a number of events and initiatives linked to COP26, including industry-led seminars and panel discussions, as well as a perfect flight demonstrator by British Airways from Heathrow and a trans-Atlantic contrail avoiding flight by Boeing.

We support the commitment by the aviation industry in the UK and Europe to reach net zero by 2050. Our ambition goes further in adopting a carbon negative target for greenhouse gas emissions from running our business by 2040. We are also working across the industry, including with the Airspace Change Organising Group (ACOG) to set out a plan for airspace modernisation which will help reduce the industry's CO_2 emissions over a similar timeframe, while we wait for changes to fleet and fuels to take effect in future.

Concerns about sustainability, particularly climate change, have increasingly been driving societal and political action. The Covid crisis has further intensified pressure on the industry to increase its ambition and advance its plans to decarbonise. Improving the sustainability of our business is key to achieving this and it can also reduce costs as we consume fewer resources and work in more efficient ways.

Annually we assess the effectiveness of our policies and actions in managing our environmental obligations. This performance is described in detail below.

Risk management

The group's risk management system is described above under Principal risks and uncertainties and is aligned with the ISO 31000 risk management standard. Employee relations is regarded by the Board as a key risk and is explained in this section also.

An enterprise level sustainability risk describes the risks linked to the delivery of our sustainability strategy, improvements to our environmental performance and meeting multiple compliance requirements, and the impact of those risks. A separate business level climate change risk describes the direct physical risks which will impact our operations, engineering, infrastructure and corporate functions e.g. as a result of increased frequency and severity of extreme weather events. It also describes the indirect policy, legal, market and reputational risks, arising from the transition to a low carbon economy.

Metrics and targets

a. Employee matters

Gender pay reporting has established benchmarks against which we will monitor the impact of our actions to address gender imbalance over the longer-term. Despite small improvements since we commenced tracking, we accept that it will take time to address the structural imbalance within the industry. While we have limited external recruitment at this time, we have taken the opportunity to fully review all recruitment and selection practice to remove bias, promote access and ensure fairness in decision making. In the year we relaunched our early careers programme. The recruitment process has focussed heavily on attracting and selecting diverse candidates to ensure ethnic minority and female representation in those early career recruits. Our objective remains to bring the best diverse talent into our organisation and support individuals to reach their full potential.

b. Environment

Our environmental performance continues to improve, in terms of the environmental impact from running our business and from our management of air traffic at airfields and in airspace we are responsible for. We are set annual targets by the CAA on airspace efficiency, as measured by a metric known as the three-dimensional inefficiency score (3Di), in each price control period. The price control for RP3 has been overtaken by Covid and as explained elsewhere in this report, the CAA is to redetermine a new five-year price control from 2023. As a result of the reduction in air traffic volumes due to Covid, the RP3 3Di targets are no longer relevant: despite this we recorded our most efficient 3Di score ever for calendar year 2021 which experienced higher traffic than 2020. The challenge we now face is to maintain this during the expected increase in air traffic in the months and years ahead, while providing the most fuel-efficient flight profiles possible.

As a result of strategic airspace improvements we helped avoid 7,702 tonnes of CO_2 emissions in the year. However, the recovery of traffic volumes from historic low levels in the prior year resulted in a net increase in CO_2 emissions of 22,646 tonnes. Cumulative emission reductions per annum since 2006 have averaged 116,000 tonnes.

We have adopted a 2035 net zero emissions target across each of our GHG emissions sources from running our business, which has been independently validated by the Science Based Target initiative. We have also set a negative emissions target for 2040. The aggregated total of GHG emissions from our estate has reduced by 37% compared to a 2018/19 baseline, resulting from energy efficiency measures, site consolidation and lower occupancy levels. We obtain 96% of our electricity consumption from green electricity and 100% of our gas is low carbon biogas.

We continue to work closely with the Department for Transport, the CAA, the Independent Commission on Civil Aviation Noise (ICCAN), airport operators and the wider industry to minimise the impact of aircraft noise on communities.

Responsible business statement

Supporting information

The Responsible business statement and the environment metrics reported below have been prepared in accordance with non-financial information reporting guidance from the Financial Reporting Council, the European Commission, the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-related Financial Disclosures. An operational control approach is taken to non-financial information using the same boundary as the NATS Holdings group.

Description[11]	FY 2021/22 (or CY 2021)	FY 2020/21 (or CY 2020)
Service performance and resilience		
3Di (calendar year)	**21.5**	23.9
Environmental performance^		
Scope 1 emissions (location-based tonnes CO_2e)	**2,708"**	3,706"
Scope 1 emissions (market-based tonnes CO_2e)	**2"**	2
Scope 2 emissions (location-based tonnes CO_2e)	**11,774"**	12,500"
Scope 2 emissions (market-based tonnes CO_2e)	**718"**	668
Scope 3 categories 1, 3, 4, 6 and 7 emissions (tonnes CO_2e)	**10,754"**	6,111"
Total scope 1, 2 and 3 categories 1, 3, 4, 6, 7 (tonnes CO_2e) - location based	**25,236"**	22,317"
Scope 3 category 11 emissions (tonnes CO_2)	**13,920,072"**	7,146,000"
Avoided / modelled enabled ATM-related CO_2 reductions in tonnes[12]	**-22,646"**	37,950"^
Water supply and treatment (m^3)	**27,508"**	45,091"
Energy consumption (gas + electricity) MWh	**66,520"**	63,864"
CO_2e intensity metrics		
Total scope 1 + 2 emissions (location-based tonnes CO_2e)	**14,482"**	16,206"
Total scope 1 + 2 emissions (market-based tonnes CO_2e)	**720"**	670
Total scope 1 + 2 intensity metric (location-based tonnes CO_2e per £m of revenue)	**19.3"**	19.7"
Total scope 1 + 2 intensity metric (market-based tonnes CO_2e per £m of revenue)	**1.0"**	0.8
Net zero metrics		
Percent change in CO_2e against 2018-19 baseline towards net zero 2035 target (scope 1 and 2 emissions)**	**-30%"**	-22%
Percent reduction of CO_2e against 2018-19 baseline towards net zero 2035 target (scope 3 categories 1, 3, 4, 6, 7)**	**-43%"**	-69%

^restated due to inclusion of additional information, improvements to modelling accuracy and data quality.
"verified to ISO 14064. Certificates and GHG emission methodologies are outlined in detail in our GHG report, available at https://www.nats.aero/wp-content/uploads/2022/06/GHGReport2021-22_v1.pdf
** Our net zero target applies to total combined scope 1 and 2 and scope 3 (categories 1, 3, 4, 6, 7) CO_2e location based emissions by 2035, using a 2018-19 baseline.
[11, 12] see explanatory notes on page 169.

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How did we engage and have regard to their views in our decisions?
Customers	A safe ATC service is an essential given for customers in the aviation industry to which we provide our services and expertise, and for the travelling public. Their requirements are key drivers of our business plan, defining demand for the ATC network, our staffing and capital investment. We operate a joint & integrated civil military operation with the MOD and support Project Marshall.	We consulted airspace users, airports and the public on their priorities and our plans for our regulated activities for the NR23 price control period. We reflected on their feedback and updated our plans accordingly before submission to the CAA. We discussed with both airspace users and airports our service performance, our charges, our actions to maintain cost discipline and preserve liquidity and our capital investment plans. We also engaged to ensure a coordinated industry re-start after the lifting of travel restrictions. When bidding for airport and other contracts we tendered our cost effective and innovative solutions.
Employees	Our ATC service and infrastructure depends on the skill and professionalism of our employees. 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.	The executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, including redundancy terms, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicated regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board received a monthly report from the CEO which included employee relations and other employee matters. We operate a Just Safety culture, enabling employees to raise safety matters, and we sought feedback on a safety culture survey. We also surveyed employee wellbeing and maintained a whistleblowing facility. Every few years we conduct an employee opinion survey. Further details on the Board's regard to employees in its decision-making are provided below.
Regulators	Our regulators ensure we provide our service and develop our infrastructure in accordance with our ATC licence and international safety standards. Ensuring we fulfil our licence obligations and develop the business for the long-term ensures the success of the company for all our stakeholders.	The CAA is consulting stakeholders as our economic regulator on our price control plans for NR23 ahead of determining the prices, safety, service performance and capital investment targets and incentives. We are engaging with them on our plan and will provide feedback on the balance of service targets and incentives, risk mechanisms and financial resources they propose. 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 approves changes to airspace design over the UK by reference to legal requirements including safety, environment and user need and this year approved the Swanwick Airspace Improvement Programme – Airspace Deployment 6.
Government	The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision.	The Chief Executive maintained a regular dialogue with the Department for Transport and the Global Travel Taskforce on the safe and sustainable return of international travel. The government engaged on matters of aviation policy that affected NATS, including travel restrictions relating to Covid, airspace modernisation and an extension of NERL's licence notice period.
Shareholders	Our shareholders provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of the company which enables employees to share in the company's long-term success.	The Board met shareholders twice during the year and discussed the refinancing proposals, the Board's strategy review and alignment with shareholder interest as well as the ongoing response to Covid. The 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.

Engaging with our stakeholders

Our stakeholders	Why are they important to us?	How did we engage and have regard to their views in our decisions?
Communities and environment	Local communities around airports expect the aviation sector to pay attention to aircraft noise, fuel and CO_2 emissions and local air quality. Our ATC service can help mitigate some environmental impacts. Society expects improvements in sustainability, and we are committed to net zero greenhouse gas emissions from our estate by 2035 and being an enabler to aviation's target of net zero by 2050. We are a significant employer where our UK operations are based.	We follow the CAA's guidance on public consultation on airspace use, aircraft movements and environmental impacts. We work with communities affected by flights below 7,000ft at an early stage of any airspace 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.
Lenders	Lenders provide debt finance that we repay over time and compensate by way of a commercial return. Access to debt finance is necessary to fund our business activities efficiently.	We meet with lenders at least annually to discuss our performance, business plan and capital investment. Lenders wish to understand the company's financial strength over the long-term and the principal risks it faces. The importance of these relationships was demonstrated by the June 2021 refinancing of NERL's debt structure which secured funding of £1.6bn.
Suppliers	Our suppliers provide goods and services to maintain and develop our operation. Working closely with them minimises risk and combines our expertise to develop innovative ATC solutions.	Our supply chain management approach involves regular and ongoing engagement with suppliers for procurement, risk management and performance measurement. We complete due diligence using industry JOSCAR methodology. We tailor engagement to critical suppliers and undertake executive reviews, conferences and joint workshops. Our approach is an open and constructive relationship based on fair terms, good performance and high standards of conduct. We are ISO44001 accredited and hold CIPS Platinum standard of assurance.

S172 statement

Having regard to our stakeholders in Board decision-making

Section 172 (1) statement

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

The Board takes account of the views and interests of a wide range of stakeholders, when making its decisions, and balances different stakeholder perspectives. Inevitably it is not possible to achieve outcomes which meet the desires 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 33 to 66. Alongside the refinancing discussed in the Financial review, set out below are explanations of how the directors have had regard to section 172(1) in respect of employee matters and the NR23 consultation, which have been key strategic considerations in the year.

The Board's regard to employees in its decision-making

Since the outbreak of Covid the safety and wellbeing of employees has been the Board's priority. NATS has 4,099 employees and 157 contract staff. It is fundamentally a people-based organisation which relies on highly trained professionals to deliver a safe, resilient service to customers and the public day to day. The Board's safety committee oversees occupational health and employee wellbeing, in addition to the safe provision of air traffic services and security, enabling the Board to engage with, and have regard to, employee matters. Further detail on employee matters is provided within the Responsible Business statement on page 26.

Protecting employees and contract staff, and the operation: the Board's focus has been on keeping colleagues safe and providing regular communication, whether from senior leadership or through other channels, on the actions being taken. During restrictions, access to sites and critical operational facilities was limited to essential employees with others home working, and with social distancing measures implemented in line with government guidance.

Engaging with employees: CEO, CFO and HR director engagement with employees on the ongoing impacts of Covid, the need for cost discipline, staff furloughing, pay and redundancy and redeployment terms. Trades unions disputed the terms of redundancy and redeployment, presented pay claims and were concerned with the certification of operational employees in light of low traffic levels. Progress is being made on redundancy and redeployment terms and pay. Certifications of operational staff were maintained through training and simulations of traffic recovery scenarios.

Diversity and Inclusion (D&I): D&I has been a Board focus with progress made in the year explained in the Chief Executive's review on page 11. We also updated our Respect at Work policy following an equality audit by Stonewall which received a Bronze Award at first submission, a path to improve on, and feedback from our employee networks. We also signed up to the Business in the Community (BITC) Race at Work Charter, a commitment to equality of opportunity in the workplace. This includes publishing our Ethnicity Pay Gap, which while not yet a legal requirement is the first step in measuring our performance. We felt it an important step to take proactively, recognising its importance to our future employees and to attracting the very best talent. Finally we are working with Fantasy Wings to help recruit more people from ethnic minorities into aviation.

Our latest gender pay report shows an improvement which reflects the large amount of work that has been done to improve our pay gap results including a focus on women at NATS as part of the early careers campaign.

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

Planning for recovery: this included consultation on new ways of working, such as more agile use of the NATS estate and measures to prepare for the recovery in air traffic volumes. The Board monitored plans to accommodate employees returning safely to offices and as well as ways of working in future.

The Board's regard to stakeholders in the development of the NR23 business plan

The Board established a sub-committee to oversee the development of NERL's business plan for the NR23 price control. Its members were Paul Golby, Martin Rolfe, Alistair Borthwick, Harry Bush, Mike Campbell and Richard Keys who met five times during the financial year, as well as in May 2022. They were briefed on the CAA's guidance to NERL on the development of its plan and provided input to the company's process for engaging stakeholders. The committee reviewed NERL's business plan and the feedback received from stakeholders during the consultation and considered the changes made to reflect this, alongside the interests of the company's members as a whole and other stakeholders.

S172 statement

Customer engagement: led by the CEO, CFO, Operations Director and Technical Services Director

May to June 2021 - in preparation for the main customer consultation, two meetings were held with airlines and one with airports to determine their priorities for NR23 to inform our initial plan.

October to December 2021 – seven consultation meetings with airlines and one with airports on the outline plan, as well as a range of options. These meetings were attended by 26 organisations with observers from the CAA and NATS' trades unions. The meetings were co-chaired by an airline representative and a NERL appointee.

Virtual exhibition – alongside the consultation, relevant material, videos and infographics as well as minutes of meetings, actions and responses were provided in a virtual exhibition website.

Main areas of customer feedback reported to Board members and reflected in our plan submission to the CAA:

> traffic forecasts: customers favoured use of an independent forecast;

> service performance: broad support for continuation of safety, capacity and environmental targets. Airlines requested evidence of calibration and stretch;

> operational resourcing: support for a margin of resilience to accommodate faster traffic growth than base case projections. We discussed the challenges high case demand would present given actions to respond to Covid. Customers supported improvements in training capability;

> capital investment: customers are well informed of our plans through separate service and investment plan reviews. No material feedback on scope, milestone and cost. Discussions centred on the RP2 price control costs, decommissioning legacy systems and benefits. Customers wished to see longer term plans presented at service and investment reviews;

> determined costs: customers were positive about efficiencies made in response to Covid but wanted more detail on cost elements, which we reflected in the final plan;

> price profiling: airlines did not support charges to recover the Covid revenue shortfall preferring the UK government to bear this cost. There was no consensus on price profiling. Our plan proposes a flat charge in real terms as a middle ground;

> regulatory mechanisms: customers sought further detail on proposals to increase the NERL's protection from traffic volume risk, including introducing a mechanism for North Atlantic traffic.

Passenger engagement: based on market research

For the first time in a price control determination, we sought feedback from the travelling public to inform our NR23 business plan. Passenger research was developed in consultation with customers, the CAA and the CAA consumer panel. We supplemented our annual market research surveys on issues affecting UK ATC with independent market research on insights relevant to our NR23 business plan. Safety was the priority for passengers, which matches our primary objective, and with a preference for satellite-based surveillance over the North Atlantic. Their next highest priorities were minimising the environmental impact of aviation by delivering efficient flight paths, a resilient operation which reduces risk of disruption and a punctual service. Cost was the lowest priority, balancing a small incremental ticket price in favour of a safe, resilient and efficient service.

Overall, there was clear alignment between airlines, airports and passengers on safety as a priority. However, priorities diverged in a few specific areas, which has required us to take a balanced view in our plan.

The Strategic report was approved by the Board of directors on 30 June 2022 and signed by order of the Board by:

Richard Churchill-Coleman
Secretary

Annual Report and Accounts 2022

Governance Report

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Directors of NATS Holdings

Director's biographies

Chairman

Dr Paul Golby CBE FREng

Paul served as Chief Executive Officer of E.ON UK plc from 2002 to 2011 and is a Fellow of the Royal Academy of Engineering. He is Chair of Costain Group plc and a non-executive director of ERA Foundation. Paul chairs the Nomination Committee. Paul also attends the Audit Committee, Remuneration Committee, Safety Review Committee and Transformation Review Committee by invitation.

Executive directors

Martin Rolfe, Chief Executive Officer

Martin took up the post of Chief Executive in May 2015 having been Managing Director, Operations since 2012, with responsibility for NATS' economically regulated UK and North Atlantic services. An engineer by training, Martin holds a Master's degree in Aerospace Systems Engineering from the University of Southampton. He has 20 years of experience in the defence and aerospace industry, and prior to joining NATS was the Managing Director of Lockheed Martin's Civil Division with responsibility for worldwide ATM programmes as well as UK Government business. Martin has also worked for the European Space Agency and Logica plc.

Alistair Borthwick, Chief Financial Officer

Alistair joined NATS as CFO in August 2019. In addition to his responsibilities for finance, Alistair leads NERL's regulatory affairs team.

Previously he worked for SSE plc, most recently as Group Finance Director for its Regulated Networks and Enterprise divisions, as well as being responsible for Group Reporting, Tax and Treasury. He also spent time as Acting Managing Director for the Enterprise division.

Having qualified as a Chartered Accountant with Deloitte, working in both audit and corporate finance, Alistair subsequently held a number of senior roles in practice and industry focused on transport and infrastructure, including positions with John Menzies plc and FirstGroup plc.

Directors of NATS Holdings



Director’s biographies

Non-executive directors

Maria Antoniou

Maria is Group HR Director for Morgan Advanced Materials, she was appointed to this role in November 2020. Until April 2020, Maria was Senior Vice President HR/Executive HR based in E.ON’s headquarters in Germany.

Maria joined E.ON in 2008 as the UK HR Director. During her time in the UK, the business was significantly restructured and emphasis given to becoming a customer focused organisation. Prior to joining E.ON, Maria spent two years in the public sector as Group HR Director for Transport for London and 20 years with Ford Motor Company. Whilst at Ford, Maria was global HR Director for Jaguar, Land Rover and Aston Martin. Maria is Chair of Trustees of Transport for London’s Pension Fund. Maria chairs the Remuneration Committee and is a member of the Nomination Committee. She is also a director and chairs the NATS Employee Sharetrust. Maria is also the designated non-executive director for employee engagement with the Board.

Dr Harry Bush CB

Harry spent most of his career in HM Treasury where he focused latterly on policies towards growth, science funding and privatisation and private finance. He was UK Director at the European Investment Bank from 2001 to 2002. Harry left HM Treasury in 2002 to join the CAA Board as Group Director Economic Regulation responsible for the economic regulation of the designated airports and NATS, as well as the CAA’s economic analysis generally. He was a member of Eurocontrol’s Performance Review Commission from 2005 to 2009 and of the UK’s Commission for Integrated Transport from 2006 to 2010. Since leaving the CAA in 2011, Harry has been a consultant on economic regulation, undertaking assignments across a range of industries in the UK and overseas. He was vice chair of UCL Hospitals Foundation Trust for six years until August 2019. He is a Fellow of the Royal Aeronautical Society. Harry is a director of The Airline Group Limited (AG) and NATS Employee Sharetrust, and a member of the Audit Committee.

Mike Campbell

Mike joined the Board in 2017 having spent the previous 11 years at easyJet, initially as Group People Director and subsequently as Group Director Europe. During his time at easyJet he has also been Group Director, Transformation and has led on a series of strategic projects, including the integration of GB Airways and the successful development of easyJet’s presence in Europe.

Mike’s early career has covered a range of sectors, from high-end luxury goods to high-volume, low-margin electronics and he has direct experience across a number of disciplines. Mike has a Bachelor’s degree in Mathematics and a Masters in Fluid Dynamics with a background in education and HR. He has operated in organisations across the world and has led businesses and change programmes across all of these. Mike is Chair of AG, Chair of the Transformation Review Committee and a member of the Nomination and Remuneration Committees.

Directors of NATS Holdings



Director's biographies

Non-executive directors

Richard Keys

Richard is a non-executive director of AWE plc, Merrill Lynch International, Glaziers Hall Limited and a non-executive member of the Departmental Board of the Department for Transport. He was previously a non-executive director of Sainsbury's Bank plc, Wessex Water Services Limited, a non-executive member of the Departmental Board of the then Department for International Development and a Council member of the University of Birmingham. He retired from PricewaterhouseCoopers in 2010 where he was a senior partner and Global Chief Accountant. Richard chairs the Audit Committee and is a member of the Nomination Committee and Transformation Review Committee.

Kathryn Leahy

Kathryn is currently Director of Operations at Heathrow Airport, where she holds functional responsibility for airside and airfield operations, as well as umbrella responsibility for the day-to-day management and operations of the Airport Operations Centre, resilience and emergency planning. Kathryn sits on the Risk and Assurance Committee and chairs the Airspace Governance Board for Heathrow and is a Trustee for the Heathrow Multi-Faith Chaplaincy Charity. She joined Heathrow Airport in 2010 as Risk and Safety Director and has held a number of senior operational roles.

Kathryn started her career in financial services working for AIG and moved to the aviation industry in 1997. She spent 13 years at Virgin Atlantic Airways running their Risk and Safety Management team, as well as establishing the Internal Audit department and Board Audit Committee. She is a member of the Safety Review Committee.

Hugh McConnellogue

With over 30 years of experience in the airline industry, Hugh has held senior leadership roles across engineering and airline operations functions. He currently holds the position of Director of Airport Operations and Navigation, responsible for all airport ground operations as well as specific responsibility for easyJet's largest operation at London Gatwick. Hugh started his career as an apprentice engineer for Britannia Airways moving on to work in freight and passenger operations with airlines across Europe. In his time with easyJet, he has been responsible for line and hangar maintenance, maintenance operations control, deputy post-holder for engineering for easyJet Switzerland, airline network operations and emergency response management. During this time, he led the merger of airline operations through acquisitions, implementation of new technologies and systems, as well as managing large teams of people. Hugh is a director of AG and a member of the Safety Review Committee.

Directors of NATS Holdings

Director's biographies

Non-executive directors

Iain McNicoll CB CBE

Iain served 35 years in the Royal Air Force, retiring in 2010 as an Air Marshal. His military flight hours total over 4,300, the majority in fast-jet aircraft, but he also flew large multi-engine aircraft, light aircraft and helicopters. He commanded a Tornado squadron from 1992-1995, a Tornado station from 1998-2000, and was Air Officer Commanding No. 2 Group from 2005-2007. In his last appointment, Deputy Commander - Operations, he was responsible for generating and delivering all of the RAF's front line operational capability. He had RAF responsibility for all safety and environmental matters and was the RAF's first Chief Information Officer. Since 2010, Iain has been an aerospace, defence and security consultant. He is a Fellow of the Royal Aeronautical Society. Iain chairs the Safety Review Committee and is a member of the Transformation Review Committee.

Gavin Merchant

Gavin joined Universities Superannuation Scheme (USS) in 2011 and is Co-Head Direct Equity with responsibility for sourcing, evaluating and monitoring investments within the infrastructure and renewables portfolios. Gavin serves on a number of portfolio company boards for USS as well as a number of advisory boards for infrastructure funds. Gavin has worked in the infrastructure sector in the UK and Australia for 20 years. Prior to joining USS, Gavin was a Director at Equitix Limited. Gavin graduated with an honours degree in Law from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Gavin is a director of AG and a member of the Remuneration Committee.

Louise Street

Having completed a degree in Japanese and Business Management at Durham University, Louise joined British Airways on the graduate intake scheme in 1998. Her first eight years were in the commercial organisation, specifically in Sales and Revenue Management. She then moved to the operational side of the business and has undertaken a number of senior management roles in Customer Service and Operations. In July 2021, Louise was appointed into her current role as Head of Worldwide Airports, with responsibility for British Airways' operation and customer service at all British Airways served airports outside of London. Louise is a director of AG and a member of the Audit Committee.

Directors of NATS Holdings

Director's biographies

Officer

Richard Churchill-Coleman, Legal Director

Richard is Legal Director, which includes the role of Company Secretary. He joined NATS in June 2007 from TUI Northern Europe Limited where he held the position of Group Legal Counsel. Richard has more than 35 years of experience in the aviation industry having begun his career as an undergraduate aerospace engineer with British Aerospace plc before qualifying as a solicitor with Norton Rose and subsequently as a Chartered Secretary. Richard has previously held positions at Thomsonfly, Virgin Atlantic Airways and DHL Worldwide Express and holds a private pilot's licence.

NATS governance framework

Introduction

NATS was formed as a PPP in July 2001. A key element in its governance structure is the Strategic Partnership Agreement (SPA) between its main shareholders: the Secretary of State for Transport; The Airline Group Limited (AG); and LHR Airports Limited (LHRA).

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

The Board and Directors

Ultimate responsibility for the governance of NATS rests with the Board of NATS Holdings, 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.

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

> the highest governance and ethical standards reflecting the aspirations of the PPP;
> a prominent safety culture through 'Just Culture' reflecting the company's purpose of advancing aviation and keeping the skies safe;
> consultation with customers on service performance, capital investment and plans for NR23;
> a cost efficient, service-oriented and commercially smart organisation, requiring best in class performance of its employees and partners; and
> diversity and inclusion and fair treatment of its employees, valuing the contributions of all employees.

The boards of the subsidiary companies within the group are accountable to the NATS Holdings Board for all aspects of their business activities.

As at the date of approval of the accounts, the NATS Holdings Board comprised a non-executive Chair and 11 directors, as follows:

Executive Directors

> Chief Executive Officer (CEO); and
> Chief Financial Officer (CFO).

Non-Executive Directors

> a Chair, appointed by AG, subject to the prior approval of the Crown Shareholder;
> five directors appointed by AG;
> three Partnership directors, appointed by the Crown Shareholder; and
> one director appointed by LHRA.

Changes to the Directors

From 1 April 2021 to the date of approval of the accounts, there were no changes to the directors. Richard Keys and Iain McNicoll's appointments were extended by one month to the end of September 2022.

The roles of the Chair, Chief Executive and executive management

The Chair of the NATS group is responsible for the leadership of the Board and for its governance. He has no day-to-day involvement in the running of the group. Day-to-day management of the NATS group is the responsibility of the CEO, Martin Rolfe, supported by the NATS executive team. The NATS executive team is responsible for delivering NATS' overall strategy. The executive team is structured as follows:

> CEO;
> CFO;
> Operations Director;
> Safety Director;
> Commercial Director;
> HR Director;
> Technical Services Director;
> Communications Director; and
> Legal Director.

NATS governance framework

The responsibilities of the Board

The Board has adopted a schedule of matters reserved for its decision and has put in place arrangements for financial delegations to ensure that it retains overall control of the business. The Board also has oversight of key business drivers and risks. Matters reserved for the Board include the monitoring of NATS' safety performance, appointments to the NATS executive team, and issues with political, regulatory or public relations implications. In addition to the schedule of matters reserved to the Board, specific matters are reserved for Partnership directors, AG directors and the LHRA director, as follows:

Partnership and AG directors

> adoption of the business plan;

> entry into significant debts, charges or contingent liabilities;

> major agreements outside the ordinary course of business;

> significant litigation proceedings; and

> external investments, and acquisition and disposal of material assets.

LHRA director

> acquisition or disposal of any asset representing more than 10% of the total assets of the business;

> any aspects of the business plan which could adversely affect NERL's service to UK airports; and

> disposal of NATS Services shares by NATS.

Access to legal and professional advice

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

Board meetings

The Board routinely meets seven times per year in January, March, May, June, July, September and November, and supplements these scheduled meetings with additional meetings as business priorities require. This year, the Board met nine times with each member (who served as a director during the year) as set out in the table on page 42. This includes additional meetings which have also taken place to review the impact of Covid on the business and management's response.

The non-executive directors meet with the Chair, but without the executive directors' present, after each Board meeting. 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 group's performance.

The group's performance is also reviewed monthly by the executive team. This includes reviewing performance against operational targets and financial targets.

NATS governance framework

The Board's performance

Board effectiveness review

The Board is committed to continuous improvement and a performance evaluation of the Board, its committees, and the Chair is conducted each year. This year, the Board Effectiveness Review was administered externally by Board Evaluation Limited. The results were assessed by the Board at its 31st March 2022 meeting and appropriate actions agreed.

Director induction

Following their appointment, the Company Secretary consults with new directors on the scope of induction to NATS which they require and a personalised induction programme is developed.

The Board's Committees

The Board has established five standing committees which operate within approved terms of reference. These are the:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee;
- Safety Review Committee; and
- Transformation Review Committee.

The number of meetings held by the principal Board Committees, and attendance by executive directors and by non-executive director committee members, is provided in the table below together with attendance at Board meetings:

	Number of meetings attended / Number of eligible meetings					
	Board	Audit	Nomination	Remuneration	Safety Review	Transformation Review
Paul Golby	9/9		2/2			
Martin Rolfe	9/9	5/5	2/2	3/4	4/4	4/4
Alistair Borthwick	8/9	5/5				
Maria Antoniou	8/9		2/2	4/4		
Harry Bush	9/9	5/5				
Mike Campbell	9/9		2/2	4/4		4/4
Richard Keys	8/9	5/5	2/2			4/4
Kathryn Leahy	9/9				4/4	
Gavin Merchant	7/9			3/4		
Hugh McConnellogue	9/9				4/4	
Iain McNicoll	9/9				4/4	4/4
Louise Street	8/9	5/5				

NATS governance framework

The Board's Committees (continued)

The terms of reference for the Board and its committees are available to all employees and shareholders and can be made available externally with the agreement of the Legal Director. Reports from each of the standing committees are set out on pages 44 to 64. However, in addition to the standing committees, from time to time the Board may form committees on an ad-hoc basis to deal with specific business issues. During the year the Board continued with the RP3 sub-committee (which was renamed the NR23 sub-committee) comprising the Chair, Martin Rolfe, Alistair Borthwick, Harry Bush, Richard Keys and Mike Campbell, to consider the NR23 plan ahead of submission in February 2022.

Meetings with shareholders

A shareholders meeting is usually held once a year to provide the group with an opportunity to update the shareholders on the progress of the annual business plan and long-term strategy. This year there was no formal shareholders meeting, but meetings were held with shareholders on 27 September 2021 and 7 March 2022. Shareholders may also meet informally with the Chair, CEO, CFO and other members of executive management upon request.

Compliance with the UK Corporate Governance Code

NATS is committed to maintaining the highest standards of corporate governance. The SPA requires the group and the directors to adhere to the UK Corporate Governance Code so far as reasonably practicable and save to the extent inconsistent with the other provisions of the SPA. The company applied the principles of the Corporate Governance Code 2018 from 1 April 2020, to the extent considered appropriate by the Board. A number of the principles and provisions in the Code are not relevant to the partnership nature of NATS' ownership and the principal areas where NATS did not comply are summarised below.

Provision 9: Independence of the Chair
The Chair is nominated by AG, his appointment being subsequently approved by the Secretary of State for Transport. He therefore does not fully meet the independence criteria as set out in the Code and this affects NATS' compliance with a number of the Code's provisions.

Provisions 11 and 12: Independence of Directors and appointment of Senior Independent Director
The arrangements for appointing non-executive directors, as set out in the SPA, are such that none of the directors meet the Code's criteria for independence. This affects NATS' ability to comply with a number of the Code's provisions, including the requirement to appoint a senior independent director. However, the Chair of The Airline Group acts as Senior Non-Independent Director in the absence of the Chair.

Provisions 17 and 32: Composition of the Nomination and Remuneration Committees
Details of the work of the Nomination and Remuneration Committees are set out below. However, the manner in which directors are appointed, as noted above, means that these committees' processes do not fully comply with the Code as regards independence.

Provision 39: Notice or contract periods for non-executive directors
As noted in the Remuneration Committee report, the AG nominee directors and Partnership directors do not have service contracts with NATS. The Partnership directors are typically engaged on three-year fixed-term contracts and have letters of appointment from the DfT. Currently Iain McNicoll and Richard Keys have letters of appointment to 30 September 2022 and Maria Antoniou to 31 May 2024. The Chair has a service contract with NATS, details of which are set out in the Remuneration Committee report.

Provision 18: Re-election of directors
The non-executive directors are appointed by the shareholding groups and are therefore subject to the relevant shareholding groups' selection processes, rather than those included in the provisions of the Code. They are therefore not subject to annual re-election as stipulated by Provision 18, although Partnership directors are appointed by the Government on three-year fixed-term contracts. The tenure of non-executive directors at 31 March 2022 was as follows:

Name	Date of appointment	Years of service to 31/3/22
Paul Golby	1/9/14	7 years 7 months
Maria Antoniou	1/8/16	5 years 8 months
Harry Bush	27/5/14	7 years 10 months
Mike Campbell	26/5/17	4 years 10 months
Richard Keys	1/9/13	8 years 7 months
Kathryn Leahy	31/5/18	3 years 10 months
Hugh McConnellogue	4/10/18	3 years 6 months
Iain McNicoll	1/9/13	8 years 7 months
Gavin Merchant	20/3/14	8 years
Louise Street	29/11/18	3 years 4 months

The group is mindful of the Code principle that the Board and its committees should have a combination of skills, experience and knowledge, with consideration of the length of service of the Board as a whole and its membership and of the provision relating to the nine year tenure of the Chair.

Provision 3: Engagement with major shareholders
Within the PPP structure, there are no institutional or public shareholders. However, the nature of the SPA is such that the shareholders have representatives amongst the directors with whom they enjoy a close working relationship. All non-executive directors are invited to relay the views of their respective shareholders into Board discussions. The Board is therefore able to take decisions in the best interests of the group, having taken account of the views of the shareholders. The Chair also has regular discussions with shareholders in addition to the formal meetings noted under the 'Meetings with shareholders' section above.

Reports from Board Committees

Audit Committee report

The role of the Audit Committee

The Committee has met five times since the publication of the 2021 Annual Report and Accounts in July 2021. Of these meetings, four were held to consider routine business and one to provide Board continuing oversight of NERL's debt financing (see below). The Committee is chaired by Richard Keys; Louise Street and Harry Bush are the remaining two members of the Committee. The Committee members all have wide-ranging commercial and management experience and Richard Keys, a former audit partner at PricewaterhouseCoopers LLP (PwC) has recent, relevant financial and audit experience. The Committee members maintain their competence in the sector and on company specific issues (such as pensions) through targeted training and briefing at Committee meetings.

The Chairman, CEO, CFO, Director Group Financial Control, Head of Assurance and Risk and the responsible partner from our outsourced internal audit provider, NATS' Head of Business Risk and the external auditors are invited to attend each meeting dealing with routine business by standing invitation and others by exception as appropriate.

Part of each routine business meeting is set aside as required for members of the Committee to hold discussions without executive management present, including holding separate discussions with the external and internal auditors.

The main duties of the Committee include:

- monitoring the integrity and compliance of the group's financial statements;
- reviewing the effectiveness of both the external and internal auditors;
- reviewing the scope and results of internal and external audit work; and
- reviewing NATS' risk management and the effectiveness of internal controls.

The Committee makes recommendations to the Board on matters relating to the appointment, independence and remuneration of the external auditors and, to ensure independence, monitors the extent of non-audit services provided by the external auditors (as explained below). The Committee also reviews whistleblowing arrangements under which employees and third parties dealing with NATS may confidentially report suspected wrongdoing in financial reporting or other matters with the objective of confirming that the arrangements in place and for the investigation and follow-up of matters raised are appropriate. The Committee reviews its Terms of Reference annually and, taking account of updates to corporate governance best practice, recommends any changes to the Board for approval.

Main activities of the Committee during the year

a. Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditors the annual financial statements of the group and its subsidiaries and NERL's regulatory accounts, having regard as appropriate to:

- the suitability of accounting policies adopted by the group;
- the clarity of disclosures and compliance with Companies Act legislation and financial reporting standards, including the requirements of NERL's Air Traffic Services Licence; and
- whether significant estimates and judgements made by management are appropriate.

In addition, the Committee assists the Board in its assessment of whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

To aid its reviews, the Committee considers reports from the CFO and reports from the external auditors on the outcome of the annual audit.

The Committee considered the following significant accounting judgements and sources of estimation uncertainty in the year:

Impact of Covid

The Committee considered the financial reporting implications of Covid and the CAA's proposals for the redetermination of NERL's price control, including the significant judgements, sources of estimation uncertainty and other assumptions made in the preparation of the financial statements and the adequacy of disclosures. In particular, the Committee considered: the recognition of NERL's revenue and the recoverability of its revenue allowances (see below); the carrying value of goodwill (see below); the carrying values of the group's investments, including in Aireon as well as in Searidge, in which the group acquired a controlling interest in the year; and the recoverability of other assets.

Going concern and viability

The Committee also reviewed the evidence supporting the assessments of going concern and viability (see page 21), including the impact of the refinancing transaction on projected liquidity, the company's March 2022 business plan financial plans, the significant judgements and assumptions in the company's forecasts of the recovery in air traffic volumes and the recovery of the shortfall in regulatory revenue allowances due to Covid, together with plausible downside scenarios and reverse stress tests. Following its review, the committee concluded it was satisfied with the approach being taken and the reasonableness of the judgements made together with the relevant disclosures, in particular the disclosures made in the going concern and viability statements and in note 3 to the financial statements.

Reports from Board Committees

Audit Committee report (continued)

Revenue recognition

The economic regulatory price control for UK en route services allows for the recovery (or reimbursement) of regulatory allowances where actual traffic volumes or inflation are different to the regulator's forecasts made at the start of the reference period, where actual service performance is different to the regulator's annual targets and for adjustments brought forward from the previous charge control period. NATS' policy is to recognise these regulatory adjustments in the year of service, based on traffic, inflation and service performance experienced. Where regulatory adjustments for pension costs are assessed after the end of a reference period, their recoverability (or reimbursement) is dependent on the assessment of the economic regulator and recognised on this basis.

As a result of Covid, the CMA's determination of the referral of the RP3 price control (2020 to 2024) was for a three-year settlement for 2020 to 2022 with NERL's charges set initially as if Covid had not occurred but recognised that the CAA would need to take a view subsequently of the recoverability of regulatory allowances for this three-year period as part of its redetermination of a new five-year price control for the period 2023 to 2027. The CAA's redetermination of the price control and its assessment of the recoverability of NERL's regulatory allowances will not be completed until the first quarter of 2023, after publication of this annual report. As a result, the company was required to estimate the amount of licence revenue to which it expects to be entitled for the services it provided in the financial year, giving consideration to the risk of potential reversal in making that estimate.

The Committee reviewed management's assessment of the nature, value and basis of the regulatory adjustments, having regard to the reduction in air traffic volumes due to the impact of Covid and CAA's approach to the retrospective reconciliation of actual revenue and costs to determine the Covid revenue shortfall. The Committee also has regard to the impact of there being an extended period for the recovery of those allowances and consideration of management's judgement that it was highly probable that a subsequent reversal of the amounts recognised would not occur of the total revenue and regulatory allowances of £750m for the year ended 31 March 2022.

The Committee also monitored the International Accounting Standards Board's progress in developing an accounting standard on Regulatory Assets and Regulatory Liabilities. There have been no developments since the prior year annual report which impact on the company's financial statements or its accounting policy. The Committee noted the redeliberation of aspects of the Exposure Draft (ED) published in January 2021, on which the group had provided feedback through the IASB's consultation. It was interested in the similarities between the approach proposed in the ED and the company's existing revenue recognition policy.

The carrying value of goodwill

The Committee continued its focus on this recognising both the materiality of the group's carrying value of goodwill, the impact of impairment on the group's result and the inherent subjectivity of judgements made in assessing recoverable value and the associated impairment testing. The key judgements relate to: the assumptions underlying the calculation of value in use, including the extent to which cash flow projections are achievable taking account of the CMA's price control for 2020 to 2022 and the CAA's forthcoming redetermination of the price control from 2023, including its review of the reconciliation of actual costs incurred in the period 2020 to 2022, to take account of the impact of Covid; and assessing fair value less costs of disposal, including the extent of any premium which may be realised in excess of the value of regulatory assets.

In addressing this review, the Committee had regard to the higher of the values determined on a value in use and fair value less costs of disposal basis reflecting: NERL's revenue allowances taking account of the matters referred to above and the cash flows implied by the group's business plan and an extended period over which the revenue shortfall for years 2020 to 2022 is to be recovered; the cost of capital assumption used to discount value in use; the costs that would likely be incurred by the company should a disposal of NERL's regulatory assets take place; and the value of NERL's regulatory assets, including the extent to which a premium was appropriate to reflect the scope for out-performance of regulatory settlements having regard to those implied by market transactions in regulated entities but also continuing to reflect upon the potential impact of the Covid pandemic on these factors. The Committee reviewed an independent professional assessment that the RAB premium was within a range of 5-10% at the balance sheet date and evaluated management's judgement in light of this advice of a 5% premium for fair value less costs of disposal. The Committee also considered appropriate sensitivities. Following its review, the Committee was satisfied with the explanations and disclosures provided in notes 2, 3 and 12 to the accounts.

Retirement benefits

The pension funding position determined under international accounting standards requires a number of actuarial assumptions to be made, including judgements in relation to long-term interest rates, inflation, longevity and salary growth. The Committee reviewed the basis for determining these assumptions. The final calculations in respect of the defined benefit pension scheme are performed by a qualified actuary, independent of the scheme. Note 3 to the accounts summarises critical judgements and key sources of estimation uncertainty and note 32 sets out the main actuarial assumptions used, including sensitivity analysis.

The Committee also considered the adequacy of the explanations for the different basis of valuation for the Trustees funding assessment of a deficit of £172m at 31 December 2020 and for the balance sheet position under international accounting standards of a surplus of £332m at 31 March 2022, and recognition of the surplus under IFRIC 14. The Committee was satisfied that the approach being taken and related disclosures were appropriate.

Reports from Board Committees

Audit Committee report (continued)

Debt financing

On behalf of the board, the Committee continued to review NERL's financing structure since the debt refinancing of June 2021. This included the decision to extend the terms by one year of both the £450m bridging bank facility and the £400m revolving credit facility (see note 18 to the financial statements) pending the CAA's decisions on the NR23 price control and retrospective reconciliation, such that the latter is reflected in subsequent decisions enabling funds to be raised efficiently in the bank or debt capital markets.

Searidge Technologies Inc

The group purchased a controlling interest (which resulted in whole ownership) of Searidge in December 2021. The Committee reviewed management's application of the acquisition method of accounting, including: the assessment of the fair value of identifiable assets acquired and liabilities assumed; the goodwill on acquisition; and the step acquisition and derecognition of the pre-existing interest in associate in accordance with accounting standards. The Committee also reviewed an independent assessment of the fair value at acquisition of intangible assets. The Committee was satisfied that the acquisition resulted in goodwill of £7.4m, intangible assets of £3.3m and a gain of £4.4m on derecognition of the interest in associate. The Searidge transaction is disclosed in note 34.

Other matters

Other matters considered by the Committee included the potential implications of climate change and the impact of the conflict in Ukraine.

During the year, the Committee reviewed the half-year financial statements for the period to 30 September 2021, issued to shareholders under the terms of the SPA.

b. Internal audit

The group's internal audit department conducts a programme of work to review and examine the controls in place to mitigate NATS' business risks, which encompasses internal financial control and risk management. In order to access the specialist skills required to perform assessments across the wide range of areas in which NATS operates, the internal audit function has been operated for some years as a co-source arrangement, primarily with PwC but with other providers if required. For the 2021/22 financial year, internal audit was operated under a fully outsourced model provided by PwC. This approach will be subject to ongoing review and is being continued for the current financial year.

The results of internal audits and agreed actions are reported as appropriate to relevant directors, executives and managers and reported on regularly to the Committee. Internal Audit monitors the satisfactory completion of actions by management to address their findings and reports on this to the Committee to assist its oversight. The Committee oversees the performance of internal audit through the receipt of a report on its work presented to each Committee meeting and agrees the annual work plan in the context of the group's audit and assurance universe. Work is continuing to develop the universe in supporting more broadly the assurance needs of the group across its business, leveraging the work of Risk Management and Internal Audit to provide an integrated approach. Through its process of regular review of Internal Audit's work, the Committee is able to ensure that assurance resource is appropriately directed to meet specific needs, for example in response to exceptional circumstances. In particular, as regards the impact of the Covid pandemic, internal audit has reviewed certain of the measures undertaken by the company in response. The Committee also considers the ongoing independence of internal audit.

c. External audit

BDO LLP was re-appointed as external auditor on 9 July 2021. The Committee reviewed the performance and the continuing independence of BDO periodically during the year and at its June 2022 meeting and recommended to the Board that BDO be re-appointed. Accordingly, a resolution recommending their re-appointment will be considered by shareholders.

Reports from Board Committees

Audit Committee report (continued)

d. Risk management

The Committee receives at each meeting reports from risk management and the internal auditor on the performance of principal risks, the effectiveness of internal controls, and material emerging risks. These reports include reviews of the policies and processes for identifying, assessing and mitigating emerging and principal risks and assessing risk appetite.

During the last 12 months, the committee has continued its oversight of risk by conducting a regular review of key risks and, as appropriate, supplementing this with detailed review of specific risks. The Committee has also reviewed changes to the risk management process and its reporting. Risk reports to the executive and the Committee are clearly organised by principal risk. Each of the principal risks is owned by an accountable executive director who is responsible for the framework, policies and standards that are required for keeping the risk within appetite. NATS is committed to maintaining an effective and resilient Enterprise Risk Management framework across the business.

In conjunction with the review of internal controls, commented on further below, the Committee reviews the processes in place to identify, assess, mitigate and manage risk, in particular at enterprise level, in order to satisfy itself that they are appropriate and within the specified risk appetite agreed by the Board or where that is not the case, to ensure that the Board is aware and that appropriate steps are in place to manage and mitigate the exposure.

On the basis of this work, the Committee is satisfied that the directors have carried out a robust assessment of the emerging and principal risks facing the business. The Committee also reviews the extent of warranties and guarantees entered into by the group, with particular focus on any unlimited liability indemnities entered into as part of commercial arrangements.

The Committee specifically considered the risk management and controls aspects arising as a result of the Covid pandemic and the response to it with management and internal audit (as noted above), including those arising from changes in working practices and the widespread adoption of working from home.

e. Internal control

The Board is responsible for the group's system of internal control and risk management and for reviewing its effectiveness.

NATS' system of internal control is designed to ensure that the significant financial, operational, safety, legal, compliance and business risks faced by the group are identified, evaluated and managed to acceptable levels. This system was in place during the year and up to the date of approval of the Annual Report and Accounts. As explained above, the Committee receives regular reports from internal audit concerning the results of their work and agrees their annual programme of work, as well as regular reports from risk management.

The Committee's reviews of internal audit work have covered reports on the effectiveness of controls which manage key risks including financial and information technology controls, key aspects of the technology investment programme, and commercial processes.

In addition, to the work of internal audit, the Committee also reviews reports from the external auditor, reports of any attempted or actual frauds, reports from the management's Tax and Treasury Committees and considers the circumstances of whistleblowing reports. However, as with all such systems, internal controls can only provide reasonable but not absolute assurance against misstatement or loss.

On the basis of the foregoing, the Committee believes that the directors review the effectiveness of internal controls on an ongoing basis during the year.

In overseeing NATS' whistleblowing procedures, the Committee reviewed progress since the appointment of an independent provider for NATS' whistleblowing hotline in 2017. The Committee was satisfied that the appointment of the independent provider and the associated whistleblowing procedures continue to meet best practice and are promulgated effectively throughout the company and to interested stakeholders and third parties.

The Committee is satisfied that the company's response to whistleblowing reports received during the year has been appropriate and, if necessary, appropriate actions have been taken in line with the high standards of governance which the Board requires.

Richard Keys
Chair of the Audit Committee

Reports from Board Committees

Nomination Committee report

The role of the Nomination Committee

The Nomination Committee is chaired by Paul Golby and, during the year, comprised three further non-executive directors: Mike Campbell, Richard Keys and Maria Antoniou. The Committee meets when considered necessary by its members and may invite executives and advisors to attend meetings as appropriate.

Appointments to the Board are made by the relevant sponsoring shareholder under the terms of the SPA. The Committee evaluates the balance of skills, knowledge and expertise required by the Board and makes recommendations to the shareholders with regard to Board appointments. It also reviews succession plans for executive directors and senior executives.

During the year the DfT started the recruitment process for two Partnership Directors to replace Richard Keys and Iain McNicoll who will have completed their 9 year terms on 31 August 2022.

The Chair's contract expires on the 31 August 2023 and The Airline Group has started the process to recruit his replacement.

Main activities of the Committee during the year

During the year, the Committee met twice in November 2021 and January 2022. The November meeting considered Executive succession, including Safety Director succession, and reviewed the talent pipeline. The January meeting reviewed the proposal for replacement of the Chair, including review of the role description. The Committee also received an update on DfT's recruitment of two new Partnership Directors.

The Committee's terms of reference require it to give due regard to the benefits of diversity, including gender, on the Board. Currently there are three female directors on the Board, representing 25%. There is one female member of the Executive, representing 11%.

Paul Golby
Chair of the Nomination Committee

Reports from Board Committees

Remuneration Committee report

Dear Shareholders,

I am pleased to present the directors' remuneration report for the year ended 31 March 2022. Our remuneration policy's primary objective is to ensure that we are able to attract, retain and motivate key executives to deliver strong sustainable business performance which is aligned with both the long-term success of the company and with the interests of our key stakeholders.

This report highlights the remuneration decisions made by the Committee over the course of the year, including the remuneration actions that have been taken in response to the continued impact of the Covid pandemic. A key priority for NATS is to deliver a safe, efficient, and reliable service to our customers, every day, and that we reward the management team accordingly. In this context, we have incorporated safety overrides into our variable pay schemes to ensure that no additional reward is delivered to our executives if a safe and reliable service is not delivered.

Response to Covid

Since the start of 2020, the Remuneration Committee and the Board have had regard to the impacts of Covid on the company and the wider aviation sector. Since the severity of the pandemic became clear on NATS and the aviation sector, salaries for our Executive and management team remained at 2019 levels until May 2022 when a pay award was agreed, and backdated to January 2022 in line with the award offered to the wider workforce.

In addition, as highlighted in last year's report, no active incentive schemes were put in place for the 2020/2021 performance year, recognising the continued impact on the aviation industry, and therefore no incentive plan payments were made during the reporting year. The Committee continue to focus on actions such as appropriate pay awards that reflect the wider workforce and a review of performance metrics, that recognise the importance in this period of protecting employees, preserving liquidity and ensuring that the company supports and enables the sector's recovery.

Key decisions made in 2021/22

Although the Committee's review of external data showed that the general practice across the UK and our sector was a return to incentivisation in 2021/22, the Committee took the view that it would not be appropriate to re-introduce the performance related incentive until NATS has ceased to be in receipt of government support from the CJRS (furlough). This support ended in September 2021 and the Committee therefore decided to operate a six-month incentive scheme for the period from October 2021.

A review of target measures for both short and long-term incentives has been conducted, and a revised set of measures which appropriately balances financial and strategic performance has been agreed for future incentive arrangements.

Remuneration for 2021/22

The Committee agreed that no salary increases would be applied to the NATS Executive team, non-executive directors, or the wider management group at the normal award date of April 2021 due to the external environment and ongoing cash preservation measures in place.

An annual incentive award was made to the executive team and management grades to reflect a reduced six-month period from 1 October 2021 to 31 March 2022 to recognise our ongoing recovery from the impact of Covid during this period. The award was based on both company financial performance, against a revised operating cost reduction metric, and personal performance.

A transitional long-term incentive plan (LTIP) award was also implemented to replace the previously agreed RP3 plan, with a reduced performance period from three to two years (resulting in no LTIP award grant for the 2020/21 year as a response to the Covid pandemic). This performance period aligns to the start of the next regulatory period. The plan is based on strategic targets for the specified period which focus on the ongoing recovery of NATS and key strategic priorities for the period 1 April 2021 to 31 March 2023, with the first award vesting in June 2023 subject to performance against the agreed targets.

The Remuneration Committee also approved a retention and incentive arrangement for the CFO through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. Payment of the incentive will be disclosed in the relevant years as earned (i.e. in 2023 and 2024).

Remuneration for 2022/23

For the 2022/23 financial year, the Committee will operate the remuneration policy as set out over the following pages. The highlights include:

- A base salary increase of 3% for the CEO, CFO and Executive team, in line with the wider management team and offer made to the wider workforce. As an exception, the agreed 2022 salary increase has been backdated to 1 January (in line with the offer made to the wider workforce) to recognise that there have been no salary increases since 2019. Backdated values were paid in May 2022.
- A revised set of targets for the annual 2022/23 incentive plan (as detailed on page 60).
- A transitional LTIP arrangement will continue for the two year period covering 2021/22 and 2022/23.

Conclusion

As we continue to ensure that our policy delivers a robust link between reward and performance, we have focused on ensuring that our actions and decisions taken appropriately reflect the challenging external environment our customers are facing and the pace at which the UK and aviation industry is recovering from the Covid impact. We review emerging practice across our industry and the UK and strive to ensure equity in remuneration approach across the entire workforce. We have been carefully monitoring our remuneration policy to ensure that we continue to motivate and incentivise our executive team and management team during a critical and sustained period of recovery for the business.

Maria Antoniou
Chair of Remuneration Committee

Reports from Board Committees

Remuneration Committee report (continued)

Purpose and responsibilities of the Committee

The Committee meets when necessary but no less than twice a year and is responsible for:

- considering and approving, on behalf of the Board, the arrangements for determining the remuneration, benefits in kind and other terms of employment for the Chairman and executive directors and the company's Personal Contract Group (around 370 senior managers);
- considering and approving company incentive targets for executive directors and other members of the wider executive team;
- considering remuneration plans in line with the wider workforce;
- considering and approving a statement of remuneration policy;
- confirming details of the remuneration of each executive director for inclusion in the Annual Report and Accounts;
- confirming reward arrangements for all executive directors and other members of the wider executive team;
- considering exit arrangements for executive directors and other members of the wider executive team; and
- considering the appointment of independent advisors to the Committee and any potential conflicts with the company.

The terms of reference for the Committee require it to ensure the company's remuneration policy complies with the current UK Corporate Governance Code, as far as practicable under the SPA. No director is involved in decisions relating to his or her own remuneration.

Activities in the year

The Committee met four times in the year and its main activities were to:

- Review and approve the salary increases for 2022/23;
- Review and approve annual incentive arrangements relating to the last six months of 2021/22;
- Review and approve a retention incentive arrangement for the CFO through to 2023, given the critical nature of his role in securing an appropriate NR23 outcome and completing NERL's refinancing over this period. No amounts were earned in the financial year in this respect; and
- Review and approve a transitional LTIP arrangement for the period 1 April 2021 to 31 March 2023 to replace the previously agreed RP3 plan (which has been superseded by the NR23 plan).

Membership

The Remuneration Committee of the Board is comprised entirely of non-executive directors. It is chaired by Maria Antoniou. Other members are Gavin Merchant and Mike Campbell. Paul Golby also attends the meeting (but is absent for discussion about his own remuneration).

Advisers and other attendees

As appropriate, the CEO and HR Director are invited to attend Committee meetings.

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of PwC UK. PwC fees for advice to the committee for 2021/22 were £15,500.

Directors' Remuneration Policy

It is the company's policy to establish and maintain competitive pay rates that 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 our customers and in line with the NATS values and behaviours. In fulfilling this policy, the company adheres where possible to the principles and provisions of the UK Corporate Governance Code on directors' remuneration as outlined below.

The level of executive directors' remuneration takes into account competitive practice across comparator companies as agreed with the Committee (companies from which NATS might seek to recruit employees or are considered similar to NATS) together with the need to attract and retain talent. Executive directors are rewarded based on responsibility, competence and contribution, and the average budgeted increase in salaries elsewhere in the Group. Performance-related reward forms a substantial part of the total remuneration package and is designed to align the interests of directors with those of stakeholders and to promote the long-term success of the company.

Performance is measured against a portfolio of key business objectives and payment is determined based on performance beyond that expected of directors as part of their normal responsibilities. In implementing this strategy, the Committee adopts the principle that incentive scheme targets must be stretching and in line with the Board's agreed strategic growth and business plan objectives.

The tables on pages 52 and 53 describe the key components of each element of the remuneration arrangements for the executive directors, and the company's policy in this respect. Earnings and benefits are set out in the table of directors' remuneration on page 57.

Reports from Board Committees

Remuneration Committee report (continued)

Discretions retained by the Committee in operating the variable pay schemes

The Committee operates the group's various incentive plans according to their respective rules and, where applicable, in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain discretions are reserved to the Committee, these include:

> determining who may participate in the plan;

> determining the timing of grants of awards and/or payments under the plans;

> determining the quantum of awards and/or payments (within the limits set out in the remuneration policy table);

> determining the performance measures and targets applicable to an award (in accordance with the remuneration policy table);

> where a participant ceases to be employed by the company, determining whether 'good leaver' status applies;

> determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);

> whether recovery and/or withholding shall be applied to any award and, if so, the extent to which they shall apply; and

> making appropriate adjustments to awards on account of certain events, such as major changes to the constitution of the company.

Approach to recruitment remuneration

In the event that the company recruits a new executive director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests for the company and its shareholders. This will include the application of the policy described in the policy table. In exceptional circumstances for externally recruited directors, the Committee may offer additional cash awards to compensate an individual for remuneration forfeited on leaving a previous employer.

The awards would not exceed what is felt to be a fair estimate of the remuneration forfeited and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions.

For an internal appointment, any remuneration terms awarded in respect of the previous role may either continue on its original terms or be adjusted to reflect the new appointment.

When recruiting non-executive directors, the remuneration arrangements offered would normally be in line with those paid to existing non-executive directors, details of which are set out in the Annual Report on Remuneration.

Reports from Board Committees

Remuneration Committee report (continued)

Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Base salary	To provide fixed remuneration for each role which reflects the size and scope of executive directors' responsibilities and their individual skills and experience.	Executive directors' salaries are normally reviewed annually and fixed for the 12-months commencing on 1 April. The Committee takes into consideration: > role, experience and performance of the individual; > internal and external relative positioning for total reward; and > the average budgeted increase in base salaries elsewhere in the group.		Not applicable	Not applicable
Benefits	To provide flexible, market aligned benefits on a cost-effective basis.	May include private health cover for the executive and their family, life insurance cover of up to eight times annual base salary, income protection and a car allowance. Relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business. Other benefits may be offered from time to time broadly in line with market practice. Executive directors may participate in any all-employee share plan which may be operated by the company on the same terms as other employees.	The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum. Participation in the all-employee share plan will be subject to the scheme's rules and in line with any relevant statutory limits.	Not applicable	Not applicable
Pensions	To provide cost-effective and competitive post-retirement benefits.	Executive directors' pensions and life assurance are based on salary only, with performance-related incentive payments and other discretionary benefits excluded. The principal method of securing pensions for executive directors is auto-enrolment into the NATS Defined Contribution Pension Scheme (DC). NATS also offers a company-wide pension cash alternative in lieu of employer pension contributions for those with total pension savings close to the Lifetime Allowance, which is also available to eligible executive directors.	Maximum employer contributions are: > 18% for members of the DC; or > 15% of base salary as a pension cash alternative in lieu of employer contributions to the DC; or for legacy members of the defined benefit pension scheme (DB) who have transferred out of that scheme, 25% of base salary as a pension cash alternative in lieu of employer contributions to the DB.	Not applicable	Not applicable

Reports from Board Committees

Remuneration Committee report (continued)

Remuneration policy table

Component	Link to strategy	Operation	Maximum opportunity	Framework to assess performance	Recovery and withholding
Annual incentive	To reward and incentivise the achievement of annual financial and strategic goals which are selected to align to the strategy of the business.	An Annual Incentive scheme (AMPRPS) is in place for the executive team and all employees in the Personal Contract Group. The annual incentive is paid entirely in cash. As per the rules of the scheme, the Committee may determine that vesting should not be applied for any participant(s) should the Committee consider that individual performance or other circumstances makes this an appropriate outcome. This power would only be exercised in circumstances when the Committee decides that there has been or could be significant damage to the reputation of the company either during the performance years or as a result of the award. In these cases, the decision would be referred to the non-executive directors of the Board for ratification.	Maximum opportunity is capped at 70% of base salary. The annual incentive starts accruing from threshold levels of performance as follows: Threshold: 20% Target: 50% Stretch: 100%. The current maximum potential for each executive director is set out in the Annual Report on remuneration and will achieve a maximum of 70%.	Targets are set annually and are a mix of corporate and personal performance. They are determined by the Remuneration Committee each year, taking into account the group's key strategic priorities and the approved budget for the year and are set out in the Annual Report on remuneration. The Committee may apply discretion as appropriate.	The rules of the annual incentive include a recovery provision whereby individuals are liable to repay or forfeit some or all of their AMPRPS if there is a material misstatement of the results.
Long-term incentive (RP2 and transitional LTIP 2021)	To incentivise executives to achieve the company's long-term strategy and enhance shareholder value.	Cash awards based on the achievement of long-term, financial and strategic targets over the relevant regulatory price control period. The NR23 award is currently being considered to ensure that the structure, timing and performance conditions align to the revised regulatory periods and are appropriate in the business environment.	The current maximum potential for each executive director is set out in the Annual Report on remuneration and will achieve a maximum of 110% pa.	Awards vest based on performance-measuring the return against a set of agreed targets as approved by the Committee for each respective plan. LTIP awards granted prior to 2020 also contained a link to the Company's independent share valuation and awards vest based on the share valuation at the time of vesting.	The rules of the current LTIP include provisions for recovery and withholding to apply if the Committee concludes that: > the performance on variable pay awards, that have been made or vested, was materially misstated or should have been assessed materially differently; > the assessment of any performance condition was based on an error, or inaccurate or mis-leading information or assumptions; > the relevant individual has committed serious misconduct; or > there is a major safety or operational incident resulting in serious consequences for the organisation, its customers or air passengers. Recovery and withholding may be applied for up to the third anniversary of the end of the LTIP award's performance period.

Reports from Board Committees

Remuneration Committee report (continued)

Service contracts

Executive Directors

The employment contracts of the CEO and CFO provide for 12 months' notice in the event of termination by the company or six months' notice from the executive director.

Exit payment policy

The Committee is committed to ensuring that it does not pay more than is necessary when executives leave NATS. The table below sets out the key provisions for executive directors under their service contracts and the Incentive Plan rules.

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of outplacement and legal fees in connection with a settlement agreement.

Non-Executive Directors

Charges for the services of non-executive directors are determined in agreement with the relevant sponsoring body: the DfT in the case of the Partnership directors and The AG in the case of AG appointed directors.

Partnership directors are normally engaged on three-year fixed-term contracts and have letters of appointment from the DfT.

When setting the policy for directors' remuneration, the Committee takes into account the pay and employment conditions elsewhere in the group. The Committee is informed of salary increases for the general employee population and is kept informed of pay negotiations. It takes these into account when determining salary increases for executive directors.

Where relevant and appropriate, the Committee seeks to align the remuneration policy for executive directors with that of other senior managers, or exercise upward or downward discretion where appropriate. Selected employees are able to share in the success of the group through participation in the annual incentive. Executive directors and other members of the Executive management team are eligible for participation in the LTIP.

Consideration of the views of shareholders in setting the Remuneration Policy

The Committee is mindful of the views of the DfT and AG and the regulator in determining the appropriate levels of remuneration and ensuring that shareholder, regulator and director interests are aligned.

Exit payment policy table

Element	Termination policy
Base salary, benefits and pension	Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
Annual incentive	Unless otherwise provided in the service contract, executives are not entitled to accrued annual incentive payments unless the individual is determined by the Committee to be a good leaver. A good leaver is any individual who leaves due to death, agreed retirement or for any other reason if the Committee so decides.
Long-term incentive	Unvested tranches will generally lapse at the time of exit. Vested tranches will remain exercisable for a period of one month following the date of cessation. For individuals determined by the Committee to be a good leaver (defined above), unvested tranches shall continue under the plan on existing terms save that the Committee may adjust down the size and/or life of such tranches on such basis as it determines appropriate (for example, on account of assessment of performance conditions over curtailed periods and by reference to time elapsed into performance periods) and retains discretion for early vesting.

Reports from Board Committees

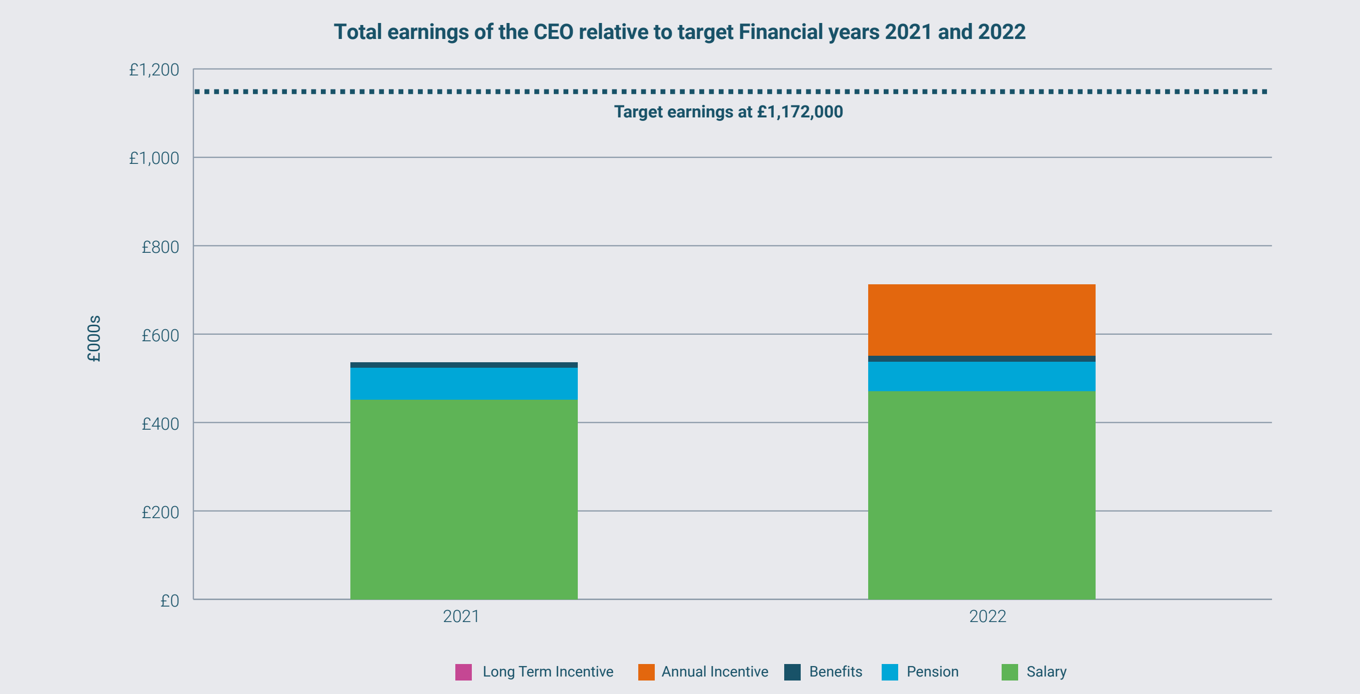
Annual Report on Remuneration

Directors' remuneration for the year ended 31 March 2022

Base salaries of executive and non-executive directors and AG fee for AG appointed directors (audited)

Martin Rolfe and Alistair Borthwick both elected for a three-month voluntary effective 20% reduction in their basic pay entitlement for the period April to June 2020 (equivalent to 5% of annual salary for the year) in response to the Covid pandemic. Of that reduction, half was salary waived and half was donated by them to the NHS Covid relief fund. Non-executive directors, including the Chairman, also elected for a voluntary pay reduction of 20% for the period April to June 2020.

The following chart explains the CEO's earned remuneration for the financial years ended 31 March 2021 and 31 March 2022.



The CEO's target earnings set by the Remuneration Committee assumed that a long-term incentive would be earned during each of 2021 and 2022 from the vesting of LTIP cycles 6 and 7. The value of the incentive under these schemes is dependent on establishing a share valuation. This has not been possible since Covid and accordingly the vesting of the schemes has had to be deferred. The consequence of not being able to establish a share valuation was not foreseen when the LTIP awards were granted to the CEO.

AG directors receive no remuneration for their services to the NATS Board. However, a payment of £217,280 for 2021/22 (£206,416 for 2020/21 which reflects the voluntary deductions as a result of Covid), was made to AG in lieu of remuneration for these directors. This sum is used to fund the activities of AG.

LHR Airports (LHRA) appointed director

The LHRA Director is employed and remunerated by LHRA. LHRA does not charge NATS for the services of its director.

	Annual salary		
	Year ended 31 March 2021	Year ended 31 March 2022 (before back dated award)	% change
Martin Rolfe	£463,500	£463,500	0%
Alistair Borthwick	£300,000	£300,000	0%
Partnership directors:			
Base fee	£36,900	£36,900	0%
Fee for chairs of Board sub-committees	£8,200	£8,200	0%
Chairman	£165,120	£165,120	0%

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2022 (continued)

Annual incentive award for the year ended 31 March 2022 (audited)

For the 2021/22 financial year, a reduced incentive award was made to the executive team and management grades to reflect the six-month period from 1 October 2021 to 31 March 2022 to recognise our ongoing recovery from the impact of Covid during this period. The maximum potential award for executive directors was 35% for the CEO and 27.5% for the CFO to reflect the pro-rated six-month period. The award is based on both company financial performance, against a revised operating cost reduction metric, and personal performance. Performance resulted in an AMPRPS of 100%.

	Weighting %	Outcome £m	Threshold (40%)	Target (75%)	Stretch (100%)	Payable %
NERL Underlying Operating Cost	80%	439	470	455	440	100%
NSL EBITDA	20%	14.7	9	10	14	100%
Total	**100%**					**100%**

NERL's underlying operating costs and NSL's EBITDA were neutral to pension accrual rates, management exceptional items (redundancy, relocation, restructuring costs, share scheme costs), costs arising out of any change in capital structure and/or ownership, foreign exchange gains/losses, fixed asset sales, changes in accounting treatment for above the line tax credits and CAAPS costs charged directly to NATS. For NERL, the metric also excludes satellite surveillance charges (recovered from charges), bad debt and incentive scheme costs. For NSL, the metric also includes the share of joint venture profits but excludes Aireon results, including fair value adjustments and Searidge, acquired in December 2021. NSL targets were also adjusted for the outcome of airport contract extensions.

Long-term incentive payments

No long-term incentive payments (LTIP) were earned in the financial years ended 31 March 2021 and 31 March 2022.

LTIP arrangements are established for executive directors and other members of the NATS Executive in order to incentivise long-term performance, align performance with shareholders' interests, and reward exceptional performance. Performance conditions are generally established for LTIPs for periods of three years. Payments under LTIP arrangements are made according to a predetermined vesting schedule covering a period of three years following completion of each LTIP scheme. Payments are subject to eligibility criteria under scheme rules. These require participants to be employed at the vesting date or to be good leavers under the scheme rules.

Outstanding LTIP Cycles (audited)

LTIP schemes (Cycles 6 and 7) awarded up to April 2017 were based on awards of notional shares made annually with performance conditions measured over a period of three years. Performance conditions relating to Cycle 6 and Cycle 7 were determined in previous years and achieved 46.4% and 71.7% of target respectively.

Amounts paid under LTIP Cycles 6 and 7 are based on the value of notional shares at each vesting date, which is linked to the price of an employee share and the total shareholder return since the award date. The value of vesting payments under these LTIP cycles is determined at the vesting dates indicated in the table below and are reported in the directors' emoluments table when vested (or paid to a good leaver). The values of Cycle 6 and 7 tranches vesting from July 2020 onwards remain undetermined, being dependent on an HMRC approved employee share price at the vesting date. Vesting under all tranches on or after July 2020 has been deferred due to Covid and additionally is not capable of being determined following suspension of the employee share scheme.

Director	Cycle	Date of award	% of salary awarded	Value of notional shares awarded	Share price at award (£)	Outstanding vesting schedule*
Martin Rolfe	Cycle 6	April 2016	110%	£440,000	£4.20	25% July 2020; 25% July 2021
	Cycle 7	April 2017	110%	£473,000	£3.95	50% July 2020; 25% July 2021; 25% July 2022

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2022 (continued)

Remuneration earned by directors for the year ended 31 March 2022 (audited)

The table sets out the emoluments of the Chairman and directors. It shows all of the remuneration earned by an individual during the year and reports a single total remuneration figure.

		Salary or fees*		Benefits*		Pension Cash Alternative*		Replacement award		Total fixed pay*		Annual incentive*		Total variable pay*		Total remuneration*	
	Notes	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Chairman																	
Dr Paul Golby CBE	1	166	161	8	4	-	-	-	-	174	165	-	-	-	-	174	165
Executive directors																	
Martin Rolfe	2, 3, 4	467	452	14	13	70	70	-	-	551	535	162	-	162	-	713	535
Alistair Borthwick	4, 5	302	293	16	19	45	45	87	87	450	444	83	-	83	-	533	444
Non-executive directors																	
Maria Antoniou		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Richard Keys		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Iain McNicoll CB CBE		45	44	-	-	-	-	-	-	45	44	-	-	-	-	45	44
Michael Campbell	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dr Harry Bush CB	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gavin Merchant	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hugh McConnellogue	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Louise Street	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kathryn Leahy	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		1,070	1,037	38	37	115	115	87	87	1,310	1,275	245	-	245	-	1,555	1,275

* There were no resignations or appointments in the year or the prior year.

Notes to the table of directors' emoluments:

1 Benefits paid to the Chairman represent the reimbursement of travel costs.

2 In 2021, Martin Rolfe took a voluntary reduction in salary of 20% in the first three months of the financial year. Of this amount half was waived and is not reported above, while half was donated by Martin to the NHS Covid relief fund. His salary for 2022 includes the exceptional backdating of the 2022 pay award to 1 January, rather than 1 April.

3 Martin Rolfe is a member of the defined contribution pension scheme in order to make employee contributions only and sacrificed £4,000 (2021: £4,000) of his salary under the company's salary sacrifice arrangements. These contributions are reported in his salary above. The company did not make any employer contributions.

4 Martin Rolfe and Alistair Borthwick were eligible for the pension cash alternative payment scheme in lieu of employer pension contributions. Under the pension cash alternative payment scheme, Martin Rolfe received £70,046 for the year (2021: £69,525), Alistair Borthwick received £45,338 for the year (2021: £45,000).

5 In 2021, Alistair Borthwick took a voluntary reduction in salary of 20% in the first three months of the financial year. Of this amount half was waived, and is not reported above, while half was donated by Alistair to the NHS Covid relief fund. His salary for 2022 includes the exceptional backdating of the 2022 pay award to 1 January rather than 1 April. His remuneration includes partial compensation for performance related remuneration that he forfeited on leaving his previous employer. His contractual entitlement of £261,063 is payable in three equal annual instalments. Annual amounts are reported above as a replacement award.

6 These directors are appointed by The Airline Group (AG), which charged NATS a total of £217,280 (2021: £206,416) for the services of the directors. The Airline Group elected to take a 20% reduction in fees covering the period April to June 2020 following Covid.

7 Kathryn Leahy is appointed by LHRA and received no fees from NATS for her services.

Reports from Board Committees

Directors’ remuneration for the year ended 31 March 2022 (continued)

Ratio of the Chief Executive’s pay to UK employees

Although the requirement to disclose the pay ratio is not a statutory requirement for NATS, the Committee considered it appropriate to include the relevant disclosures on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive’s pay and the remuneration of the wider workforce.

Date	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
April 2019	Option B	18:1	13:1	10:1
April 2020	Option A	35:1	23:1	17:1
April 2021	Option A	9:1	6:1	4:1
April 2022	Option A	10:1	8:1	5:1

The remuneration data reference period to which the calculations were completed were in line with the financial year 1 April to 31 March. All required components were included and the single figure methodology was applied. To determine the full time equivalent remuneration for each employee, each employee’s working percentage as at 31 March is used to calculate their full time equivalent (FTE) remuneration. This FTE remuneration is then ordered from lowest to highest to determine the 25th, 50th and 75th percentiles in relation to the CEO.

Percentile	Base salary (£’000)	Total Remuneration (£’000)	Ratio of CEO total remuneration to percentile
25th	58	**68**	**10**
50th	67	**94**	**8**
75th	109	**137**	**5**
CEO	467	**713**	**1**

The median, 25th percentile and 75th percentile figures used to determine the ratio in 2019 were calculated by reference to option B, which uses the most recent pay information available from the NATS gender pay report data to allow us to make best estimates on the 25/50/75th centile pay data for comparison. From 2020, the Committee changed the calculation methodology to Option A, as it was considered more statistically accurate, and data became available to use this method. The Committee considers that the median pay ratio disclosed above is consistent with the pay, reward and progression policies for the company’s UK employees taken as a whole. The employees used in the calculations are considered to be reasonably representative of the 25th, 50th and 75th percentiles of the company’s remuneration for the relevant financial year. The significant movement in ratios from 2019 (of 10:1) to 2020 (of 17:1) and the subsequent reduction in 2021 (to 4:1) and maintained in 2022 (at 5:1) is primarily due to the timing of vesting of the CEO’s LTIP as explained above.

Reports from Board Committees

Directors' remuneration for the year ended 31 March 2022 (continued)

Five-year history of Chief Executive remuneration

The following table sets out a five-year history of the remuneration of the Chief Executive. It also details amounts actually paid in each financial year, reflecting the timing of annual bonus and long-term incentive payments.

Financial years ended 31 March	2018	2019	2020		2021	2022
Earned for the year (£'000s)	1,179	1,103	2,047		535	713
AMPRS (% of maximum entitlement)	92.5%	89.8%	86.0%		0%	50%
LTIP (% of maximum entitlement)	Cycle 5 80.0%	Cycle 6 46.4%	Cycle 7 71.7%	RP2 100%	n/a	n/a

Statement of directors' interest in shares

Aggregate emoluments disclosed above do not include any amounts for the value of shares awarded under the company's all-employee share ownership plan. NATS' all-employee share ownership plan is designed to give every employee (including executive directors but not non-executive directors) an equal opportunity to acquire a stake in the future success of the company.

The share plan holds 5% of the shares in NATS and is administered by a special trustee company with three directors – one each appointed by HM Government, AG and the Trades Unions (collectively known as the Trustee). Maria Antoniou chairs the Trustee meetings.

Details of the shares held by directors during the year are set out in the table below. The value of Martin Rolfe's shareholding as at 31 March 2022 is indicative only. For the purpose of this report, this indicative value is based on market comparable benchmarks and internal modelling of the range of NR23 price control scenarios in the absence of an HMRC approved valuation since Covid and the temporary suspension of the employee share scheme. Proceeds from the disposal of employee shares can only be realised and therefore ascertained based on an HMRC approved valuation.

Director	Date from which exercisable:		Total holding (number of shares)	Indicative share value	
	Exercisable (brought forward)	30/10/2023 (brought forward)		At 31 March 2022 (estimated at £2.41 per share)	At 31 March 2021 (estimated at £3.12 per share)
Martin Rolfe	824	200	1,024	**2,468**	3,195

There were no awards of employee shares made during the 2021/22 financial year.

Reports from Board Committees

Implementation of the remuneration policy for the year ending 31 March 2023

This part of the directors' remuneration report sets out how the remuneration policy will be applied for the financial year ending 31 March 2023.

Executive directors

Base salaries

	Annual base salary (for 2022 this is with effect from 1 January)		
	2022	2021	**% change**
Martin Rolfe	**£477,405**	£463,500	3%
Alistair Borthwick	**£309,000**	£300,000	3%

Base salaries for both Martin Rolfe and Alistair Borthwick have increased by 3%. As an exception to our normal approach to award salary increases from 1 April each year, the agreed 2022 pay award has been backdated to 1 January (in line with the offer made to the wider workforce) to recognise the fact that there have been no salary increases since April 2019 or incentive awards since the 2020/21 financial year. The backdated value was paid in May 2022 with amounts earned in the period 1 January to 31 March 2022 reported in the table of director's remuneration above.

Pension and benefits

Martin Rolfe and Alistair Borthwick both receive a pension cash alternative of 15% of base salary in lieu of employer contributions to the defined contribution scheme (DC). The cash percentage is applicable group-wide and equates to a maximum of 15% for members opting out of the DC pension and 25% for those opting out of the defined benefit pension scheme.

Annual incentive scheme

An AMPRPS award will be in place for 2022/23, based on company financial performance, against a revised operating cost metric, service targets and strategic milestones (75% weighting), and personal performance (25% weighting).

Long-term incentive plan (LTIP)

A transitional LTIP award was agreed with the Remuneration Committee to cover the period 1 April 2021 to 31 March 2023. The performance will be assessed on five agreed strategic priorities and the award will vest based on the performance outcome with two equal payment opportunities in 2023 and 2024. No increase was made to the maximum annual grant values for participants (110% per annum for the CEO and 90% per annum for the CFO).

Non-executive directors

The company's approach to setting the fees for non-executive directors is by reference to those paid by similar companies. Fees are reviewed annually by the NATS CEO and HR Director and it was agreed that fees would increase by 3% in line with wider workforce salary increases from 1 January 2022.

Chairman

The Chairman has a three-year contract that was agreed in September 2020. The Remuneration Committee approved a salary increase in line with the wider workforce of 3% taking the Chairman's base fee to £170,074 with effect from 1 January 2022.

Partnership directors

Fees with effect from 1 April	2022	2021	% change
Base fee	**£38,000**	£36,900	3%
Fee for chairs of Board sub-committees *	**£8,450**	£8,200	3%

*Remuneration Committee, Audit Committee and Safety Review Committee.

Airline Group (AG) appointed directors

AG appointed directors receive no remuneration for their services to the NATS Board. However, a fee is paid to AG in lieu of remuneration for these directors. This fee is reviewed on annual basis by the NATS CEO and HR Director. It was agreed that the annual fee from 1 April 2022 would increase to £221,505.

LHR Airports (LHRA) appointed director

The LHRA Director is employed and remunerated by LHRA. LHRA does not charge NATS for the services of its director.

Maria Antoniou
Chair of the Remuneration Committee

Reports from Board Committees

Safety Review Committee report

The role of the Safety Review Committee

The Safety Review Committee (SRC) supports the Board in discharging its accountabilities for the safe provision of air traffic services and for security arrangements across NATS. It meets quarterly as a formal committee and receives separate in-depth briefings as required. Its remit includes the requirements to:

> monitor and review the effectiveness of the safety and security arrangements in place in the group;

> review the delivery of the Group's safety objectives through its operations, structures and processes;

> review the group's safety performance;

> consider future risks and review company plans for addressing these;

> monitor the implementation of safety enhancement programmes; and

> make recommendations to the Board for improving the group's safety and security management systems.

The Committee is chaired by Iain McNicoll and there were two other non-executive director members in the period of this report: Kathryn Leahy and Hugh McConnellogue. In addition, the NATS Chair attends the Committee.

During the year, the Committee took advice from the following special advisers, who attended meetings by standing invitation:

> Captain John Monks, Director of Safety and Security, British Airways.

> Professor George Bearfield, Director of Health, Safety and Cyber Security, Rock Rail (from March 2022).

At least two of the following four members of NATS Executive team are required to attend routine meetings: the CEO, Safety Director, Operations Director and Technical Services Director.

The Chief Security Officer formally reports to the Committee on the security arrangements in NATS twice per annum. In addition, FerroNATS and Aquila provide an update on their safety performance once per annum.

The CAA's Head of Airspace, ATM and Aerodromes has an annual invitation to meet and brief the Committee. Emphasis this year was on: the challenges of regeneration to meet increasing traffic; infringements and the use of electronic measures to enhance conspicuity of all air traffic; unmanned air vehicles and urban air mobility; airspace modernisation; and EASA interactions on delegated airspace.

> Safety performance

The SRC carefully monitors the group's safety performance and progress towards its targets. During 2021, the regulatory targets which had been set for RP3 were suspended due to Covid impact. New targets are being developed to commence in 2023 in line with the new NR23 reporting period (2023 to 2027). During the interim period, the NATS group continued to use, and to meet, the RP2 targets. While the sustained fall-off of traffic for the past year has contributed to an excellent safety performance as assessed by these metrics (the relationship between traffic and safety events is non-linear), the sound performance has also been a result of effort across the company during the pandemic to maintain a clear focus on safety and to keep all risks as low as reasonably practicable.

> Safety risk management

The risk of an accident involving aircraft under NATS control remains NATS' top safety risk; the Committee regularly reviews an assessment of this risk. Information on safety occurrences, together with models to estimate the probability of different accident scenarios, including runway incursions, controlled airspace infringements, danger area infringements, aircraft leaving controlled airspace and drone encounters, provides the Committee with oversight of event types, trends and, importantly, associated safety improvement activities.

As the Covid pandemic significant effect on global aviation traffic levels continued, the SRC adapted its focus to give more time to scrutiny of a number of areas in depth. These were: licensing, currency and competence; safety culture survey results and implications; regeneration for increasing traffic; infringements of danger areas; and airspace infringements. In each topic, current progress with the issues and future plans for improvements were studied and challenged.

The Committee has also focused on integrating Health & Safety/Wellbeing with operational safety, and now review human factors risks across both dimensions.

For the longer term, the issues from 2019 with the then rising traffic levels creating capacity management problems remain in abeyance, but the Committee noted that the need for technical upgrades and for airspace modernisation remain.

> Safety workshops

A safety workshop in April 2021 provided the SRC with an update on the NATS Safety Governance Structure and in what manner safety data was gathered and utilised within the company and how that data can drive safety improvement across the organisation. A further workshop in March 2022 looked in depth at Oceanic safety and, in particular, at the positive impact on safety of the use of satellite ADS-B information.

>

Reports from Board Committees

Safety Review Committee report (continued)

> NATS Safety Strategy

The NATS Safety Strategy sets out the vision for how safety will evolve in NATS out to 2030. Actions in accordance with the plan have been identified and progressed to deliver better safety capabilities and associated outcomes.

> Physical and personnel security

Covid Secure ways of working continued through 2021, including pre-authorisation for site access and ensuring all visits were business critical, in order to protect the operation and reduce the risk of workplace transmission.

External threat and incident management: NATS security teams continued to work with the Centre for Protection of National Infrastructure, Department for Transport and relevant local constabularies to assess threats and maintain vigilance. Incident management processes have been enhanced to leverage remote working in the event of an incident, with ongoing refresher training provided to key participants.

Insider threat activities: Work has continued to ensure that NATS takes all reasonable steps to mitigate the risk from potential insider threat activities, with improvements in support and guidance.

Overseas support and travel security: Travel safety guidelines were updated in line with Government rules and guidance, and with NATS' business needs.

Iain McNicoll, CB CBE
Chair of the Safety Review Committee

Reports from Board Committees

Transformation Review Committee report

The role of the Committee

The Committee's objective is to provide the Board with oversight of NATS' transformation programmes and assurance on the quality of the strategy, planning and delivery of those programmes.

This includes the development and delivery of adequate and cost-effective long-term investment plans (LTIP), operational transformation programmes, wider company transformation programmes and additional items, such as cyber security, as well as the people and procedure changes required to realise the operational and commercial benefits.

The Committee is chaired by Mike Campbell with two other non-executive directors as members: Iain McNicoll and Richard Keys. The NATS Chair, Paul Golby, also attends. The CEO is invited to attend the TRC by standing invitation and the following executive directors are invited to attend as appropriate:

- Technical Services Director;
- Operations Director;
- Commercial Director;
- Legal Director; and
- Human Resources Director.

Main activities of the Committee during the year

As part of its governance and oversight, the Committee receives regular in-depth reports and briefings on the existing and planned transformation agenda and organisational risk profiles. During 2021/22, the following have been the key areas of focus by the Committee:

The impact of Covid

Following the conscious decision to pause the LTIP in 2020 at the start of the pandemic, our capital investment plan was revised to identify the appropriate scale of investment to fit the new environment that will deliver key components of SESAR, essential changes to airspace and critical sustainment of our current operational systems. This has also been reflected in the NR23 capex plan. The impact of Covid presented significant challenges during the last year to the sustainability of the LTIP portfolio to upgrade our technology and modernise our airspace. It is anticipated that further challenges will continue to manifest themselves for some time as we, our partners and suppliers contend with the continuing impact of the pandemic. Some work has been re-phased and acceptance testing with suppliers has been impacted due to site access restrictions. In spite of the challenges the pandemic has posed, some key airspace changes were deployed during the year and key milestones achieved in our DSESAR programme.

DSESAR

SESAR is the European wide standard for future systems, designed to produce a step change in safety, performance and efficiency. The main challenge in the years ahead is the introduction of SESAR compliant systems which NATS will achieve through its Deploying SESAR Programme. Each of the main programme components represents a significant change to the operation and its systems. The size and complexity of the composite programme brings an additional scale of risk to the business as a whole, which the Committee is committed to review on a continuing basis, in order to provide the necessary levels of assurance to the Board.

At the heart of the programme is iTEC. This is the new generation of core flight data processing systems which will underpin all NATS future operations and will operate on a common modern architecture to support all of UK airspace.

During the last year, the TRC maintained oversight of all aspects of this programme including programme sustainability, investment governance and programme delivery and responded to the current and anticipated challenges presented as a result of the pandemic.

The Committee remains focused on oversight of key elements of the transformation programme including:

- Core infrastructure;
- Voice communications; and
- Surveillance strategy.

During 2021, the programme successfully achieved a key milestone of entering limited operational service in our Prestwick operation. This involved live high fidelity operational shadowing using the new applications and live data feeds running on our core strategic architecture. It also tested our approach to transitioning into, and out of, the new iTEC platform from our current operational systems. The first voice communications using the new main voice system also took place during the year using core infrastructure to communicate with aircraft for the first time.

Lessons have been learnt through our annual programme review and continuous improvement approach, transformation programmes from the previous price control period and a variety of audits. Other similar external projects have also been reviewed in order to provide assurance that NATS has appropriate controls in place to ensure that risks are managed appropriately during technology deployments, including the Slaughter & May report into issues surrounding TSB's migration onto a new IT platform in April 2018.

Reports from Board Committees

Transformation Review Committee report (continued)

Airspace change

Modernising airspace remains a top investment priority and the impact of Covid on our industry has made it more critical than ever to deliver improved performance to our customers by simplifying the way aircraft can navigate congested airspace in more sustainable ways and increase capacity for future growth. The first UK deployment of Free Route Airspace (FRA) was implemented across Scottish airspace in December 2021, enabling airlines to plan their own routes improving airspace capacity.

Changes to the airspace above Stansted and Luton (SAIP AD6) were successfully delivered in February 2022. The airspace changes were jointly sponsored by London Luton Airport and implemented a change to the airport's arrival routes, which segregated them from Stansted Airport to reduce complexity and ensure continued safety. This change increases capacity in the Luton and Stansted area in time for summer 2022 traffic as well increasing resilience in our service at these airports.

West Airspace Deployment will deliver on two initiatives of the UK's Airspace Modernisation Strategy and will systemise the air traffic services route network from 7,000ft to 24,500ft over Wales and South West England and deploy FRA above 24,500ft. The project will build a modern, flexible airspace network and enable safe and efficient services for all airspace users and is on track for spring 2023 implementation.

Operational improvements and structural changes to airspace also form a crucial part of the wider industry effort to decarbonise in response to the net zero requirements of aviation in the UK by 2050.

Airspace change initiatives are reviewed by the Committee on a continuing basis, in order to provide the necessary levels of assurance to the Board.

Resilience

The TRC regularly reviews the approach taken to deliver and maintain resilience of current operational systems. The capital investment plan includes critical sustainment of our current operational systems to continue to provide service continuity to air traffic control and mitigating technical risk over a longer lifespan than originally planned.

Cyber security

The TRC plays a key role in providing Board oversight of cyber security and receives updates from the Chief Security Officer on all aspects of cyber security assurance, including technical compliance, monitoring and reporting on events as well as people and cultural aspects designed to improve capability and competency and reduce risk. Changes in the external threat environment are monitored and the effectiveness of key controls within the organisation are assessed, considering the highest risks to operational and corporate systems. In response to the invasion of Ukraine, our cyber oversight has increased as part of the overall risk response. During 2021/22, specific topics reviewed by the Committee included updates on compliance with the CAA's Cyber Oversight process, cyber risk management, incident management preparedness and insurance coverage for cyber incidents.

ATC training

The TRC has continued to review the ATC training transformation programme and controller supply chain over the past year. A key area of focus for the Committee has been the review of the supply of valid controllers to ensure operational staffing levels are sufficiently resilient to support service delivery at our centres and airports to the end of NR23.

Impact of transformation on our employees

The people element of the transformation programmes is an area of focus for the TRC to ensure that the impact of the transformation is understood and our employees are engaged with the change being delivered.

Programme governance

The organisational aspects of the programmes are another key consideration of the TRC to ensure that the right level of governance is in place so that the programmes deliver the benefits against the baseline plan.

Mike Campbell
Chair of the Transformation Review Committee

Report of the directors

The directors present their annual report on the affairs of the group, together with the Financial Statements and the auditor's report for the year ended 31 March 2022.

The Governance Report is set out on pages 33 to 66 and forms part of this report. A review of the group's key business developments in the year and an indication of likely future developments, as well as information regarding greenhouse gas emissions, energy consumption and actions to increase energy efficiency, are included within the Strategic Report.

Information about the use of financial instruments by the group is given in note 21 to the Financial Statements.

Dividends

The company has paid no dividends in the year (2021: nil). The Board recommends a final dividend for the year of nil (2021: nil).

Directors and their interests

The directors of the company at the date of this report are set out on pages 35 to 39. There were no changes in the Board during the year and to the date of this report.

The interests of the directors in the share capital of the parent company, through their participation in the All-Employee Share Ownership Plan, are set out on page 59.

None of the directors have, or have had, a material interest in any contract of significance in relation to the group'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

The directors are committed to the involvement of employees in the decision-making process through effective leadership at all levels in the organisation, including engagement with the Board through a designated non-executive director. Employees are frequently involved through direct discussions with their managers, cross-company working groups and local committees. Regular employee consultations cover a range of topics affecting them, 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. Since the outbreak of Covid, the directors have 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 employees (and contract staff) and the company's operation. The NATS CEO maintains high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where he talks to them about current business issues and takes questions in an open and straightforward manner. The NATS CEO and the Executive team provided regular updates to employees through the company's internal media. Such actions enable employees to achieve a common awareness of those factors affecting the performance of the company. Also, employees' views are represented through an open dialogue with Prospect and the Public and Commercial Services Union (PCS), the recognised unions on all matters affecting employees. Formal arrangements for consultation with employees exist through a local and company-wide framework agreed with the Trades Unions.

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

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

The group 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 29 to 30 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 viability statements

The directors' assessment of going concern and their viability statement are set out on pages 21 to 22.

Report of the directors

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Financial Statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the parent company, and of the profit or loss of the group and the parent company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

> properly select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

> 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 group'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 group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group 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 group's auditors are unaware; and

> the director has taken all the steps that he/she ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

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

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors.

We confirm that to the best of our knowledge:

> the Financial Statements, prepared in accordance with IFRS as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit of the group;

> the Strategic Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces; and

> the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group'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:

R C-Cole

Richard Churchill-Coleman
Secretary
30 June 2022

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

Registered in England and Wales
Company No. 04138218

Annual Report and Accounts 2022

Financial Statements

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

Opinion on the Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NATS Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated cash flow statement and the 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 UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Directors at the Annual General Meeting on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 8 years, covering the years ending 31 March 2015 to 31 March 2022. We remain independent of the Group and the Parent 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the Directors' going concern assessment, forecasts and covenant compliance for the Group for a period of at least 12 months from the date of approval of the financial statements. This included checking that the forecasts were consistent with the latest Board approved budgets.
- Detailed enquiries and challenge of the Board and management on reasonableness of the assumptions made in the preparation of these forecasts. This included making comparisons to actual results achieved in the year.
- Reviewing management's reverse stress testing on forecasts and consideration of the downside scenarios that would result in a breach of the net debt to Regulatory Asset Base ("RAB") covenant. We considered the Directors' assessment of the likelihood of such circumstances arising in determining their conclusion related to going concern.
- Assessing the accuracy of the Directors' financial model by testing the mechanical integrity of forecasts, assessing the historical forecasting accuracy and future air traffic assumptions by comparing these to third party forecasts from June 2022 through to at least June 2023.
- Reviewing the terms of the Group's facility agreements and other key documents, including those relating to the refinancing that occurred in June 2021 and March 2022, for significant matters that could impact the going concern assessment.
- Reviewing the Directors' assessment of controllable mitigations available to the Group to reduce cash flow spend in the going concern period in order to determine whether such mitigations are realistic.
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and reverse stress test assessment.

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

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

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview

Coverage[1]

- 99% (2021: 99%) of Group profit (2021: loss) before tax
- 99% (2021: 99%) of Group revenue
- 99% (2021: 99%) of Group total assets

Key audit matters

	2022	2021
Recognition of licence fee revenue and amounts recoverable under regulatory agreement	Yes	Yes
Carrying value of goodwill	Yes	Yes
Capital investment programme	Yes	Yes
Valuation of pension scheme assets	Yes	Yes
Valuation of pension scheme liabilities	Yes	Yes
Going concern	No	Yes

Following the refinancing in June 2021 and our risk assessment, going concern was not considered to be a key audit matter in the current year.

Materiality

Group financial statements as a whole

£5.0m (2021: £5.0m) based on 0.8% of operating costs (2021: 0.7% of operating costs excluding goodwill impairment).

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

There has been no significant change in the Group's operations and therefore the assessed risks of material misstatement described above, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team, are the same risks as in the prior year with the exception of Going Concern which is no longer deemed a key audit matter.

We carried out full scope audits on all four significant components, being NATS Holdings Limited, NATS Limited, NATS (En Route) plc and NATS (Services) Limited, which covered 99% of the Group's revenue, assets and profit before tax. Non-significant components were subject to either specified procedures or desktop review procedures performed by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[1] These are areas which have been subject to a full scope audit by the group engagement team.

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

Key audit matter	How the scope of our audit addressed the key audit matter

Recognition of licence fee revenue and amounts recoverable under regulatory agreement
 	
Total revenue and regulatory allowances in the year is £749.8m (2021: £823.0m), of which regulatory allowances under-recovered is £202.0m (2021: £417.2m).
 	
The accounting policy for 'revenue recognition' and for 'Amounts recoverable or payable under regulatory agreement' are included in note 2.
 	
Note 4 includes details of total revenue and regulatory allowances. Notes 17 and 22 include details of the amounts recoverable and payable under regulatory agreement.
 	
Note 3 sets out the significant estimation uncertainty in respect of the recognition of the shortfall in revenue and regulatory allowances.
 	
All licence fee revenue and amounts recoverable under regulatory agreement are recognised in NATS (En Route) plc ("NERL").
 	
As a result of the significant impact of COVID-19 on flight volumes and the CAA opening a price control review, the recognition of licence fee revenue and regulatory allowances under recovered is subject to significant estimation uncertainty.
 	
This estimation includes management judgement in respect of the outcome of the CAA price control review, the basis for their assessment of efficient costs and the period over which any amounts recoverable under regulatory agreement will be recovered.
 	
As a result of the above, the recognition of licence fee revenue and amounts recoverable under regulatory agreement and the related disclosures were considered an area of audit focus.
	Our procedures included:
	
	> Understanding the regulatory framework in respect of licence fee revenue and regulatory allowances under recovered and assessing that these have been appropriately accounted for in accordance with the applicable accounting standards.
	
	> Completing a test in total on the NATS (En Route) plc revenue, corroborating each of the underlying revenue streams to supporting contract documentation, to check that the revenue is appropriately recognised.
	
	> Checking that airspace revenue is being accounted for in line with the provisions of the air traffic services licence, the regulatory charging mechanisms for the reference period and the basis for the on-going price control review being conducted by the CAA.
	
	> Reviewing publicly available information, including CAP2119, CAP2160 and CAP2245, setting out the CAA's proposed approach to setting the licence fee and compared Management's approach to determining licence fee entitlement to that proposed by the CAA.
	
	> Confirming the discount rate used to market data.
	
	> Challenging management's judgement as to whether it is highly probable their assessment of the costs the CAA will determine to be recoverable, will not give rise to a significant risk of revenue reversal. This included challenging management's assessment of:
	
	  > the period over which any regulatory allowances under-recovered would be recovered by reviewing the relevant CAP documents and consideration of alternative recovery periods; and
	
	  > the determination of an efficient cost base by reviewing the appropriateness of the costs included.
	
	> Challenging management's basis for spreading the recognition of the annual licence fee revenue and regulatory allowance entitlement throughout the year by considering the appropriateness of alternative input and output based recognition bases.
	
	> Reviewing the disclosures presented in respect of the above within the financial statements and checking that it complies with the requirements of the accounting standards.
	
	Key observations
	
	As a result of performing the procedures above, we found that the recognition of licence fee revenue, amounts recoverable under regulatory agreement and the related disclosures were acceptable.

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

Key audit matter	How the scope of our audit addressed the key audit matter

Carrying value of Airspace goodwill

As disclosed in note 12 the group has goodwill with a carrying amount of £45.7m (2021: £38.3m) including Airspace goodwill of £38.3m (2021: £38.3m). The carrying value of Airspace goodwill at 31 March 2022 had no impairment booked against it (2021: £111.0m) during the year.

The Group's accounting policy for goodwill is set out in note 2 and note 3 includes details of the estimation uncertainty with respect to the impairment of goodwill.

Note 12 includes details of the Group's assessment of the recoverable amount, determined by reference to the higher of its fair value less costs of disposal and its value in use.

Management has undertaken an impairment review of the carrying value of Airspace goodwill by comparison with the recoverable amount.

The determination of the recoverable amount is subject to a significant level of estimation. This includes the premium applied to the RAB, in determining the Fair Value Less Costs of Disposal, which was assessed by management to be 5% at 31 March 2022 (2021: 0%), and the inputs into the value in use calculations.

Management used an independent expert to assist them in determining an appropriate premium to be applied to the RAB.

As a result of the above, the carrying value of Airspace goodwill and the related disclosures were considered an area of focus for our audit.

Our procedures included:

- Considering the impairment review methodology, assessing that it is in accordance with the requirements of the applicable accounting standards and that the carrying value of goodwill is based on Fair Value Less Costs of Disposal (FVLCD), being higher than Value In Use (VIU).
- Testing the FVLCD by agreeing the underlying RAB value to the carrying value of the RAB at 31 March 2022.
- Assessing the competence, objectivity and independence of management's expert and, with the assistance of our own internal valuation experts, challenging their methodology and conclusions in their review of the RAB premium to be applied in the calculation of FVLCD.
- Reviewing management's VIU scenarios, and comparing these to the FVLCD, given the lack of alternative observable market data.
- Challenging the reasonableness of management's VIU calculation, by considering alternative scenarios for:
  - the periods over which regulatory allowances will be recovered;
  - potential outcomes in respect of the CAA's price control review from 2020 to 2022; and
  - the forecast return of traffic volumes.
- Checking the integrity of the underlying calculations for the FVLCD and VIU scenarios and agreeing these to the underlying models.
- Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards.

Key observations

As a result of performing the procedures above we found that the carrying value of Airspace goodwill and the related disclosures to be appropriate.

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

Key audit matter	How the scope of our audit addressed the key audit matter

Capital investment programme

The carrying value of other intangibles assets is £687.3m (2021: £619.5m) and property, plant and equipment is £412.4m (2021: £458.1m). The accounting policy for these is included in note 2.

Notes 13 and 14 set out details of amounts invested in the Group's capital investment programme.

The group invests significant sums in the sustainment and development of air traffic control infrastructure. A substantial proportion of the costs incurred are the amounts charged by staff employed by the group that are capitalised to specific projects.

A key risk is that either time is not appropriately capitalised or the quantum of the labour rate used could be misstated.

In addition, management makes judgements around the useful economic lives of currently deployed systems, in assessing indicators of impairment and considering the feasibility of individual projects.

Therefore, the capital investment programme and the related disclosures were considered an area of focus for our audit.

Our procedures included:

- Holding discussions with project managers, outside of the group finance team, to gain an understanding of the capital projects.
- Testing a sample of capitalised projects that included verifying the appropriateness of the labour rates being used and the amount of labour time being capitalised per project to supporting payroll information.
- Comparing useful economic lives to prior years and our own expectations based on our knowledge of the Group and industry. In considering the feasibility of individual projects we held discussions with the project managers and reviewed the performance to date against the expected performance. We have assessed management's judgement of the useful economic lives of currently deployed systems using our knowledge of the Group and industry, to check that the position taken is reasonable.
- We tested the operating effectiveness of the control relating to the review and documentation which takes place on a project-by-project basis. We reviewed management's assessment of any indicators of impairment for a sample of current capital projects carried forward as either tangible or intangible fixed assets and checked the appropriateness of their conclusions.
- Reviewing the related disclosures within the financial statements and checking that it complies with the requirements of the accounting standards.

Key observations

We consider the judgements made by management in respect of the capital investment programme and the related disclosures to be acceptable.

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

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of pension scheme assets As disclosed in note 32, the Group has £5,289.2m (2021: £5,113.9m) of plan assets that are included in the valuation of the net defined benefit liability/asset recorded on the Group balance sheet.	The quantum of the Group's plan assets recorded in the net defined benefit liability/asset on the Group's balance sheet is significant in the context of the financial statements. Some of the asset valuations, which are determined with the assistance of the investment fund managers, are subjective as they are not based on readily available market information. As a result of the above the valuation of pension scheme assets and the related disclosures were considered an area of focus for our audit.	**Our procedures included:** > Comparing the values of investments held at the balance sheet date to external investment manager asset confirmations and statements and, in the case of property assets the expert valuers valuation report. > Assessing the competence and objectivity of the Investment Fund Managers and Property valuers who provided the value of plan assets by obtaining relevant controls reports and, where necessary, bridging letters to check that the period covered by the report was appropriate and that adequate effective controls over valuation existed within the fund managers. > Where control reports or bridging letters were not available, confirming the reasonableness of asset valuations and movements to corroborating evidence such as audited accounts. > Assessing the adequacy of the disclosures within note 32 to the financial statements to check these are in line with the applicable accounting standard. **Key observations** As a result of performing the procedures above, we found that the valuation of gross plan assets and the related disclosures to be appropriate.

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

Key audit matter	How the scope of our audit addressed the key audit matter

Valuation of pension scheme liabilities

As disclosed in note 32, the Group has recorded a gross defined benefit obligation of £4,957.7m (2021: £5,145.4m) in the valuation of the net defined benefit pension liability/asset recorded on the Group balance sheet.

Note 32 also includes details of the Group's assessment of the sensitivity of the present value of the scheme obligation to changes in actuarial assumptions.

The quantum of the Group's plan liabilities recorded in the net defined benefit asset/liability on the Group's balance sheet is significant and the valuation is subjective.

The determination of the gross defined benefit obligation is subject to a significant level of estimation uncertainty, based on the use of actuarial assumptions. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness.

As a result of the above the valuation of pension scheme liabilities and the related disclosures were considered an area of focus for our audit.

Our procedures included:

> With the use of our actuarial experts, challenging the appropriateness of the actuarial assumptions used by the Group in calculating the gross defined benefit pension obligation. This included benchmarking certain assumptions such as the discount rate, RPI and CPI against those used for similar schemes and considering whether each of these assumptions sit within an acceptable range of possible outcomes.

> Agreeing member number information to source data to check the accuracy thereof.

> Assessing the adequacy of the disclosures within note 32 to the financial statements to check these are in line with the applicable accounting standards.

Key observations

As a result of performing the procedures above, we found that valuation of the gross defined benefit pension scheme obligations and the related disclosures to be appropriate.

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		**Parent company financial statements**	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
Materiality	5.0	5.0	2.8	2.8
Basis for determining materiality	0.8% of operating costs	0.7% of operating costs excluding goodwill impairment	2% of total assets	
Rationale for the benchmark applied	Due to the COVID-19 pandemic, the group has experienced significantly lower flight traffic levels and as a result incurred a loss after tax for the year. As a result and given that costs incurred will form the basis on which the licence fee for the period will be set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality.	Due to the COVID-19 pandemic, the group has experienced significantly lower flight traffic levels and as a result incurred a loss after tax for the year. As a result and given that costs incurred form the basis on which the licence fee for the period is set by the CAA, we considered that operating costs provide the most appropriate measure on which to base materiality. Goodwill impairment was excluded as it did not represent an element of the recurring operating cost base	This was considered the most appropriate benchmark as the Parent Company does not trade.	
Performance materiality	£3.8m	£3.8m	£2.1m	£2.1m
Basis for determining performance materiality	We set our performance materiality at 75% of overall materiality. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.			

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

Our application of materiality (continued)

Component materiality

We set materiality for each component of the Group based on a percentage of between 28% and 94% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.4m to £4.7m. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £100,000 (2021: £100,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate Governance Statement

As the Group has voluntarily adopted the UK Corporate Governance Code 2018, we are required to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 21 and 22; and
- The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on page 22.

Other Code provisions

- Directors' statement on fair, balanced and understandable as set out on page 66;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 66;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 23; and
- The section describing the work of the audit committee as set out on page 44.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

Other Companies Act 2006 reporting (continued)

Matters on which we are required to report by exception

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations that could give rise to a material misstatement in the financial statements to be the Companies Act 2006, UK adopted international accounting standards, pension's legislation, tax legislation, the licence granted under the Transport Act 2000 and economic regulation regulated by the CAA.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, we considered the following:

- the nature of the industry, the Group's control environment and business performance;
- the results of our enquiries of management, internal audit and the Audit Committee about their own identification of the risk of irregularities, including fraud;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to the identification of the risk of irregularities, including fraud; and
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. We also discussed the potential for non-compliance with laws and regulations.

We assessed the susceptibility of the financial statement to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and revenue recognition.

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

Auditor's responsibilities for the audit of the Financial Statements (continued)

Our procedures in response to the above included:

- agreement of the financial statement disclosures to underlying supporting documentation;
- in response to the risk of management override of controls, identifying and testing journal entries, in particular any material journal entries posted to revenue, unusual account combinations and journals posted by unexpected users by agreeing to supporting documentation;
- enquiries with management, the Audit Committee and internal legal counsel to identify any instances of known or suspected non-compliance with laws and regulations or fraud;
- review of minutes of Board meetings throughout the year to identify any instances of known or suspected non-compliance with laws and regulations or fraud, not already disclosed by management;
- review of tax compliance and involvement of our tax specialists in the audit;
- review of internal audit reports for reference to any internal control failures that could impact the Group's compliance with laws and regulations or indicate potential fraud risks; and
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the carrying value of goodwill, revenue and regulatory allowance accounting, the valuation of defined benefit pension assets, valuation of pension scheme liabilities and the capital investment programme as set out in the Key Audit Matters above.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 Parent 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 Parent 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 Parent Company and the Parent 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

30 June 2022

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

Consolidated income statement

for the year ended 31 March

	Notes	2022 £m	2021 £m
Revenue from contracts with customers	4	**539.6**	402.8
Regulatory allowances under-recovered	4	**202.0**	417.2
Other revenue	4	**8.2**	3.0
Total revenue and regulatory allowances		**749.8**	823.0
Staff costs	7	**(435.0)**	(419.0)
Staff redundancies	7	**(1.9)**	(65.2)
Services and materials		**(67.6)**	(64.1)
Repairs and maintenance		**(40.6)**	(40.6)
External research and development		**(0.4)**	-
Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets	6	**(85.5)**	(106.3)
Goodwill impairment	3, 6, 12	**-**	(111.0)
Change in expected credit losses	17	**5.4**	1.8
Other operating charges		**(29.7)**	(31.7)
Other operating income		**2.8**	2.9
Profit on disposal of non-current assets		**0.4**	0.4
Deferred grants released	6	**0.6**	0.6
Net operating costs		**(651.5)**	(832.2)
Operating profit/(loss)	6	**98.3**	(9.2)
Share of results of associate and joint ventures	34	**2.0**	2.0
Fair value gain on previously held interest in joint venture	34	**4.4**	-
Investment income	8	**11.7**	3.5
Fair value movement on financial instruments	9	**(44.5)**	(4.0)
Finance costs	10	**(63.2)**	(30.1)
Profit/(loss) before tax		**8.7**	(37.8)
Tax	11	**(36.3)**	(12.8)
Loss for the year attributable to equity shareholders		**(27.6)**	(50.6)

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2022 £m	2021 £m
Loss for the year after tax		**(27.6)**	(50.6)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	32	**354.7**	(294.0)
Deferred tax relating to actuarial gain/(loss) on defined benefit pension scheme	24	**(87.5)**	55.9
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of hedging derivatives		**8.0**	(12.3)
Transfer to income statement on cash flow hedges		**(5.7)**	4.0
Exchange differences arising on translation of foreign operations		**2.0**	(4.6)
Currency translation differences arising on consolidation of equity accounted foreign operations	34	**(0.2)**	(0.2)
Deferred tax relating to items that may be reclassified subsequently	24	**(0.4)**	1.6
Other comprehensive income/(loss) for the year, net of tax		**270.9**	(249.6)
Total comprehensive income/(loss) for the year attributable to equity shareholders		**243.3**	(300.2)

Consolidated balance sheet

at 31 March

	Notes	2022 £m	2021 £m
Assets			
Non-current assets			
Goodwill	12	**45.7**	38.3
Other intangible assets	13	**687.3**	619.5
Property, plant and equipment	14	**412.4**	458.1
Right-of-use assets	15	**42.9**	47.0
Investment	16	**40.3**	39.1
Interests in associate and joint ventures	34	**8.2**	7.3
Loans to joint ventures	34	**8.0**	3.3
Retirement benefit asset	32	**331.5**	-
Trade and other receivables	17	**11.4**	6.8
Amounts recoverable under regulatory agreement	17	**667.4**	442.5
Derivative financial instruments	20	**0.2**	-
		2,255.3	1,661.9
Current assets			
Loans to joint ventures	34	**-**	1.6
Trade and other receivables	17	**151.5**	112.8
Amounts recoverable under regulatory agreement	17	**57.2**	2.4
Current tax assets		**3.5**	14.4
Cash and cash equivalents	21	**148.0**	272.1
Derivative financial instruments	20	**0.1**	0.1
		360.3	403.4
Total assets		**2,615.6**	2,065.3
Current liabilities			
Trade and other payables	22	**(174.0)**	(165.2)
Amounts payable under regulatory agreement	22	**(37.3)**	(34.9)
Borrowings	18	**-**	(108.1)
Lease liabilities	19	**(7.8)**	(7.8)
Provisions	23	**(1.2)**	(2.3)
Derivative financial instruments	20	**(9.4)**	(21.5)
		(229.7)	(339.8)
Net current assets		**130.6**	63.6
Non-current liabilities			
Trade and other payables	22	**(87.8)**	(109.4)
Amounts payable under regulatory agreement	22	**(131.8)**	(104.5)
Borrowings	18	**(938.9)**	(602.9)
Lease liabilities	19	**(50.8)**	(56.1)
Retirement benefit obligations	32	**-**	(31.5)
Deferred tax liability	24	**(242.7)**	(118.7)
Provisions	23	**(13.6)**	(12.2)
Derivative financial instruments	20	**(67.9)**	(81.1)
		(1,533.5)	(1,116.4)
Total liabilities		**(1,763.2)**	(1,456.2)
Net assets		**852.4**	609.1
Equity			
Called up share capital	25	**140.6**	140.6
Share premium account	26	**0.4**	0.4
Other reserves	27	**(34.8)**	(38.5)
Retained earnings		**746.1**	506.5
Equity attributable to the shareholders		**852.3**	609.0
Non-controlling interest	28	**0.1**	0.1
Total equity		**852.4**	609.1

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 30 June 2022 and signed on its behalf by:

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 March

	Equity attributable to equity holders of the group						
	Share capital £m	Share premium account £m	Other reserves (note 27) £m	Retained earnings £m	Sub-total £m	Non-controlling interest £m	Total equity £m
At 1 April 2020	140.6	0.4	(27.0)	795.2	909.2	0.1	909.3
Loss for the year	-	-	-	(50.6)	(50.6)	-	(50.6)
Other comprehensive loss for the year	-	-	(11.5)	(238.1)	(249.6)	-	(249.6)
Total comprehensive loss for the year	**-**	**-**	**(11.5)**	**(288.7)**	**(300.2)**	**-**	**(300.2)**
At 31 March 2021	**140.6**	**0.4**	**(38.5)**	**506.5**	**609.0**	**0.1**	**609.1**
At 1 April 2021	**140.6**	**0.4**	**(38.5)**	**506.5**	**609.0**	**0.1**	**609.1**
Loss for the year	-	-	-	(27.6)	(27.6)	-	(27.6)
Other comprehensive income for the year	-	-	3.7	267.2	270.9	-	270.9
Total comprehensive income for the year	**-**	**-**	**3.7**	**239.6**	**243.3**	**-**	**243.3**
At 31 March 2022	**140.6**	**0.4**	**(34.8)**	**746.1**	**852.3**	**0.1**	**852.4**

Consolidated cash flow statement

for the year ended 31 March

	Note	2022 £m	2021 £m
Net cash used in operating activities	29	**(172.5)**	(264.5)
Cash flows from investing activities			
Interest received on short-term investments		**0.4**	1.2
Purchase of property, plant and equipment and other intangible assets		**(112.7)**	(79.5)
Proceeds of disposal of property, plant and equipment		**0.4**	0.9
Investment in subsidiary (net of cash acquired)		**(3.7)**	-
Transfers from short-term investments		**-**	47.3
Dividends received from joint venture and associate		**1.2**	1.0
Loans to joint ventures		**(15.2)**	(6.2)
Repayments of loans to joint ventures		**9.6**	20.3
Net cash outflow from investing activities		**(120.0)**	(15.0)
Cash flows from financing activities			
Interest paid		**(17.1)**	(21.5)
Interest received/(paid) on derivative financial instruments		**5.4**	(0.5)
Repayment of old bond		**(290.1)**	(41.6)
New bonds issued		**747.0**	-
Bond arrangement fees		**(5.8)**	-
Advances of en route charges		**-**	101.5
Drawdown of bank loan under old facility		**40.0**	-
Repayment of bank loan under old facility		**(435.0)**	-
Drawdown of bank loan under new facility		**200.0**	-
Repayment of former shareholder’s loan to Searidge		**(2.8)**	-
Principal paid on lease liabilities		**(7.0)**	(7.1)
Interest paid on lease liabilities		**(1.5)**	(1.7)
Index-linked swap repayments		**(61.3)**	(14.1)
Bank facility fees		**(3.6)**	(1.2)
Net cash inflow from financing activities		**168.2**	13.8
Decrease in cash and cash equivalents during the year		**(124.3)**	(265.7)
Cash and cash equivalents at 1 April		**272.1**	538.2
Exchange gain/(losses) on cash and cash equivalents		**0.2**	(0.4)
Cash and cash equivalents at 31 March		**148.0**	272.1
Net debt (representing borrowings and lease liabilities, net of cash and cash equivalents (see notes 21 and 29))		**(849.5)**	(502.8)

Notes forming part of the consolidated accounts

1. General information

NATS Holdings Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom and acting under the Companies Act 2006. The address of the registered office is on page 66. The nature of the group's operations and its principal activities are set out in the Report of the directors and in the Strategic Report.

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

2. Basis of preparation and accounting policies

Going concern

The group's business activities, together with the factors likely to affect its performance and financial position, its cash flows, liquidity position and borrowings are set out in this Strategic report. In addition, note 3 to the Financial Statements describes critical judgements and key sources of estimation uncertainties and note 21 the group's objectives, policies and processes for managing its capital and its financial risks and details its financial instruments and hedging activities.

Despite the challenges that Covid continued to pose over the last financial year to aviation and for the demand for air travel and, more recently, the challenging economic and geopolitical environment, as described in the Financial review the group successfully completed a full refinancing in June 2021 with issuance of £750m of unsecured bonds and agreement to a £400m unsecured revolving credit facility and a £450m unsecured bridging facility, the terms for both facilities being extended by one year in March 2022. The refinancing enabled pre-existing secured bonds and secured bank facilities to be repaid. At 31 March 2022, the group had cash of £148.0m and access to undrawn committed bank facilities totalling £650m: the £450m bridging facility expiring in May 2024 and £200m of the revolving credit facility expiring in May 2025. At 30 June 2022, the group had cash and undrawn bank facilities of around £780m.

Management has prepared and the directors have reviewed cash flow forecasts covering a period to September 2023, being at least 12 months from the date of approval of these financial statements. The directors have had regard to reasonably plausible changes in trading performance as well as severe traffic volume scenarios individually and in combination. These reflect the significant estimation uncertainty as to the timing, rate and extent of recovery in air traffic volumes in light of the economic and geopolitical situation, the possibility of further waves of the Covid pandemic, alongside unforeseen costs arising from other principal risks. The group does not assume government support for staff furlough in its scenarios.

The severe traffic volume scenarios considered were: Eurocontrol's October 2021 pessimistic case (see page 10); a further prolonged wave of Covid and related travel restrictions whereby volumes remain at 20% of pre-pandemic levels for a 12-month period from July 2022, being the most severe traffic scenario; that this Covid scenario results in a 20% loss of airport contract income, in the event of airport closures; that the Covid revenue shortfall is recovered evenly over a 10-year period (compared to a base case assumption of a 75% recovery in NR23 and 25% in NR28). Finally, a combination scenario was also performed of lower air traffic volumes (at 50% of pre-pandemic levels), a recovery of the revenue shortfall evenly over a 10-year period was also performed and an inefficiency adjustment applied to the revenue shortfall assumed by the CAA. Under the most severe scenario the group maintains adequate liquidity (of £184m) and headroom (NERL gearing at 71%) to meet its covenant (NERL gearing at 85%), prior to mitigating actions.

The directors have also considered, through a reverse stress test, the point at which liquidity would be utilised or the financial covenant would be breached before both mitigating action and regard to the financeability duties of the CAA and Secretary of State for Transport. Taking all this into account, the group's cash flow forecasts, reflecting reasonably plausible downside scenarios, show that the group and company should be able to operate within the level of its available bank facilities and within its financial covenant for the foreseeable future.

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future traffic volume scenarios and potential mitigating actions that could be taken, together with the duties of the CAA and Secretary of State for Transport referred to in the Viability statement, the group and company have 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.

Accounting standards

The Financial Statements have been prepared in accordance with international accounting standards as adopted by the UK. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB).

Following the UK's departure from the EU, for the financial year ended 31 March 2022 the Financial Statements have been prepared in accordance with IFRS and IFRIC adopted by the UK.

Notes forming part of the consolidated accounts

Accounting standards adopted in the year

The group has adopted the requirements of the following amendments to standards in the year, the adoption of these amendments has not had a material impact on the disclosures in the Financial Statements:

> IFRS 16 (amendments): Covid-19-Related Rent Concessions beyond 30 June 2021; effective 1 April 2021, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the Covid pandemic.

> IFRS 7, IFRS 9, IFRS 16, IAS 39 (amendments): Interest Rate Benchmark Reform; Phases 1 and 2 of the interest rate benchmark (IBOR) reform amendments is now effective and relates to changes to IFRS 7: Financial Instruments: Disclosures, IFRS 9: Financial Instruments, IFRS 16: Leases and IAS 39: Financial Instruments: Recognition and measurement.

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:

> IAS 16 (amendments): Property, Plant and Equipment – Proceeds Before Intended Use (effective on or after 1 January 2022)

> IAS 37 (amendments): Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract (effective on or after 1 January 2022)

> IFRS 3 (amendments): Business Combinations (effective on or after 1 January 2022)

> Annual Improvements to IFRS Standards 2018 – 2020 (effective on or after 1 January 2022)

> IAS 1 (amendments): Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (effective on or after 1 January 2023)

> IAS 1 (amendments): Presentation of Financial Statements – Disclosure of Accounting Policies (effective on or after 1 January 2023)

> IAS 8 (amendments): Accounting Policies, Changes in Accounting Estimates and Errors (effective on or after 1 January 2023)

> IAS 12 (amendments): Income Taxes – Deferred tax on leases and decommissioning obligations (effective on or after 1 January 2023)

> IFRS 17: Insurance Contracts (effective on or after 1 January 2023)

The group 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.

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

Basis of consolidation

The consolidated financial statements incorporate the Financial Statements of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of an investor's returns.

During the year the company acquired control of Searidge Technologies inc, as described in note 34.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is recognised from the transfer of goods or services at an amount that the group expects to be entitled to in exchange for those goods or services. Revenue is recognised based on the satisfaction of performance obligations, which are characterised by the transfer of control over a product or service to a customer. A contract asset is recognised to reflect the group's entitlement to consideration for work completed but not invoiced at the reporting date and a contract liability is recognised to reflect amounts invoiced for performance obligations not completed at the reporting date. Revenue excludes amounts collected on behalf of third parties.

Airspace

Airspace services are economically regulated activities which are governed by NATS (En Route) plc's air traffic services licence. These include en route ATC services provided in UK airspace and the eastern part of the North Atlantic, approach services for London airports and an advisory service for helicopters operating in the North Sea. Each of these services has the same pattern of transfer to the customer. Revenue from each service is recognised over time (as the customer simultaneously receives and consumes all of the benefits provided by the group as the group performs).

The revenue which NERL is entitled to generate from each service is governed by licence conditions and is established by periodic regulatory reviews (this process is explained in the section on Our business model within the Strategic Report). Revenue allowances are set ex ante based on the regulator's forecasts of air traffic volumes, inflation and defined benefit scheme pension contributions. Revenue is recognised based on chargeable service units or flights handled, at the rate specified by the licence and promulgated annually.

Notes forming part of the consolidated accounts

Also within Airspace, the group provides ATC services to the MOD, including training services. Revenue is recognised over time, as the service is provided. The MOD contract includes variable consideration relating to a gain share term which enables the MOD to share in cost efficiencies relative to the original contract assumption. Amounts due to the MOD for gain share are recognised over time as the service is provided and settled at future contractual payment dates. Amounts payable are discounted at NERL's regulatory cost of capital to reflect the financing component.

Revenue for assets funded by customers is recognised over the service life of the asset or the remaining contract term, if shorter.

UK airports

The group 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 on a time lapse basis using the work output approach.

Variable consideration from contract gain share mechanisms and service performance incentives is recognised in the financial year in which the service is provided.

Defence services

The group 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 (the delivery of a radio communications upgrade and fit-out of control towers). In each case, revenue is recognised over time based upon costs incurred for work performed to date, as a proportion of the estimated total contract costs.

Other UK business

The group 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 group 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 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 flows over the expected life of the financial asset to that asset's net carrying amount.

Amounts recoverable or payable under regulatory agreement

NATS (En Route) plc is the sole provider of the UK's en route air traffic control services. It operates under a licence granted under the Transport Act 2000 (TA00) and is economically regulated by the CAA. In setting the licenced price control conditions for NERL's services, the CAA establishes ex ante revenue allowances for a five-year price control which meet its financeability duties under TA00 to ensure that NERL does not find it unduly difficult to finance its operations. The unit rate for en route services to be charged to airspace users each year is based on the ex ante revenue allowance and on the CAA's forecast of air traffic volumes. Actual air traffic volumes for each year of a price control period may be higher or lower than the CAA's forecast. In order to ensure that NERL is able to finance its operations, the licence includes a risk sharing mechanism which mitigates the risk of variations in air traffic volumes and significant under or over-recovery by NERL of its annual revenue entitlement. The licence requires NERL to adjust the unit rate on a year n+2 basis to recover from or reimburse to airspace users amounts under or over recovered.

As explained in note 3 of the Financial Statements, the period over which the revenue shortfall arising in 2020 to 2022 will be recovered will be determined by the CAA following a reconciliation of actual costs and revenue in this period and consultation on a new five-year price control from 2023. The CAA has said it intends to allow the recovery of the revenue shortfall over a longer period than the current two-year time lag for recovery, with the arrangements that have been proposed by the European Commission for European regulated air navigation service providers being an important benchmark (i.e. over a five to seven year period from 2023).

NERL recognises its entitlement to amounts under-recovered and its liability for amounts over-recovered in its statement of financial position as Amounts recoverable or payable under regulatory agreement, classified as current or non-current according to the period in which it is expected to be settled. Amounts recoverable or payable under regulatory agreement meet the definitions, recognition criteria, and measurement concepts in the IASB's Framework for the Preparation and Presentation of Financial Statements (2001).

Notes forming part of the consolidated accounts

Amounts recoverable or payable under regulatory agreement reflecting the recoverability of projected future cash flows, are stated at an amount for which it is highly probable that a significant risk reversal will not subsequently occur. Amounts are discounted at inception at the incremental cost of borrowing at the balance sheet date. Amounts under or over-recovered from charges for services provided during the year are reported on the face of the income statement within Regulatory allowances under or over-recovered. See also note 3.

The regulator also sets targets and incentives for service performance. Where the group's service performance results in bonuses or penalties an amount is recognised within Amounts recoverable or payable under regulatory agreement and is reflected in the unit rate in year n+2. The regulator also allows the pass through of differences which arise between the regulator's ex ante pension cost assumptions and actual outcomes due to unforeseen financial market conditions by way of an adjustment to charges over a 15-year period. Amounts recoverable or payable in this regard are discounted at NERL's regulatory cost of capital.

Distributable reserves of the individual companies within the group comprise their individual accumulated realised profits less accumulated realised and unrealised losses. In the opinion of the directors, the key judgements necessarily made in estimating the amount of revenue and regulatory allowances to which NERL plc expects to be entitled for the period from 1 January 2020 to 31 March 2022 (i.e. the period to date which will be assessed through the CAA's retrospective reconciliation), as explained in note 3, are such that related regulatory allowances under recovered are currently considered to be unrealised for this purpose. The directors will continue to keep this judgement under review in the light of the outcome of the CAA's determination process.

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 notes 4 and 5.

Operating profit

Operating profit is stated after charging restructuring costs but before the group's share of results of joint ventures and associates, investment income, fair value movement on financial instruments, finance costs and taxation.

Goodwill (see note 3)

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing NATS assesses the carrying value of goodwill against the recoverable amount of the cash generating unit to which goodwill has been allocated. Where the recoverable amount is less than the carrying value, the impairment loss is allocated to goodwill.

Recoverable amount is the higher of fair value less costs of disposal and value in use. For goodwill held by NERL, which was recognised following the public private partnership transaction, fair value less costs of disposal is assessed by reference to the RAB of the economically regulated activities and costs of disposal. For goodwill acquired in a business combination, fair value reflects market transactions for similar assets. In assessing value in use, the estimated future cash flows (with a terminal value, as a proxy for future cash flows, which for NERL represents the RAB) are discounted to their present value using and a market pre-tax discount rate (which for NERL is the pre-tax nominal regulated rate of return) or an appropriate surrogate. For NERL's assessment, a premium is applied to the RAB, as market precedent transactions indicate economically regulated businesses attract valuations in excess of RAB. Following an independent assessment, for 2022 the premium was assumed to be 5% (2021: 0%) - see notes 3 and 12.

Property, plant and equipment

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

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

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

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

Notes forming part of the consolidated accounts

Borrowing costs

IAS 23: *Borrowing Costs*, requires costs of borrowings directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Qualifying assets are those which take a substantial time to get ready for intended use. These do not include assets which are ready for use when acquired.

For NATS, qualifying assets relate to any additions to new projects that began from 1 April 2009, included in assets under construction.

When funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual cost of borrowing incurred in the period. IAS 23 requires that where a qualifying asset is funded from a pool of general borrowings, the amount of borrowing costs eligible for capitalisation should be determined by applying an appropriate capitalisation rate (based on the weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to the expenditure during the period, to determine the borrowing costs eligible for capitalisation.

For NATS, the percentage rate for interest capitalisation is calculated as a proportion of the interest costs to the average level of borrowings in the period that relate to qualifying capital expenditure. All qualifying capital expenditure is then inflated by this percentage which has the effect of capitalising related interest costs.

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 the income statement in the period to which they relate.

Government grants received in the year for the reimbursement of employee costs for those furloughed due to Covid under the Coronavirus Job Retention Scheme have been included within staff costs. There are no unfulfilled conditions or contingencies attached to these grants.

In order to benefit airspace users, NERL obtains funding from the EC's Innovation and Network Executive Agency (INEA) for SESAR deployment projects. This is initially deferred on the balance sheet and reported within contract liabilities. Under EC Regulations, and as required by the CAA as NERL's economic regulator, all of the benefit of INEA funding is passed on to airspace users as a reduction in the unit rate charged by NERL for its UK en route services. Accordingly, INEA funding is recognised as a grant relating to income and reported as other revenue in the income statement, offsetting the cost of amounts passed on to customers through the unit rate adjustment.

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.

Notes forming part of the consolidated accounts

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

Investments in associates and joint ventures

An associate is an entity over which the group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

A joint venture is an arrangement in which two or more parties have joint control. The investors in the joint venture have rights to the net assets of the jointly controlled entity. The results of joint ventures are incorporated in these financial statements using the equity method of accounting.

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

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset, including software, arising from the group'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, excluding goodwill

At each balance sheet date, the group 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).

Notes forming part of the consolidated accounts

Where the asset does not generate cash flows that are independent from other assets, the group 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 pre-tax nominal regulated rate of return for NERL (with a RAB terminal value with a premium as a proxy for future cash flows) and for NATS Services 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 group has applied the requirements of IFRS 2: *Share-Based Payments*.

In 2001, the company 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. The Plan was initially established through the transfer of shares by the Crown Shareholder at the PPP to NATS Employee Sharetrust Limited (NESL) for £nil consideration. Following financial restructuring in March 2003, further shares were transferred to NESL by AG for £nil consideration and NESL was gifted cash of £279,264 to acquire additional shares to maintain the Plan's interest at 5% of the share capital of NATS Holdings Limited. This amount is reflected in the AESOP reserve. The Plan is administered by NESL, a trustee company. The employee ordinary shares may only be owned by employee shareholders and can only be sold to the trust company.

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

In respect of the award schemes, the group provides finance to NESL to enable the trust company to meet its obligations to repurchase vested or eligible shares from employees.

The costs of running the employee share trust are charged to the income statement.

Taxation

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in the statement of changes in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

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

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

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

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

Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the holding company, and the presentation currency for the consolidated financial statements.

Notes forming part of the consolidated accounts

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the date of transactions is used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Translation reserve (and attributed to non-controlling interests as appropriate).

In preparing the Financial Statements of the individual companies, 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 group enters into forward contracts (see below for details of the group'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 group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of available refunds or reductions in future contributions to the scheme.

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 32. 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 group has a present obligation as a result of a past event, and it is probable that the group 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 group balance sheet when the group 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 depend on the group's business model for managing the financial asset and its cash flow characteristics.

The group has financial assets in the categories of fair value through the profit or loss and at amortised cost. The group does not have financial assets at fair value through other comprehensive income. Detailed disclosures are set out in notes 16 to 22.

Financial assets:

Fair value through profit or loss

The group does not have any assets held for trading. The group holds an equity investment in Aireon at fair value through profit or loss. This is carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement in the fair value movement in financial instruments line item.

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.

Notes forming part of the consolidated accounts

Impairment of financial assets

Equity instruments, including subsidiaries, associates and joint ventures, are assessed at each reporting date to determine whether there was objective evidence of impairment. Impairment losses are recognised in the income statement.

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through the profit or loss

Financial liabilities at fair value through profit or loss, which represent derivative financial instruments, 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, debt securities and trade and other payables 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.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

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 flows 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 group after deducting all of its liabilities.

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

Reserves

The consolidated statement of changes in equity includes the following reserves not otherwise explained in this note:

- Other reserves, which arose on the completion of the PPP transaction in July 2001 under a statutory transfer scheme;
- Non-controlling interest, which represents the share of equity attributable to the minority investor in NATS Services LLC.

Derivative financial instruments and hedging activities

The group's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The group uses interest rate and index-linked swap contracts and forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 20 and 21 to the accounts.

As permitted under IFRS 9, the group 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.

Notes forming part of the consolidated accounts

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

The use of financial derivatives is governed by the 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

Estimation uncertainties arising from Covid and recognition of the shortfall in revenue and regulatory allowances

The company rejected the CAA's September 2019 regulatory price control determination for NERL for Reference Period 3 (RP3: calendar years 2020 – 2024). This resulted in a referral to the Competition and Markets Authority (CMA) which made its final decision in July 2020. In making its decision, the CMA recognised that the impact of Covid had overtaken events. For this reason, the CMA determined the price control only for years 2020 to 2022 to allow time for the CAA to redetermine a price control from 2023 to take into account a greater understanding of the impact of Covid and the path of recovery.

The Covid pandemic and government measures to stop its spread have significantly impacted the volume of air travel since March 2020. This has resulted in a significant difference between NERL's licence revenue allowances determined by the CMA for NERL for calendar years 2020 to 2022, which were based on pre-pandemic forecasts of air traffic volumes, and the amounts that NERL actually billed and collected in the year ended 31 March 2022 based on actual traffic volumes.

Anticipating the impact of Covid on the demand for the company's air traffic control service and the actions that the company was proposing to take to reduce its cost base and to preserve liquidity, the CMA set out an expectation that in addition to determining the price control for 2023 and beyond, a reconciliation exercise would be necessary for the years 2020 to 2022 with reference to actual flight volumes and the costs actually incurred since the start of 2020. The re-determination by the CAA and the associated reconciliations are now subject to a consultation process which will not be finalised until the first quarter of 2023, with prices re-set from 2023 onwards.

In its consultation document (CAP 2119) the CAA proposed that the reconciliation would be on the basis of estimates of efficient costs (which might be lower than actuals costs if it finds evidence of inefficiency), would provide for the recovery of the revenue shortfall over a longer period than the current two-year time lag for recovery under the existing regulatory framework and, to the extent practicable, would seek to allow the full recovery of revenue consistent with supporting NERL's financeability. The determination of efficient costs and the period of recovery was not clear at the balance sheet date.

The CAA indicated that this recovery may be over an extended period and should be consistent with affordable charges that support the recovery in traffic levels.

Notes forming part of the consolidated accounts

The company's accounting policy is to recognise revenue and regulatory allowances at amounts consistent with the regulatory framework and the Transport Act 2000 on the basis of the principles of accounting standards which constrain the amount which can be recognised to the extent that it is highly probable that it will not subsequently reverse. This includes the impact of any shortfall in recovery of regulatory allowances as a result of differences between actual air traffic volumes and those assumed by the price control determination, which the company considers to be an asset which reflects its legal entitlement.

There is uncertainty with respect to the outcome of the CAA's reconciliation process and this has required the company to estimate the amount of revenue and regulatory allowances for the year ended 31 March 2022, limiting recognition to an amount for which it is highly probable that a subsequent reversal will not occur. In assessing this amount, the company has made following critical judgements:

> An assessment of the licence revenue allowance for calendar years 2020 to 2022 having regard to actual costs recoverable from chargeable service units and incurred in calendar years 2020 and 2021 (of £661m and £525m respectively) and planned costs to be incurred in calendar year 2022 (of £602m). The outcome of the CAA's reconciliation of costs and revenue will not be completed until the first quarter of 2023, and therefore remains uncertain. As a result, the company has made a judgement as to the CAA's assessment of costs incurred, having regard to a similar assessment being undertaken by the European Commission for air navigation service providers it regulates, and has recognised an amount for which it is highly probable that a significant reversal will not subsequently occur, as required by accounting standards, following the CAA's assessment. As at 31 March 2022, the EC had approved to Member States that costs for calendar years 2020, 2021 and 2022 be set at 94%, 96% and 97% of 2019 costs respectively.

> The basis for determining the amount to be recognised in the three-month period to 31 March 2022. In making this assessment the company considered that, in the circumstances presented by the pandemic, an input-based approach based on the proportion of operating costs actually incurred in this period relative to those planned to be incurred over calendar year 2022 was the most appropriate method for measuring progress in delivery of the air traffic control service. This resulted in 23.9% of the calendar year licence revenue allowance being recognised in this three-month period of £136m. Other methods considered included a straight-line approach, which would have recognised 25%, an output-based measure on actual traffic volumes relative to forecast volumes for 2021 which would have recognised 20%, and the original RP3 traffic forecast which would have recognised 21% of the 2022 revenue allowance in this period;

> The company's assessment of the period to be set by the CAA for the recovery of the shortfall in regulatory allowances starting from January 2023. The company has recognised the significant financing component by discounting future cash flows at a rate, determined according to the requirements of the accounting standards, which reflects i) an assessment of the market cost of NERL's borrowing at the balance sheet date based on gilt yields and the market implied margins on bonds of similar tenor to the average period of recovery of the revenue shortfall; and ii) an allowance for credit risk based on historic recovery experience. We have assumed a 75% recovery of regulatory allowances in NR23 and the balance in NR28, this is in line with the NR23 business plan. As a sensitivity the company assessed the impact of changes in the profile of recovery over the price control periods. In the event that recovery is spread evenly over a 10-year period, regulatory allowances would be c£13m lower than reported. A 0.5% change in the discount rate would change revenue by c£12m. The company will be looking to the CAA to compensate at the cost of capital the financing cost of any extended period of recovery.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets (including assets in the course of construction), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair values less costs of disposal (see judgement relating to goodwill below). These include air traffic growth, the extent and timing of future cash flows and realisation of contract pipeline revenue, the value of the regulated asset bases, the scope for outperformance of the regulatory contract, market premia for transactions in similar economically regulated businesses, NERL's licence period and the outcome of the regulatory price control determinations. The RAB reflects the capital employed in the economically regulated business and, broadly, is uplifted annually for inflation and increases with capital expenditure and reduces by regulatory depreciation. The market premium, which is applied to the RAB when determining the fair value of goodwill, was assessed at the balance sheet date to be 5% (2021: 0%). This followed an independent assessment and a judgement which reflected the impact of Covid on the demand for air travel and the consequential uncertainties including the lack of reliable traffic forecasts, the timing and extent of traffic returning and therefore the future operating environment, as well as the outcome of the CAA's reconciliation of actual revenue and costs for calendar years 2020 to 2022 and the time period for the recovery of the revenue shortfall and its determination of the next five-year price control from 2023. There is accordingly material uncertainty in respect of the judgement on the RAB premium. As a sensitivity, a 1% change in the RAB premium would not result in a goodwill impairment charge.

Should the outcome in respect of these matters differ or changes in expectations arise, further impairment charges may be required which would materially impact operating results in future periods. See notes 12, 13, 14 and 15.

Notes forming part of the consolidated accounts

Estimate of disposal costs made for the fair value less costs of disposal of goodwill

IAS 36 defines the costs of disposal which should be deducted from fair value, as the incremental costs directly attributable to the disposal of the CGU, excluding finance costs and income tax expense. Therefore, in order to consider the costs of disposal, the directors have to contemplate a hypothetical disposal by NERL of its licensed activities and associated disposal costs on the basis that the disposal is being undertaken by a market participant unencumbered by any form of overarching agreement between the shareholders, assuming such goodwill had been acquired in a business combination rather than in the manner in which NERL's goodwill was created.

The specific circumstances of NATS SPA, which recognise the strategic national interest of the Crown, would cause certain disposal costs to be borne directly by the company and others by shareholders. Accordingly, the SPA, between the Crown shareholder, AG (the Strategic Partner) and LHRA, therefore includes as a reserved matter for the approval of these parties, and not for the directors, any material change in the nature or scope of the business, including the transfer or discontinuation of NERL's licence activity. Moreover, a hypothetical transaction for the full or partial disposal of NERL or of its licensed activity, to realise the value of any of NERL's goodwill, would be under the close control of these parties including appointing and bearing the costs of advisors for the sale process.

The remaining, minority NATS shareholder, the employee share trust, is not a party to the SPA, and would not have any right or expectation to control the sale process. The directors have a duty to ensure that the rights and interests of the minority shareholder are not prejudiced by the specific interests of the shareholders who are the parties to the SPA.

For these reasons, in a hypothetical transaction by a market participant to dispose of NERL or its licensed activity, the directors believe that the parties to the SPA would and should directly bear the costs of the disposal with the exception of due diligence costs that the company would bear in order to enable the directors to fulfil their statutory and fiduciary duties. It is expected that the costs parties to the SPA bear would include any commission or advisor fees relating to the sale itself, as well as advisor fees relating to the impact of the sale on each of the parties to the SPA.

Accordingly, the disposal costs that the parties to the SPA would bear directly, have not been included in the disposal costs deducted from fair value because of the specific circumstances of the SPA.

The directors have estimated the disposal costs which the company would bear directly to be around £1m for legal, financial and actuarial due diligence. These are incremental costs which have been deducted from fair value in calculating fair value less costs of disposal. The impairment charge would be higher or lower by the amount of difference between actual costs and £1m.

Expected credit loss provisions (see note 17)

The group's expected credit loss provisions are established to recognise impairment losses on amounts due from customers and other parties. Estimating the amount and timing of future settlements involves significant judgement and an assessment of matters such as future economic conditions and the recovery of air travel, the financial strength of the aviation sector and individual customers and the effect of any government support measures.

The group's expected credit loss provision takes into account past loss experience, payment performance and arrears at the balance sheet date, the financial strength of customers, government support measures and uncertainties arising from the economic environment. The settlement of trade receivables is sensitive to changes in the economic environment and the demand for air travel. It is possible that actual events over the next year differ from the assumptions made resulting in material adjustments to the carrying amount of trade receivables.

Overall, expected credit losses have been provided for at 2.2% of amounts due from active customers of £146.7m. A 1% change in customer default would give rise to a c£1m change in expected credit loss provision.

Investment in Aireon LLC (see note 16)

The group holds a minority interest in convertible redeemable preference shares in Aireon LLC, which carry voting rights and a right of conversion to equity interests in 2024. NATS interest in Aireon represents a financial asset which is required to be measured at fair value through profit or loss. The group valued its interest at £40.3m as at 31 March 2022 (2021: £39.1m). Aireon is a privately owned entity with few historic transactions and is therefore an illiquid unquoted investment with no readily available market price.

In valuing its interest in Aireon, the group uses an income approach which discounts to present value future dividend projections based on Aireon's most recent long-term operating plan and NATS assessment of that plan at a discount rate of 14.3%. The group also has regard to any recent transactions between the interest holders.

Aireon's dividend projections depend on its business performance, including delivery of new sales contracts not yet secured. A 10% change in revenue from new sales assumed but not yet secured would result in a c£5m change in fair value. The valuation is also sensitive to the discount rate. A 1% change in discount rate would result in a c£4m change in fair value.

Notes forming part of the consolidated accounts

Retirement benefits

The group accounts for its defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2022 the funding position of the scheme reported in the Financial Statements was a surplus of £331.5m.

A number of key assumptions have been made in calculating the fair value of the group's defined benefit pension scheme which affect the balance sheet position and the group's reserves and income statement. Refer to note 32 of the notes to the consolidated 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.

Capital investment programme (see notes 13 and 14)

The group is undertaking a significant capital investment programme to upgrade existing ATC infrastructure. This programme requires the group to enter into substantial contracts for the development of infrastructure assets and information systems. Whilst covered by contractual arrangements, it is in the nature of such complex projects that, from time to time, variations to the original specifications may necessitate the renegotiation of original contract scope or price and affect amounts reported in these accounts. The group also capitalises internal labour where this is directly attributable to the development of assets, at a labour rate judged to reflect the underlying cost of staff. Impairment charges may arise subsequently if changes in the cost or scope of capital investment is not recoverable from customer contracts or through the regulatory framework.

Classification of assets in the course of construction is assessed regularly and at the point they are brought into use are categorised as intangible or tangible assets as appropriate.

Long-term contracts (see notes 17 and 22)

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

Leases (see notes 15 and 19)

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, and subject to annual impairment reviews, as noted above.

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:

> Property leases in England and Wales that are governed by the Landlord and Tenant Act 1954. For those that are due to expire prior to 31 March 2031 it has been assumed that they will be extended under the Landlord and Tenants Act 1954 to this date.

> Airport equipment leases have primary, secondary and tertiary periods. The lease term assumed is the period for which the group 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.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances

The group has recognised the following total revenue and regulatory allowances in the income statement:

	2022 £m	2021 £m
Revenue from contracts with customers	**539.6**	402.8
Regulatory allowances under-recovered	**202.0**	417.2
Other revenue: EU funding passed to UK en route customers (see note 4a)	**6.1**	0.4
Other revenue: rental and sub-lease income	**2.1**	2.6
Total revenue and regulatory allowances (see operating segments)	**749.8**	823.0

a) Total revenue and regulatory allowances disaggregated by operating segment

The group's 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: Airspace, 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 total revenue and regulatory allowance under-recovered 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), goodwill impairment, profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy and relocation costs, R&D expenditure above the line tax credits, fair value gain on previously held interest in joint venture investment income, fair value movements on financial instruments and finance costs. A reconciliation of service line contribution to profit/(loss) before tax is set out in note 5.

Principal activities

The following table describes the activities of each operating segment:

Airspace	This includes all of the group's economically regulated activities and encompasses services to en route, oceanic and London Approach customers provided from our Prestwick and Swanwick centres, together with all the supporting communications, navigation and surveillance infrastructure and facilities. Airspace includes air traffic services for helicopters operating in the North Sea, approach services for London airports, infrastructure services to the Ministry of Defence (MOD) for their en route operations and European projects in conjunction with other air traffic organisations.
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.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

Segment information about these activities is presented below:

	2022			2021		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Revenue from contracts with customers						
UK air traffic services:						
Services to UK en route customers	**303.0**	**-**	**303.0**	159.8	-	159.8
London Approach services	**5.9**	**-**	**5.9**	3.2	-	3.2
Infrastructure services to the MOD	**37.6**	**-**	**37.6**	51.9	-	51.9
Services for North Sea helicopters	**8.4**	**-**	**8.4**	8.4	-	8.4
Other income	**1.5**	**-**	**1.5**	0.7	-	0.7
	356.4	**-**	**356.4**	224.0	-	224.0
North Atlantic air traffic services:						
Services to oceanic en route customers	**26.7**	**-**	**26.7**	14.3	-	14.3
Intercompany revenue	**12.2**	**(12.2)**	**-**	23.9	(23.9)	-
Airspace	**395.3**	**(12.2)**	**383.1**	262.2	(23.9)	238.3
UK Airports	**133.8**	**(19.9)**	**113.9**	118.4	(13.5)	104.9
Defence Services	**22.2**	**(1.2)**	**21.0**	29.0	(0.8)	28.2
Other UK Business	**15.0**	**(4.1)**	**10.9**	16.5	(4.8)	11.7
International	**11.5**	**(0.8)**	**10.7**	19.7	-	19.7
Total revenue from contracts with customers	**577.8**	**(38.2)**	**539.6**	445.8	(43.0)	402.8
Regulatory allowances under-recovered						
Airspace						
UK air traffic services:						
Services to UK en route customers	**196.5**	**-**	**196.5**	409.0	-	409.0
London Approach services	**5.5**	**-**	**5.5**	8.2	-	8.2
Total regulatory allowances under-recovered	**202.0**	**-**	**202.0**	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers						
Airspace	**6.1**	**-**	**6.1**	0.4	-	0.4
Other revenue: rental and sub-lease income						
Airspace	**2.9**	**(0.9)**	**2.0**	3.4	(1.0)	2.4
Other UK Business	**0.1**	**-**	**0.1**	0.2	-	0.2
	3.0	**(0.9)**	**2.1**	3.6	(1.0)	2.6
Total revenue and regulatory allowances	**788.9**	**(39.1)**	**749.8**	867.0	(44.0)	823.0

UK air traffic services provide en route air traffic services within UK airspace, air traffic services for helicopters operating in the North Sea, approach services for London airports, services to the Ministry of Defence and miscellaneous activity connected to the en route business. North Atlantic air traffic services provide en route air traffic services over the North Atlantic, including an altitude calibration service.

Regulatory allowances under-recovered represent the net shortfall in NERL's licence revenue allowance. In light of Covid the CAA will undertake a reconciliation of costs and revenue for calendar years 2020 to 2022 to determine the amount recoverable, as explained in note 3.

EC Regulations require that European funding for SESAR deployment received by ANSPs should ultimately be passed on to airspace users through a discount in the unit rate charge for UK en route services. In the financial year ended 31 March 2022, £6.1m (2021: £0.4m) of European funding was passed to airspace users. Accordingly, an equivalent amount was released from contract liabilities to offset the cost of the discount. As a result, the group's revenues from UK en route services reflect the revenue and regulatory allowances for which it is entitled for the services provided in the year.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

b) Total revenue and regulatory allowances disaggregated based on economic regulation

	2022			2021		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Regulated income						
Services to UK en route customers	**303.0**	**-**	**303.0**	159.8	-	159.8
London Approach services	**5.9**	**-**	**5.9**	3.2	-	3.2
Services to oceanic en route customers	**26.7**	**-**	**26.7**	14.3	-	14.3
Revenue from contracts with customers	**335.6**	**-**	**335.6**	177.3	-	177.3
Regulatory allowances under-recovered	**202.0**	**-**	**202.0**	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers	**6.1**	**-**	**6.1**	0.4	-	0.4
Total regulated income	**543.7**	**-**	**543.7**	594.9	-	549.9
Non-regulated income						
Airspace						
Infrastructure services to the MOD	**37.6**	**-**	**37.6**	51.9	-	51.9
Services for North Sea helicopters	**8.4**	**-**	**8.4**	8.4	-	8.4
Other income	**1.5**	**-**	**1.5**	0.7	-	0.7
UK Airports	**133.8**	**(19.9)**	**113.9**	118.4	(13.5)	104.9
Defence Services	**22.2**	**(1.2)**	**21.0**	29.0	(0.8)	28.2
Other UK Business	**15.0**	**(4.1)**	**10.9**	16.5	(4.8)	11.7
International	**11.5**	**(0.8)**	**10.7**	19.7	-	19.7
Revenue from contracts with customers	**242.2**	**(38.2)**	**204.0**	268.5	(43.0)	225.5
Other revenue: rental and sub-lease income	**3.0**	**(0.9)**	**2.1**	3.6	(1.0)	2.6
Total non-regulated income	**245.2**	**(39.1)**	**206.1**	272.1	(44.0)	228.1
	788.9	**(39.1)**	**749.8**	867.0	(44.0)	823.0

Airspace services are economically regulated activities governed by NATS (En Route) plc's air traffic services licence. The revenue which NERL is allowed to generate from these services is governed by the price control conditions of this licence. Regulatory allowances under-recovered reflects a judgement as to the outcome of the CAA's reconciliation of actual costs and revenues and how much of the shortfall in regulatory allowances will be recovered, and over what period, having regard to NERL's financeability and the period of recovery, as well as the affordability of charges to customers. Recognition has been limited to an amount for which it is highly probable that a significant subsequent reversal will not occur (see note 3).

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

c) Total revenue and regulatory allowances disaggregated by timing of recognition

	2022			2021		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Over time						
Revenue from contracts with customers	**576.7**	**(38.2)**	**538.5**	407.9	(43.0)	364.9
Regulatory allowances under-recovered	**202.0**	**-**	**202.0**	417.2	-	417.2
Other revenue: EU funding passed to UK en route customers	**6.1**	**-**	**6.1**	0.4	-	0.4
Other revenue: rental and sub-lease income	**3.0**	**(0.9)**	**2.1**	3.6	(1.0)	2.6
	787.8	**(39.1)**	**748.7**	829.1	(44.0)	785.1
At a point in time						
Revenue from contracts with customers	**1.1**	**-**	**1.1**	37.9	-	37.9
	1.1	**-**	**1.1**	37.9	-	37.9
	788.9	**(39.1)**	**749.8**	867.0	(44.0)	823.0

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

d) Total revenue and regulatory allowances disaggregated by geographical area

The following table provides an analysis of the group's total revenue and regulatory allowances by geographical area based on the location of its customers:

	2022			2021		
	Total intra-group and external £m	**Intra-group £m**	**External £m**	Total intra-group and external £m	Intra-group £m	External £m
Revenue and regulatory allowances, including Other revenue: EU funding passed to UK en route customers						
United Kingdom	**373.7**	**(38.2)**	**335.5**	387.5	(43.0)	344.5
Other European countries	**122.7**	**-**	**122.7**	92.1	-	92.1
United States of America	**86.5**	**-**	**86.5**	105.7	-	105.7
Republic of Ireland	**68.7**	**-**	**68.7**	72.6	-	72.6
Countries in Asia	**65.0**	**-**	**65.0**	79.5	-	79.5
Germany	**46.0**	**-**	**46.0**	48.1	-	48.1
Netherlands	**-**	**-**	**-**	49.4	-	49.4
Other North American countries	**16.4**	**-**	**16.4**	20.8	-	20.8
Countries in Africa	**4.6**	**-**	**4.6**	4.9	-	4.9
Countries in South America	**1.2**	**-**	**1.2**	1.4	-	1.4
Countries in Oceania	**1.1**	**-**	**1.1**	1.4	-	1.4
	785.9	**(38.2)**	**747.7**	863.4	(43.0)	820.4
Other revenue: rental and sub-lease income						
United Kingdom	**2.4**	**(0.9)**	**1.5**	3.2	(1.0)	2.2
Other European countries	**0.6**	**-**	**0.6**	0.4	-	0.4
	3.0	**(0.9)**	**2.1**	3.6	(1.0)	2.6
	788.9	**(39.1)**	**749.8**	867.0	(44.0)	823.0

Total revenue and regulatory allowances 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.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

e) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 17 and 22. Significant changes in the contract assets and the contract liabilities balances during the year are as follows.

	Contract assets		Contract liabilities	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
At 1 April	21.9	25.8	(90.1)	(62.6)
Opening contract assets transferred to trade and other receivables	(18.0)	(20.6)	-	-
Cumulative catch-up adjustments	(0.1)	(0.1)	-	0.1
Additional contract asset balances recognised at the balance sheet date	16.3	16.8	-	-
Impairment of contract assets	(0.4)	-	-	-
Acquisition through business combination	2.6	-	(0.3)	-
Opening contract liabilities which have now been recognised as revenue	-	-	13.0	10.1
Increases due to cash received, excluding amounts recognised as revenue during the year	1.7	-	(16.2)	(37.7)
At 31 March	**24.0**	**21.9**	**(93.6)**	**(90.1)**

Contract assets and contract liabilities included within "trade and other receivables" and "trade and other payables" respectively are reported on the face of the statement of financial position. The majority of contracts in the Airspace and UK Airports service lines 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.

f) Total revenue and regulatory allowances from performance obligations satisfied in previous periods

No amounts were recognised for the year ended 31 March 2022 in respect of performance obligations satisfied in previous periods (2021: £36.9m). The prior year amount represents variable consideration relating to true-ups for the difference between actual pension contributions arising from unforeseen changes in financial market conditions and the regulator's assumption, after review and approval by the regulator.

Notes forming part of the consolidated accounts

4. Total revenue and regulatory allowances (continued)

g) Remaining performance obligations

For the majority of contracts, the group has a right to consideration from the customer in an amount that corresponds directly to the value to the customer of the group'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:

	2022				
	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
Airspace	0.4	-	-	-	0.4
UK Airports	9.7	0.1	0.3	-	10.1
Defence Services	8.1	-	-	-	8.1
Other UK Business	1.5	-	0.1	-	1.6
International	7.8	1.8	1.6	-	11.2
	27.5	**1.9**	**2.0**	**-**	**31.4**

	2021				
	Due within one year or less £m	Between one and two years £m	Due between two and five years £m	Due in more than five years £m	Total £m
Airspace	2.4	-	-	-	2.4
UK Airports	4.2	0.8	0.9	-	5.9
Defence Services	16.5	1.1	-	-	17.6
Other UK Business	0.9	0.8	0.8	2.3	4.8
International	6.0	0.2	0.1	-	6.3
	30.0	**2.9**	**1.8**	**2.3**	**37.0**

h) Cash flow hedged revenue from contracts with customers

A portion of the group's revenue from the provision of services denominated in foreign currencies is cash flow hedged. Included in revenue is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue is a £4.1m gain (2021: £0.6m loss).

Notes forming part of the consolidated accounts

5. Operating segments

Service line contribution represents the total revenue and regulatory allowances under-recovered and costs which are directly attributed to a service line.

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

	2022 £m	2021 £m
Airspace	**222.2**	281.8
UK Airports	**27.8**	21.9
Defence Services	**2.1**	2.7
Other UK Business	**6.4**	9.2
International	**0.4**	0.1
Service line contribution	**258.9**	315.7
Costs not directly attributed to service lines:		
Depreciation and amortisation (net of deferred grants released)	**(84.9)**	(105.7)
Impairment of goodwill	**-**	(111.0)
Profit on disposal of non-current assets	**0.4**	0.4
Employee share scheme credits/(costs)	**3.1**	(1.8)
Redundancy and relocation costs	**(1.7)**	(65.2)
Other costs not directly attributed to service lines	**(76.7)**	(40.5)
R&D expenditure above the line tax credits	**1.2**	0.9
Fair value gain on previously held interest in joint venture	**4.4**	-
Investment income	**11.7**	3.5
Fair value movements on financial instruments	**(44.5)**	(4.0)
Finance costs	**(63.2)**	(30.1)
Profit/(loss) before tax	**8.7**	(37.8)

The performances of Airspace and Defence Services include the group share of the results of European Satellite Services Provider SAS (ESSP SAS) and Aquila Air Traffic Management Services Limited respectively. The performance of International includes the group share of the results of FerroNATS Air Traffic Services SA and Searidge Technologies Inc (see note 34). Other costs not directly attributed to service lines include corporate costs providing central support functions.

Notes forming part of the consolidated accounts

5. Operating segments (continued)

Non-current assets additions

Additions to non-current assets are presented by service line below:

	2022 £m	2021 £m
Airspace	**92.4**	71.4
UK Airports	**2.1**	3.4
Defence Services	**1.0**	0.7
Other Service lines	**4.6**	3.3
	100.1	78.8

Non-current assets acquired through business combination have been excluded from the above table, see note 34.

Geographical segments

The following table provides an analysis of the group's non-current assets (excluding amounts recoverable under regulatory agreement, financial assets and, for 2022, retirement benefit assets) by geographical location. An analysis of the group's total revenue and regulatory allowances by geographical location is provided in note 4 d).

	Non-current assets	
	2022 £m	2021 £m
United Kingdom	**1,180.8**	1,166.0
United States of America	**40.7**	39.5
Canada	**11.8**	-
Other European countries	**5.5**	5.9
Countries in Asia	**0.3**	0.4
	1,239.1	1,211.8

Included within the United States of America geographical segment is the group's equity investment in Aireon LLC, see note 16.

Information about major customers

No customer accounted for more than 10% of the group's revenue.

Notes forming part of the consolidated accounts

6. Operating profit/(loss) for the year

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

	2022 £m	2021 £m
The CAA regulatory charges in respect of NERL's air traffic services licence	**5.2**	5.4
The CAA regulatory charges for safety regulation at airports	**0.1**	0.1
Impairment of goodwill (note 12)	**-**	111.0
Amortisation of intangible assets (note 13)	**37.8**	36.1
Impairment of intangible assets (note 13)	**1.6**	3.8
Depreciation of property, plant and equipment (note 14)	**40.5**	47.8
Impairment of property, plant and equipment (note 14)	**0.1**	4.5
Depreciation of right-of-use assets (note 15)	**5.5**	6.2
Impairment of right-of-use assets (note 15)	**-**	7.9
Deferred grants released	**(0.6)**	(0.6)
Redundancy costs	**1.9**	65.2
Staff relocation costs (net of credits for revisions to estimates) following site closure	**(0.2)**	-
Research and development costs	**3.6**	1.8
R&D expenditure above the line tax credits	**(1.2)**	(0.9)
Auditor's remuneration for audit services (see below)	**0.4**	0.3

A portion of the group's costs are denominated in foreign currencies and are cash flow hedged. Included in operating costs is the recycling of the effective amount of foreign currency derivatives that are used to hedge foreign currency costs. The amount included in operating cost is £1.6m gain (2021: £3.4m loss).

Government grants relating to the purchase of property, plant and equipment contributions received are treated as deferred income which is credited to the income statement by equal annual instalments over the expected useful lives of the related assets.

Research and development costs represent internal labour costs incurred in support of research and development activities.

The analysis of auditor's remuneration is as follows:

	2022 £m	2021 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	**0.3**	0.2
Fees payable to the company's auditor and their associates for other services to the group		
- The audit of the company's subsidiaries	**0.1**	0.1
Total audit fees	**0.4**	0.3

Total non-audit fees of £50,500 (2021: £20,000) include agreed upon procedures in relation to the NERL regulatory accounts of £17,500 (2021: £12,500), BDO acted as reporting accountant for NERL's May 2021 bond issues for a fee of £25,000 (2021: £nil) and other agreed upon procedures of £8,000 (2021: £7,500).

Notes forming part of the consolidated accounts

7. Staff costs

a. Staff costs

	2022			2021		
	Staff costs (excluding redundancies) £m	**Staff redundancies £m**	**Total £m**	Staff costs (excluding redundancies) £m	Staff redundancies £m	Total £m
Salaries and staff costs, including directors' remuneration, were as follows:						
Wages and salaries	**332.2**	**1.5**	**333.7**	353.1	54.4	407.5
Social security costs	**40.6**	**0.3**	**40.9**	39.8	7.1	46.9
Pension costs (note 7b)	**108.4**	**0.1**	**108.5**	90.3	3.7	94.0
	481.2	**1.9**	**483.1**	483.2	65.2	548.4
Less:						
Amounts capitalised	**(40.7)**	**-**	**(40.7)**	(27.1)	-	(27.1)
Government grants	**(5.5)**	**-**	**(5.5)**	(37.1)	-	(37.1)
	435.0	**1.9**	**436.9**	419.0	65.2	484.2

Government grants of £5.5m (2021: £37.1m) relate to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

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

b. Pension costs (note 32)

	2022 £m	2021 £m
Defined benefit scheme	**81.6**	66.5
Defined contribution scheme	**26.9**	27.5
	108.5	94.0

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.

Notes forming part of the consolidated accounts

7. Staff costs (continued)

c. Staff numbers

	2022 No.	2021 No.
The monthly average number of employees (including executive directors) was:		
Air traffic controllers (incl. trainees)	**1,683**	1,851
Air traffic service assistants	**572**	652
Engineers	**807**	899
Others	**1,033**	1,174
	4,095	4,576
The number of employees (including executive directors) in post at 31 March was:	**4,099**	4,227

A voluntary redundancy programme was completed in December 2020.

8. Investment income

	2022 £m	2021 £m
Interest on bank deposits	**1.8**	0.9
Other loans and receivables	**9.9**	2.6
	11.7	3.5

Interest on bank deposits has been earned on financial assets, including cash and cash equivalents and short-term investments.

Other loans and receivables includes the effect of unwinding the discount on amounts receivable after more than one year and interest accrued on loans to our joint ventures, Aquila and Searidge.

9. Fair value movement on financial instruments

	2022 £m	2021 £m
(Charge)/credit arising from change in the fair value of derivatives not qualifying for hedge accounting	**(43.8)**	0.4
Change in the fair value of equity investment in Aireon designated as fair value through profit and loss (see note 16)	**(0.7)**	(4.4)
	(44.5)	(4.0)

Notes forming part of the consolidated accounts

10. Finance costs

	2022 £m	2021 £m
Interest on bank loans and hedging instruments	**2.3**	4.6
Bond and related costs including financing expenses	**15.3**	17.2
Interest on lease liabilities (see note 19)	**1.5**	1.7
Other finance costs	**2.4**	6.6
One-off re-financing costs	**41.7**	-
	63.2	30.1

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

As part of NERL's refinancing undertaken in June 2021, the carrying value of the Guaranteed Secured Amortising Bond at amortised cost (excluding transaction costs and issue discount) at the date of redemption was lower than the redemption market value (excluding accrued interest). This difference resulted in a £38.4m loss on redemption that was taken to the income statement on derecognition and is included in one-off refinancing costs.

11. Tax

	2022 £m	2021 £m
Corporation tax		
Current tax	**0.5**	2.2
Adjustments in respect of prior year	**-**	0.1
Foreign taxation	**-**	0.1
	0.5	2.4
Deferred tax (see note 24)		
Origination and reversal of temporary timing differences	**(3.3)**	11.2
Adjustments in respect of prior year	**(0.4)**	(0.8)
Effects of tax rate change on opening balance	**39.5**	-
	35.8	10.4
	36.3	12.8

Corporation tax is calculated at 19% (2021: 19%) of the estimated assessable profit for the year.

Notes forming part of the consolidated accounts

11. Tax (continued)

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

	2022		2021	
	£m	%	£m	%
Profit/(loss) on ordinary activities before tax	**8.7**		(37.8)	
Tax on profit/(loss) on ordinary activities at standard rate in the UK of 19% (2021: 19%)	**1.7**	**19.0%**	(7.2)	19.0%
Tax effect of change in corporation tax from 19% to 25% (see below)	**37.6**	**432.3%**	-	-
Tax effect of prior year adjustments: current tax	**-**	**-**	0.1	(0.2%)
Tax effect of prior year adjustments: deferred tax	**(0.4)**	**(4.6%)**	(0.8)	2.1%
Patent box	**(1.3)**	**(14.9%)**	(1.4)	3.7%
Employee share scheme	**(0.3)**	**(3.4%)**	0.4	(1.1%)
Goodwill impairment	**-**	**-**	21.1	(55.8%)
Change in fair value of equity investment	**(0.6)**	**(6.9%)**	-	-
Tax effect of fair value adjustments from business combination	**(0.1)**	**(1.1%)**	-	-
Joint ventures and associate	**(0.5)**	**(5.6%)**	(0.2)	0.5%
Unrecognised deferred tax assets on overseas subsidiaries	**-**	**-**	0.6	(1.6%)
R&D expenditure credits	**-**	**-**	0.4	(1.0%)
Other permanent differences	**0.2**	**2.4%**	(0.2)	0.5%
Tax charge for year at an effective tax rate of 417.2% (2021: (33.9%))	**36.3**	**417.2%**	12.8	(33.9%)
Deferred tax charge/(credit) taken directly to equity (see note 24)	**87.9**		(57.5)	

Deferred tax is provided at the prevailing rate of corporation tax expected to apply in the period when the liability is settled or the asset realised. The Finance Bill 2021 was substantively enacted in May 2021, and accordingly deferred tax balances are provided for a rate of 25% for amounts expected to unwind after 1 April 2023.

Notes forming part of the consolidated accounts

12. Goodwill

	£m
Cost	
At 1 April 2020 and 31 March 2021	351.0
Acquisiton of subsidiary (see note 34)	7.4
At 31 March 2022	**358.4**
Accumulated impairment losses	
At 1 April 2020	201.7
Impairment provision recognised in income statement	111.0
At 31 March 2021	**312.7**
Impairment provision recognised in income statement	-
At 31 March 2022	**312.7**
Carrying amount	
At 31 March 2022	**45.7**
At 31 March 2021	**38.3**
At 1 April 2020	**149.3**

The amounts disclosed above relate to the following service lines: Airspace £38.3m (2021: £38.3m) and International £7.4m (2021: £nil). Its recoverable amount is determined by reference to the higher of its fair value less costs of disposal and its value in use. The valuation methodology is consistent with the IFRS 13 level 3 hierarchy.

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. For goodwill held in the Airspace service line, which arose from the NATS public private partnership transaction in 2001, fair value less costs of disposal is determined by reference to the value of the regulatory asset bases (RABs) of the relevant cash generating units of UK Air Traffic Services and North Atlantic Air Traffic Services (in aggregate £1,650.0m; 2021: £1,247.0m), opportunities for out-performance of regulatory settlements and market premia for economically regulated businesses, as well as estimated costs of disposal of £1.0m (see note 3: critical judgements and key sources of estimation uncertainty). A market premium is applied to the value of the RABs. It is assessed annually and following an independent assessment for 2022 was assumed at 5% (2021: 0%). Overall, reflecting the value of the RAB and the premium assumption, goodwill was not impaired in the year (2021: £111.0m). This assessment reflected the impact of the emerging recovery in the demand for air travel, despite continued uncertainty with regard to the outcome of the CAA's reconcilliation of actual revenue and costs, the time period for the recovery of the revenue shortfall and its determination of the price control from 2023 which reflects new projections of air traffic volumes and associated safety, service performance targets and capital investment requirements.

Fair value less costs of disposal was higher than value in use at 31 March 2022. The carrying value of goodwill at 31 March 2022 was not impaired (2021: £111.0m) as the book value of the net assets of the Airspace service line of £1,576m was below the fair value less costs of disposal of £1,650m.

Goodwill held in the International service line arose on acquisition of Searidge. Its carrying value has been assessed based on the expected recoverable amount on a value in use basis, based on cash flow projections over a five year period assuming sales growth of 20% per annum, reflecting historic experience, using a 20% discount rate reflecting the company's assessed weighted average cost of capital. Goodwill was not impaired at 31 March 2022 as the value in use of £8.6m was £0.5m higher than the book value of its net assets and goodwill. Goodwill will not be deductable for tax purposes. As a sensitivity a 1% increase in the discount rate or a 2% decrease in sales growth would result in goodwill impairment.

Notes forming part of the consolidated accounts

13. Other intangible assets

	Operational software £m	Non-operational software £m	Airspace and resectorisation £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2020	497.2	107.1	56.1	354.4	1,014.8
Additions internally generated	0.9	0.3	0.1	13.2	14.5
Additions externally acquired	0.4	0.9	-	29.4	30.7
Other transfers during the year	0.5	13.1	-	(12.0)	1.6
At 31 March 2021	**499.0**	**121.4**	**56.2**	**385.0**	**1,061.6**
Additions internally generated	1.2	0.5	2.6	25.5	29.8
Additions externally acquired	0.3	1.5	0.2	29.9	31.9
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
Other transfers during the year	6.9	3.8	76.3	(44.7)	42.3
Acquisition through business combination	-	3.3	-	-	3.3
At 31 March 2022	**507.2**	**130.2**	**135.3**	**395.7**	**1,168.4**
Accumulated amortisation and impairment					
At 1 April 2020	269.2	87.6	35.8	9.6	402.2
Charge for the year	25.9	6.2	4.0	-	36.1
Impairment provision recognised in income statement	-	-	-	3.8	3.8
Transfer of impairment provision	-	1.0	-	(1.0)	-
At 31 March 2021	**295.1**	**94.8**	**39.8**	**12.4**	**442.1**
Charge for the year	23.0	7.7	7.1	-	37.8
Impairment provision recognised in income statement	-	1.5	-	0.1	1.6
Transfer of impairment provision	-	0.1	-	-	0.1
Disposals during the year	(0.2)	(0.3)	-	-	(0.5)
At 31 March 2022	**317.9**	**103.8**	**46.9**	**12.5**	**481.1**
Carrying amount					
At 31 March 2022	**189.3**	**26.4**	**88.4**	**383.2**	**687.3**
At 31 March 2021	**203.9**	**26.6**	**16.4**	**372.6**	**619.5**
At 1 April 2020	**228.0**	**19.5**	**20.3**	**344.8**	**612.6**

An annual review is performed to assess the carrying value of other intangible assets, including operating assets and 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 £1.6m (2021: £3.8m) were made in respect of both operating software assets and software assets in construction which were developed to support operational, engineering and corporate functions.

Other transfers during the year represents the transfer on delivery of assets under the course of construction to the relevant operating asset classification, including transfers between other intangible assets and property, plant and equipment when the final classification is determined following an assessment at completion.

The acquistion through business combination of £3.3m relates to intangible assets measured at fair value, acquired by the group as part of the purchase of Searidge Technologies Inc during the year, which was previously a 50% owned joint venture, see note 34.

Notes forming part of the consolidated accounts

14. 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 2020	247.0	45.6	1,387.3	26.1	203.7	1,909.7
Additions during the year	-	-	4.5	0.1	28.8	33.4
Disposals during the year	(0.7)	-	(5.1)	(0.1)	-	(5.9)
Other transfers during the year	0.1	-	8.3	-	(10.0)	(1.6)
At 31 March 2021	**246.4**	**45.6**	**1,395.0**	**26.1**	**222.5**	**1,935.6**
Additions during the year	0.1	-	3.5	-	33.3	36.9
Acquisitions through business combination	-	-	0.2	-	-	0.2
Disposals during the year	-	-	(0.5)	-	-	(0.5)
Other transfers during the year	-	-	49.4	-	(91.7)	(42.3)
At 31 March 2022	**246.5**	**45.6**	**1,447.6**	**26.1**	**164.1**	**1,929.9**
Accumulated depreciation and impairment						
At 1 April 2020	152.8	40.1	1,210.4	21.3	6.0	1,430.6
Provided during the year	7.8	1.2	37.7	1.1	-	47.8
Impairment provision recognised in income statement	-	-	0.9	-	3.6	4.5
Transfer of impairment provision	-	-	6.1	-	(6.1)	-
Disposals during the year	(0.5)	-	(4.8)	(0.1)	-	(5.4)
At 31 March 2021	**160.1**	**41.3**	**1,250.3**	**22.3**	**3.5**	**1,477.5**
Provided during the year	7.8	1.1	30.8	0.8	-	40.5
Impairment provision recognised in income statement	-	-	-	-	0.1	0.1
Transfer of impairment provision	-	-	1.7	-	(1.8)	(0.1)
Disposals during the year	0.3	-	(1.1)	0.3	-	(0.5)
At 31 March 2022	**168.2**	**42.4**	**1,281.7**	**23.4**	**1.8**	**1,517.5**
Carrying amount						
At 31 March 2022	**78.3**	**3.2**	**165.9**	**2.7**	**162.3**	**412.4**
At 31 March 2021	**86.3**	**4.3**	**144.7**	**3.8**	**219.0**	**458.1**
At 1 April 2020	**94.2**	**5.5**	**176.9**	**4.8**	**197.7**	**479.1**

The group conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the group incurred impairment charges of £0.1m to assets in the course of construction (2021: £4.5m 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, to write these assets down to their carrying amount.

Other transfers during the year represents the transfer on delivery of assets under the course of construction to the relevant operating asset classification, including transfers between other intangible assets and property, plant and equipment when the final classification is determined following an assessment at completion.

The acquisition through business combination of £0.2m relates to tangible assets acquired by the group as part of the purchase of Searidge Technologies Inc during the year, which was previously a 50% owned joint venture, see note 34.

During the year the group capitalised £0.6m (2021: £0.5m) of general borrowing costs at a capitalisation rate of 1.40% (2021: 1.46%), in accordance with IAS 23: *Borrowing Costs*, relating to both property, plant and equipment and other intangible assets.

Notes forming part of the consolidated accounts

15. 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 2020	63.5	5.7	1.3	70.5
Additions during the year	-	0.1	0.1	0.2
Effect of modification to lease terms	0.2	0.2	-	0.4
Price changes - market value	0.4	-	-	0.4
Terminations during the year	(0.1)	(0.3)	(0.1)	(0.5)
Retranslation	-	-	(0.1)	(0.1)
At 31 March 2021	**64.0**	**5.7**	**1.2**	**70.9**
Additions during the year	1.5	-	-	1.5
Effect of modification to lease terms	0.3	-	-	0.3
Price changes - market value	0.1	-	-	0.1
Terminations during the year	-	(1.6)	(0.2)	(1.8)
Retranslation	0.1	-	-	0.1
Transfers during the year	(0.1)	(0.1)	0.2	-
At 31 March 2022	**65.9**	**4.0**	**1.2**	**71.1**
Accumulated amortisation and impairment				
At 1 April 2020	6.6	2.2	0.4	9.2
Charge during the year	4.8	1.0	0.4	6.2
Charge capitalised in the year	1.1	-	-	1.1
Impairment provision recognised in income statement	7.9	-	-	7.9
Terminations during the year	-	(0.1)	(0.4)	(0.5)
At 31 March 2021	**20.4**	**3.1**	**0.4**	**23.9**
Charge during the year	4.4	0.7	0.4	5.5
Charge capitalised in the year	0.6	-	-	0.6
Terminations during the year	-	(1.6)	(0.2)	(1.8)
Transfers during the year	(0.2)	(0.1)	0.3	-
At 31 March 2022	**25.2**	**2.1**	**0.9**	**28.2**
Carrying amount				
At 31 March 2022	**40.7**	**1.9**	**0.3**	**42.9**
At 31 March 2021	**43.6**	**2.6**	**0.8**	**47.0**
At 1 April 2020	**56.9**	**3.5**	**0.9**	**61.3**

The group conducts annual reviews of the carrying values of its right-of-use assets where there is an indicator of impairment. No assets were impaired in the year ended 31 March 2022. During the prior year, impairment charges of £7.9m were made in respect of leasehold land and buildings reflecting a reassessment of the usage of the group's estate assets. The impairment charge was calculated by assessing the net present value of future property rental payments relating to expected lower occupancy levels, discounted at the incremental cost of borrowing. In the prior year, a 1% change in the discount rate would have resulted in a £0.4m change in the impairment charge.

In the prior year, the company took advantage of the practical expedient available under IFRS 16 for rent concessions that were a direct consequence of Covid and did not account for those concessions as a modification to the lease under IFRS 16. Lease consideration of £0.3m was deferred and has now been paid in the current year.

Notes forming part of the consolidated accounts

16. Investment in Aireon LLC

In May 2018, NATS paid £51.0m (US$68.75m) to acquire a minority interest in Aireon LLC (Aireon) (subsequently Aireon Holdings LLC upon transfer of shareholding), a limited liability company incorporated in Delaware USA, which provides a space-based air traffic surveillance system for air navigation service providers (ANSPs) through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers on the Iridium NEXT satellite constellation. Aireon is an unquoted company. NATS' investment was made by NATS (USA) Inc, a wholly owned subsidiary. Other investors are Iridium and four other ANSPs: NAV CANADA (Canada), ENAV (Italy), the Irish Aviation Authority (Ireland) and Naviair (Denmark).

The investment in Aireon is in convertible redeemable cumulative 5% preference interests with voting rights of 9.1%. The investment is intended to result in fully diluted common interests (equivalent to ordinary shares) with voting rights of 11.1%. NATS is entitled to appoint one of the eleven Board members.

The interests carry a right of conversion to common equity interests until 2 January 2024 or are otherwise mandatorily redeemed in three annual instalments from that date. The dividend is payable on or after 1 January 2024.

In June 2022, Aireon raised US$50m through an issue of additional preference shares to Iridium. The effect of this transaction dilutes the NATS fully diluted shareholding to 10.35%. Iridium's final shareholding, and therefore NATS' shareholding, is contingent on Aireon meeting a revenue target. In the event that this target is not met and a further capital raise is made by December 2023, NATS' shareholding may be diluted further.

The investment in Aireon meets the definition of a financial asset under international accounting standards. The conversion option and the mandatory redemption characteristics of the investment requires its measurement at fair value through profit or loss.

The valuation technique used to determine fair value is the income approach. The fair value of the investment reflects the present value of dividend projections based on Aireon's most recent long-term operating plan (January 2022), performance since that plan and NATS' assessment of underlying plan assumptions. The discount rate assumed for this purpose is 14.3% (2021: 14.3%). The fixed cost nature of Aireon's business makes its plan sensitive to the achievement of management's revenue growth assumptions, which is reflected in the discount rate assumption. A 1% increase in the discount rate would result in a c£3.7m decrease in fair value and a 1% reduction in the discount rate would result in a c£4.3m increase in fair value. A 10% increase in revenue assumed from unsigned sales contracts would result in an increase in fair value of £5.2m and a 10% reduction in revenue assumed from unsigned sales contracts would result in a decrease in fair value of £5.1m. The investment is classified within Level 3 of the fair value hierarchy.

	£m
Fair value at 1 April 2021	39.1
Change in fair value in the period, reported in 'Fair value movement on financial instruments' (see note 9)	(0.7)
Effect of foreign exchange, reported in Consolidated statement of comprehensive income	1.9
Fair value at 31 March 2022	**40.3**

The effect of changes in the rate of foreign exchange arises on consolidation of NATS (USA) Inc, which reports its results in US dollars.

Notes forming part of the consolidated accounts

17. Financial and other assets

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

Trade and other receivables

	2022 £m	2021 £m
Non-current		
Receivable from customers gross	**1.0**	4.2
Other debtors	**-**	0.1
Prepayments	**2.3**	2.5
Contract assets	**8.1**	-
	11.4	6.8
Current		
Receivable from customers gross	**130.1**	88.3
Less: expected credit loss provision	**(11.7)**	(17.1)
	118.4	71.2
Amounts recoverable under contracts	**1.4**	1.1
Contract spare parts	**0.5**	0.5
Contract assets	**15.9**	21.9
Other debtors	**0.7**	5.2
Prepayments	**14.6**	12.9
	151.5	112.8

Amounts recoverable under regulatory agreement

	2022 £m	2021 £m
Non-current		
Amounts recoverable under regulatory agreement	**667.4**	442.5
Current		
Amounts recoverable under regulatory agreement	**57.2**	2.4

The average credit period on sales of services was 38 days (2021: 87 days). Interest is charged by Eurocontrol to UK en route customers at 9.48% (2021: 9.67%) on balances outstanding after more than 30 days.

Receivables from customers which are current include unbilled revenue for services provided in March 2022. Prior year receivables from customers included unbilled revenue for services provided in March 2021 and services billed for April and May 2020 that had been deferred to May 2021 and August 2021 respectively in response to Covid.

Amounts recoverable under regulatory agreement which are non-current include the net present value of regulatory allowances under-recovered, which will be recovered after 31 March 2023 and across the next two five year price control periods from 2023 and pension pass through of £34.0m (2021: £42.3m), £6.3m of which relates to Reference Period 1 and is being recovered over a 15 year period to 31 December 2030 and £27.7m to Reference Period 2 which is being recovered over a 15 year period to 31 December 2035.

Amounts recoverable under regulatory agreement which are current relate to Reference Period 1 are due to be recovered by 31 March 2023. Amounts recoverable under regulatory agreement in the prior year relate to Reference Period 1 and were recovered by 31 March 2022.

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Movement in the excepted credit loss provision

	2022 £m	2021 £m
Balance at the beginning of the year	**17.1**	21.0
Decrease in allowance recognised in the income statement	**(5.4)**	(1.8)
Foreign exchange movement in the year	**(0.1)**	(1.9)
Amounts recovered during the year	**0.3**	-
Amounts written off as irrecoverable	**(0.2)**	(0.2)
Balance at the end of the year	**11.7**	17.1

The group 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 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 and for each of these sub-groups separate provisions matrices based on the days past due are 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. 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 at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2022 to reflect the change in default risk by customers due to the improved prospects for the recovery in aviation following the lifting of Covid travel restrictions, notwithstanding the potential risks arising from further outbreaks of Covid and the challenging macroeconomic and geopolitical environment and the settlement of almost all amounts deferred at 31 March 2021, following agreement by States to defer settlement of national en route charges for April and May 2020 to May and August 2021. 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 credit risk characteristics as trade receivables for the same types of contracts. The group has concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the expected credit loss rates for contract assets.

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

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

2022	Unbilled income	Receivables - months past due: Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	2.7%	2.5%	47.4%	29.9%	60.5%	39.6%	68.5%	100.0%	
NERL gross carrying amount (£m)	44.9	42.2	0.8	0.2	0.2	0.1	0.6	8.4	97.4
NERL lifetime expected credit loss (£m)	**1.2**	**1.1**	**0.4**	**0.1**	**0.1**	**-**	**0.4**	**8.4**	**11.7**
Other subsidiaries expected credit loss rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	
Other subsidiaries gross carrying amount (£m)	11.6	43.9	1.9	-	-	-	0.3	-	57.7
Other subsidiaries expected credit losses (£m)	-	-	-	-	-	-	-	-	-
Total expected credit losses (£m)	**1.2**	**1.1**	**0.4**	**0.1**	**0.1**	**-**	**0.4**	**8.4**	**11.7**

2021	Unbilled income	Receivables - months past due: Current	1 month	2-3 months	4-6 months	7-12 months	>12 months	In administration	Total £m
NERL expected credit loss rate (%)	5.9%	3.8%	9.8%	55.1%	77.7%	51.0%	92.8%	100.0%	
NERL gross carrying amount (£m)	19.8	20.8	1.1	0.3	0.1	9.9	1.3	8.0	61.3
NERL lifetime expected credit loss (£m)	**1.2**	**0.8**	**0.1**	**0.2**	**0.1**	**5.0**	**1.2**	**8.0**	**16.6**
Other subsidiaries expected credit loss rate (%)	0.0%	0.7%	2.3%	0.8%	0.0%	0.0%	13.1%	100.0%	
Other subsidiaries gross carrying amount (£m)	3.6	41.2	3.4	4.0	-	-	0.9	-	53.1
Other subsidiaries expected credit losses (£m)	-	0.3	0.1	-	-	-	0.1	-	0.5
Total expected credit losses (£m)	**1.2**	**1.1**	**0.2**	**0.2**	**0.1**	**5.0**	**1.3**	**8.0**	**17.1**

Notes forming part of the consolidated accounts

17. Financial and other assets (continued)

Non-current trade and other receivables include SESAR receivables of £0.9m, of which the majority is expected to be recovered by 31 March 2025 and £8.1m of advances paid to UK Airport customers that are being released against billed revenue over the remaining life of the airport ATC contract. None of those receivables has been subject to a significant increase in credit risk since initial recognition.

The group 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 group 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 2022 trade receivables of £8.4m (2021: £8.0m) had lifetime expected credit losses of the full value of the receivables. These receivables are in administration, receivership or liquidation.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group 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 relating to cash and cash equivalents, loans to joint ventures and trade and other receivables, excluding amount recoverable under regulatory agreement, prepayments, VAT receivables and contract spare parts, would be £301.4m (2021: £379.3m).

18. Borrowings

	2022 £m	2021 £m
Unsecured at amortised cost		
Bank loans (variable rate revolving and bridge facility agreements expiring 2025 and 2024, respectively)	**200.0**	-
£450m 1.375% Bond due 2031	**448.2**	-
£300m 1.750% Bond due 2033	**298.8**	-
Advances of en route charges	**-**	67.4
	947.0	67.4
Secured loans at amortised cost		
£600m 5.25% Guaranteed Secured Amortising Bond due 2026	**-**	251.7
Bank loans	**-**	395.0
Gross borrowings	**947.0**	714.1
Unamortisied bond issue costs and bank facility fees	**(8.1)**	(3.1)
	938.9	711.0
Amounts due for settlement within 12 months	**-**	108.1
Amounts due for settlement after 12 months	**938.9**	602.9

Notes forming part of the consolidated accounts

18. Borrowings (continued)

In June 2021 NERL completed a full refinancing of its bank facilities and its publicly traded bonds which delivered £750m of new fixed rate bonds and £850m of new bank facilities. The new bonds were issued in two tranches: £450m of 10-year amortising bonds to be repaid by 31 March 2031; and £300m of 12.5-year bonds with a bullet repayment at 30 September 2033. The new bank facilities consist of a £450m bridge facility and a £400m revolving facility agreement. In March 2022 the bridge facility was extended by one year to now expire in May 2024 and the first option to extend the revolving facility agreement by a year was also exercised, such that its expiry is now May 2025 (with one remaining option to extend the latter, subject to bank agreement, for a further year to May 2026). This new debt has been arranged on a senior unsecured basis.

Advances of en route charges from Eurocontrol have now been fully settled as at 31 March 2022 via deduction by Eurocontrol against flight charges remitted to the DfT through the period.

The average effective interest rate on the bank loans in the year was 0.8% (2021: 1.1%) and was determined based on the Sterling Overnight Index Average (SONIA) rates plus a margin of 0.45% and utilisation fee.

Bonds and bank borrowings are initially recognised at fair value net of any directly attributable transaction costs. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried on the balance sheet. Interest expense includes initial transaction costs as well as any interest payable while the liability is outstanding. Costs associated with the issue of the £600m 5.25% Guaranteed Secured Amortising Bond and previous bank facilities not fully amortised on refinancing in June 2021 were written off at that date in the income statement.

Undrawn committed facilities

	2022 £m	2021 £m
Undrawn committed facilities expire as follows:		
Between one and two years	**-**	385.0
Expiring in more than two years	**650.0**	-
	650.0	385.0

At 31 March 2022, NERL had outstanding drawings of £200.0m (2021: £395.0m) against its committed bank facilities.

NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2022 and 31 March 2021 and is not included in the table above.

Notes forming part of the consolidated accounts

19. Leases

Details of the carrying values of right-of-use assets under lease agreements, and the depreciation charge for right-of-use assets included in the income statement are reported in note 15.

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

	2022 £m	2021 £m
Due within one year or less	**9.1**	9.3
Due between one and two years	**7.8**	8.0
Due between two and five years	**22.0**	28.5
Due in more than five years	**26.1**	25.9
	65.0	71.7
Less: future finance charges	**(6.4)**	(7.8)
	58.6	63.9
Analysed as:		
Current	**7.8**	7.8
Non-current	**50.8**	56.1
	58.6	63.9

The consolidated income statement shows the following amounts relating to leases:

	2022 £m	2021 £m
Interest on lease liabilites (see note 10)	**1.5**	1.7
Short-term lease expense	**-**	0.1
Expense relating to leases for cars provided as an employee benefit under IAS19	**-**	0.1

Nature of leasing activities

The group leases a number of properties in the jurisdictions 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 group also leases certain items of plant, equipment and vehicles. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

Notes forming part of the consolidated accounts

19. Leases (continued)

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.

	Lease contracts No.	Fixed payments %(i)	Variable payments %(i)	Sensitivity £m
Year ended 31 March 2022				
Property leases with payments linked to inflation	56	n/a	22.8%	0.7
Property leases with periodic uplifts to market rentals	46	n/a	71.9%	2.1
Property leases with fixed payments	8	1.5%	n/a	n/a
Leases of plant and equipment	22	3.6%	n/a	n/a
Vehicle leases	42	0.2%	n/a	n/a
	174	**5.3%**	**94.7%**	**2.8**
Year ended 31 March 2021				
Property leases with payments linked to inflation	52	n/a	23.1%	0.7
Property leases with periodic uplifts to market rentals	46	n/a	71.1%	2.3
Property leases with fixed payments	6	0.9%	n/a	n/a
Leases of plant and equipment	21	4.4%	n/a	n/a
Vehicle leases	61	0.5%	n/a	n/a
	186	**5.8%**	**94.2%**	**3.0**

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

The group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the group will consider whether the absence of a break clause would expose the group 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 group.

At 31 March 2022, 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 group 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 group is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £23.1m (2021: £21.1m), of which £13.0m (2021: £13.0m) is potentially avoidable if the leases were not extended and a further £7.1m (2021: £7.2m) is potentially avoidable were the group to exercise break clauses at the earliest opportunity.

The group 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 group enters into a sale and leaseback arrangement and recharges the monthly lease cost to the airport on a cost plus administrative fee 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 group financial statements. The oustanding discounted liability for these leases at 31 March 2022 was £1.0m (2021: £1.7m).

The group did not enter into any new sale and leaseback arrangements in the year to 31 March 2022 (2021: 1), additions to right-of-use assets and lease liabilities £nil (2021: right-of-use assets and lease liabilities £0.2m). The amount for leases not yet commenced to which the group is committed at 31 March 2022 is £nil (2021: £0.6m).

Notes forming part of the consolidated accounts

20. Derivative financial instruments

Fair value of derivative financial instruments

	2022 £m	2021 £m
Non-current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**0.2**	-
Current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**0.1**	0.1
Current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(0.9)**	(5.4)
Derivative financial instruments at fair value through profit and loss		
Forward foreign exchange contracts (cash flow hedges)	**-**	(1.0)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(8.5)**	(15.1)
	(9.4)	(21.5)
Non-current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**(0.5)**	(2.3)
Derivative financial instruments at fair value through profit and loss		
Forward foreign exchange contracts (cash flow hedges)	**-**	(0.5)
Derivative financial instruments classified as held for trading		
Index-linked swaps	**(67.4)**	(78.3)
	(67.9)	(81.1)

Further details on derivative financial instruments are provided in note 21. The index-linked swaps are classified under international accounting standards as held for trading as it does not qualify for hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The hedge ratio is established with reference to the cash flows associated with the hedged item and the hedging instrument. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the hedging instrument counterparties.

Notes forming part of the consolidated accounts

21. Financial instruments

Capital risk management

The group manages its capital to ensure that entities in the group are able to continue as going concerns, to ensure that NERL is able to meet its obligations under the air traffic services licence, for NATS Services to meet obligations to its customers, and to fund returns to shareholders.

The capital structure of the group consists of borrowings as disclosed in note 18, cash and cash equivalents, as shown in this note, and equity attributable to shareholders as disclosed in the consolidated statement of changes in equity.

External capital requirements

NERL's air traffic services licence requires the company to use all reasonable endeavours to maintain an investment grade issuer credit rating (BBB-/Baa3 or better). Separately, it is the objective of the group to target a credit profile for NERL that exceeds BBB-/Baa3.

As at 31 March 2022, NERL had a credit rating of A+ (negative outlook) from Standard & Poor's (2021: A+ (negative outlook)) and A2 (negative outlook) from Moody's (2021: A2 (negative outlook)).

Gearing ratio

The group does not seek to maintain a target gearing ratio at group level. Instead it monitors and reports on the gearing ratio of NERL, the economically regulated subsidiary, based on a ratio of net debt (as defined by its air traffic services licence) to its regulatory asset base (RAB), ensuring that gearing remains below its financial covenant level of 85%. In addition, the CAA has set NERL a monitoring threshold for gearing of 60% and a gearing cap of 65% of net debt to RAB, with a requirement for NERL to remedy the position if this cap is exceeded. NERL's gearing ratio at 31 March 2022 was 60.1% (2021: 49.6%).

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Categories of financial instrument

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

	2022 £m	2021 £m
Financial assets		
Financial assets at fair value through profit or loss		
Equity investment (see note 16)	**40.3**	39.1
Financial assets at amortised cost		
Trade and other receivables	**145.4**	102.3
Loans to joint ventures	**8.0**	4.9
Cash and cash equivalents	**148.0**	272.1
	301.4	379.3
Derivative financial instruments		
In designated hedge accounting relationships	**0.3**	0.1
	342.0	418.5
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	**(132.5)**	(139.9)
Borrowings	**(947.0)**	(714.1)
Lease laibilities	**(58.6)**	(63.9)
	(1,138.1)	(917.9)
Derivative financial instruments		
In designated hedge accounting relationships	**(1.4)**	(7.7)
At fair value through profit or loss	**(75.9)**	(94.9)
	(77.3)	(102.6)
	(1,215.4)	(1,020.5)

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £16.9m (2021: £15.4m), VAT of £0.1m (2021: £1.4m) and contract spare parts of £0.5m (2021: £0.5m)), loans to joint ventures, cash and cash equivalents.

Financial liabilities at amortised cost includes balances for trade and other payables (excluding contract liabilities of £93.6m (2021: £90.1m), deferred income of £24.1m (2021: £33.0m) and taxes and social security liabilities of £11.6m (2021: £11.6m)), advances of en route charges, bond and bank borrowings (excluding unamortised bond issue costs and bank facility fees) and lease liabilities.

The index-linked swaps are categorised as held for trading. During the year, £61.3m (2021: £14.1m) was repaid in relation to the index-linked swaps, this included settlement of index-linked swaps of a market value of £55.0m with one of the counterparties. The charge arising from the change in fair value of £43.8m has been recorded in the income statement in the year (2021: £0.4m credit). This increase in the charge for the year largely relates to fair value changes for the £200m (notional) of 10 year index-linked swaps that were entered into in June 2021.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Financial risk management objectives

The group's Treasury function is mandated by the Board 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 group's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and inflation rates. These risks are explained below. From time to time, the group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- forward foreign exchange contracts to hedge the exchange risk arising on services provided to UK en route customers that are billed in euro, US dollar satellite data charges for satellite based surveillance services across the North Atlantic and other purchases from foreign suppliers in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- an index-linked swaps to mitigate the risk of low inflation.

Foreign currency risk management

During the course of the year the group gradually resumed its pre-Covid approach to management of foreign exchange risk arising from UK en route services revenue. From August 2021 it has entered into forward foreign exchange contracts on a monthly basis to hedge up to 95% of the forecast UK en route revenue up to four months' hence, based on short-term forecasts of chargeable service units. All prior year forward foreign contracts to buy euro to hedge the foreign exchange risks linked with NERL's receipt of funding from Eurocontrol, by means of advances of en route charges, expired and were settled prior to the end of the financial year.

The group's international activities account for 1.4% of external revenue and regulatory allowances (2021: 2.4%). The group trades with and provides finance to its overseas joint ventures and subsidiaries. Where appropriate the transactions are conducted in sterling. The group benefits from natural hedges of its exposure to fluctuations on the translation of its foreign operations into sterling as a result of holding cash reserves in foreign currencies.

The group also 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.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency risk management (continued)

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

	Assets		Liabilities	
Currency	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Euro	**38.4**	23.4	**(7.5)**	(91.7)
US dollar	**45.2**	40.6	**(1.0)**	(7.9)
Canadian dollar	**2.7**	1.9	**(2.9)**	(0.4)
Hong Kong dollar	**4.6**	4.1	**(0.5)**	(1.0)
Singapore dollar	**1.1**	1.5	**(0.6)**	(0.3)
Qatari riyal	**0.9**	0.8	**-**	-
Thai baht	**0.9**	0.7	**(0.2)**	-
Norwegian krone	**0.4**	0.2	**-**	(0.2)
Omani rial	**0.4**	0.3	**-**	-
UAE dirham	**0.4**	0.6	**(0.4)**	(0.3)
Philippine peso	**-**	0.4	**-**	-
Swedish krona	**-**	-	**-**	(0.3)
	95.0	74.5	**(13.1)**	(102.1)

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis

The group has assets and liabilities denominated in foreign currencies including: the equity investment in Aireon, trade and other receivables of £48.4m (2021: £29.1m) in euro, US dollars, Singapore dollars, Qatari riyal, UAE dirham, Thai baht and Omani rial and cash balances of £6.3m at 31 March 2022 (2021: £7.2m) in euro, Hong Kong dollars, US dollars, Thai baht, Norwegian krone, Canadian dollars and Omani rial. Furthermore, the group 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 group'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	**2022 Impact £m**	2021 Impact £m
Euro	**0.1**	(4.9)
US dollar	**(8.1)**	(10.3)
Hong Kong dollar	**(0.4)**	(0.3)
Canadian dollar	**(0.3)**	(0.4)
Singapore dollar	**0.1**	-
Qatari riyal	**(0.1)**	(0.1)
Thai baht	**(0.1)**	(0.1)
	(8.8)	(16.1)

There was an overall decrease in currency exposure reflecting a decrease in forward contract purchases both of euro (due to the settlement of the advances of en route charges from Eurocontrol) and US dollar (due to the close out of forward purchases related related to satellite data services). The group believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Foreign currency sensitivity analysis (continued)

The group paused the purchases of foreign exchange contracts in the prior year in light of the impact of Covid on flight volumes and charges. This year the group recommenced purchases of forward foreign exchange contracts to sell euro forecast to be received from Eurocontrol in respect of UK en route revenues. The group also continued to enter into various forward foreign exchange contracts to fund capital purchases and services, which have been designated as cash flow hedges. At the year end, all forward foreign exchange contracts were determined to be effective. Forward foreign exchange contracts taken out in the prior year to buy euro to hedge the foreign exchange risks linked with NERL's receipt of funding from Eurocontrol, via advances of en route charges, expired and were settled prior to 31 March 2022. Similarly, most of the forward foreign exchange agreements to purchase US dollars deemed ineffective in the prior year (due to a reduction in demand for satellite data services) matured or were closed out. The following contracts were outstanding at year end:

	2022			2021		
			Average exchange rate			Average exchange rate
Euro sold	**£m**	**€m**		£m	€m	
0-90 days	**62.8**	**74.8**	**0.8387**	0.5	0.5	0.9002
91-365 days	**1.1**	**1.3**	**0.8503**	-	-	-
> 365 days	**9.6**	**10.9**	**0.8864**	-	-	-
	73.5	**87.0**	**0.8448**	0.5	0.5	0.9002
Euro bought	**€m**	**£m**		€m	£m	
0-90 days	**4.3**	**3.7**	**0.8682**	35.1	31.3	0.8915
91-365 days	**16.9**	**14.7**	**0.8706**	80.6	72.9	0.9042
> 365 days	**25.6**	**23.0**	**0.8968**	15.4	13.6	0.8847
	46.8	**41.4**	**0.8847**	131.1	117.8	0.8985
US dollar sold	**£m**	**US$m**		£m	US$m	
0-90 days	**-**	**-**	**-**	0.8	1.1	1.3721
91-365 days	**0.6**	**0.8**	**1.3745**	-	-	-
> 365 days	**-**	**-**	**-**	0.6	0.8	1.3745
	0.6	**0.8**	**1.3745**	1.4	1.9	1.3732
US dollar bought	**US$m**	**£m**		US$m	£m	
0-90 days	**6.3**	**4.8**	**1.3098**	7.9	6.0	1.3077
91-365 days	**15.1**	**11.5**	**1.3161**	16.7	12.8	1.3049
> 365 days	**27.4**	**20.7**	**1.3241**	70.1	53.1	1.3199
	48.8	**37.0**	**1.3198**	94.7	71.9	1.3162

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

	2022			2021		
			Average exchange rate			Average exchange rate
Canadian dollar bought	**C$m**	**£m**		C$m	£m	
0-90 days	**1.6**	**0.9**	**1.7559**	1.3	0.8	1.7716
91-365 days	**1.1**	**0.7**	**1.6823**	-	-	-
> 365 days	**2.1**	**1.2**	**1.7523**	2.5	1.4	1.7814
	4.8	**2.8**	**1.7365**	3.8	2.2	1.7780
Danish krone bought	**DKKm**	**£m**		DKKm	£m	
0-90 days	**-**	**-**	**-**	1.5	0.2	8.2456
	-	**-**	**-**	1.5	0.2	8.2456
Norwegian krone bought	**NOKm**	**£m**		NOKm	£m	
0-90 days	**0.4**	**-**	**12.1038**	-	-	-
91-365 days	**0.8**	**0.1**	**12.1128**	1.4	0.1	11.6942
> 365 days	**0.2**	**-**	**12.1221**	-	-	-
	1.4	**0.1**	**12.1115**	1.4	0.1	11.6942
Singapore dollar sold	**£m**	**SGDm**		£m	SGDm	
0-90 days	**1.0**	**1.8**	**1.7874**	0.2	0.4	1.8550
91-365 days	**-**	**-**	**-**	0.7	1.4	1.8243
	1.0	**1.8**	**1.7874**	0.9	1.8	1.8317

At 31 March 2022, the aggregate amount of the unrealised gain under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.9m (2021: £3.3m unrealised gain). 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.

Gains and losses on the ineffective portion of the cash flow hedges are recorded immediately in the income statement. For the year ended 31 March 2022, a charge of £43.8m was recorded in the income statement (2021: £0.4m gain). This increase in the charge for the year largely relates to fair value changes for the £200m (notional) of 10-year index-linked swaps that were entered into in June 2021.

In addition to the above, NERL has entered into average rate forward agreements with a fixing date after 31 March 2022 to sell euro anticipated to be received in July 2022 in respect of UK en route revenues, for this reason they are not included in the table above. The value of these cash flows is £38.5m (2021: £nil).

Interest rate risk management

The group is exposed to interest rate risk to the extent that it holds borrowings at fixed, floating and index-linked interest rates. Its interest rate risk management policies, which are kept under continuous review, are specific to NERL. Except for NERL, no other entity within the NATS group had borrowings at 31 March 2022 (2021: none).

The group seeks to minimise NERL's exposure to movements in interest rates by ensuring NERL holds an appropriate balance of fixed, floating and index-linked debt as a percentage of its net debt by the use of interest rate swap contracts and index-linked swap contracts.

The group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note. The group held no interest rate swaps at 31 March 2022 (2021: none).

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Economic interest rate exposure

The group's cash balances were as follows:

	2022			2021		
Currency	**Amount £m**	**Economic interest rate %**	**Average maturity days**	**Amount £m**	**Economic interest rate %**	**Average maturity days**
Sterling	141.7	0.4	6	264.9	-	5
Euro	1.5	-	1	2.8	-	1
Hong Kong dollar	2.5	-	1	1.6	-	1
US dollar	0.7	-	1	1.1	-	1
Thai baht	0.5	-	1	0.5	-	1
Norwegian krone	0.4	-	1	0.2	-	1
Canadian dollar	0.4	-	1	0.4	-	1
Omani rial	0.3	-	1	0.3	-	1
Singapore dollar	-	-	-	0.3	-	1
	148.0			**272.1**		

The economic interest rate reflects the true underlying cash rate that the group was paying on its borrowings or receiving on its deposits at 31 March. The economic interest rate exposure of the group's borrowings is presented below:

	Total £m	**Variable rate £m**	**Fixed rate £m**	**Economic interest rate %**	**Weighted average time rate is fixed years**
At 31 March 2022					
Sterling:					
£450m 1.375% Bond due 2031	448.2	-	448.2	1.38%	5.9
£300m 1.750% Bond due 2033	298.8	-	298.8	1.76%	11.5
Bank loans	200.0	200.0	-	1.17%	0.0
Lease liabilities	58.6	-	58.6	2.52%	8.7
Total	**1,005.6**	**200.0**	**805.6**		
At 31 March 2021					
Sterling:					
5.25% guaranteed secured bonds	251.7	-	251.7	5.26%	3.2
Bank loans	395.0	395.0	-	0.48%	0.5
Advances of en route charges	67.4	67.4	-	1.50%	1.0
Lease liabilities	63.9	-	63.9	2.53%	9.7
Total	**778.0**	**462.4**	**315.6**		

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of group net debt. Net debt is defined for this purpose as borrowings and lease liabilities net of cash and cash equivalents, as distinct from the definition used for financial covenants purposes. Index-linked debt in this table reflects the notional of outstanding inflation swaps only. As a result, the fixed debt represents total fixed debt less the notional of outstanding inflation swaps.

	2022		2021	
	£m	**%**	£m	%
Fixed (net of bond discount and issue costs)	**560.7**	**66.0**	198.8	39.5
Index-linked (effected via inflation swaps)	**240.0**	**28.3**	116.0	23.1
Floating (net of cash and facility costs)	**48.8**	**5.7**	188.0	37.4
Net debt	**849.5**	**100.0**	502.8	100.0

At 31 March 2022, NERL is the only entity in the group with borrowings and had net debt of £943.1m (2021: £599.0m). NATS Services had cash of £86.3m (2021: £89.1m), NATS Limited had cash of £5.8m (2021: £5.9m) and other entities in the group has cash of £5.0m (2021: £4.9m). Net debt includes lease liabilities of £55.1m (2021: £60.2m) in NERL and £3.5m (2021: £3.7m) in other group entities.

The following table shows the percentage of fixed, index-linked and floating rate debt as a percentage of NERL net debt, reflecting the application of the interest rate risk management policies that are specific to NERL.

	2022		2021	
	£m	**%**	£m	%
Fixed (net of bond discount and issue costs)	**557.2**	**59.1**	195.1	32.6
Index-linked (effected via inflation swaps)	**240.0**	**25.4**	116.0	19.4
Floating (net of cash and facility costs)	**145.9**	**15.5**	287.9	48.0
Net debt	**943.1**	**100.0**	599.0	100.0

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the group's cash and floating rate bank 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.

	2022 Impact £m	2021 Impact £m
Cash at bank (2022: £148.0m, 2021: £272.1m)	**1.5**	2.7
Borrowings (2022: £200.0m, 2021: £462.4m)	**(2.0)**	(4.6)
	(0.5)	(1.9)

Overall the group's sensitivity to interest rate changes has decreased. This reflects a reduction in floating rate assets and liabilities.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Inflation rate risk

The regulatory charge control conditions that apply to NERL's UK en route and North Atlantic services determines a regulatory allowance for financing charges that is linked to inflation. To achieve an economic hedge of part of this income, NERL enters into index-linked swaps. The table below sets out the group's exposure to these inflation swaps:

	Notional index-linked swaps (by amortisation or termination date)					Interest rate % (weighted average)	
	Within one year £m	Between one and five years £m	Between five and fifteen years £m	Total £m	Marked to market £m	Payable %	Receivable %
At 31 March 2022							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2026	9.4	30.6	-	40.0	39.6	4.05%	5.25%
Bullet repayment swap fixed to RPI, maturing in 2031	-	-	200.0	200.0	36.3	(2.14%)	1.53%
	9.4	30.6	200.0	240.0	75.9		
At 31 March 2021							
Inflation swaps							
Amortising swap fixed to RPI, maturing in 2016	22.0	94.0	-	116.0	93.4	3.43%	5.25%

Inflation rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to inflation arising from the index-linked swaps. The analysis is prepared assuming that the index-linked swaps at the balance sheet date were in place for the whole year. A 1% increase or decrease in inflation each year for the life of the swaps is considered to represent a reasonably possible change in inflation. An increase in the rate of RPI inflation will increase the future index-linked payments that NERL is required to make under the swap contracts and so impacts their mark to market value.

The following table shows the effect of a 1% increase in inflation on the amount of interest payable in respect of the swaps and the impact on their value when marked to market. A positive number indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be a fairly equal and opposite impact on profit and equity if inflation falls by 1%. Due to the introduction of new swaps during the financial year ended 31 March 2022, the sensitivity of profit and equity to changes in inflation is higher.

	2022 Impact £m	2021 Impact £m
Change in mark to market value	**(24.9)**	(4.7)

The mark to market value of the index-linked swaps is also sensitive to the discount rates that are used to determine the net present value of the cash flows under the swap agreements. The discount rate is determined by reference to market yields on interest rate swaps. The effect of a 1% increase in the discount rate would be to increase profit and equity by £4.3m (2021: £2.9m). There would be a fairly equal and opposite impact on profit and equity if discount rates decreased by 1%.

Notes forming part of the consolidated accounts

21. 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 group. The group'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 17. With regard to funds or contracts held with financial institutions, the group'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 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.

The group's cash and cash equivalents take the form of cash at bank of £9.1m (2021: £9.7m), bank term deposits of £30.9m (2021: £37.3m) and money market fund investments of £108.0m (2021: £225.1m). Bank term deposits with maturities up to 3 months and between 3 and 6 months are only entered into with institutions holding a long term minimum credit rating of A- and A+ respectively from Standard & Poor's or Fitch Ratings and A3 and A1 respectively from Moody's. Money market fund investments are restricted to AAA rated liquidity funds and must have same-day access.

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

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

	2022			2021		
Rating (Standard & Poor's)	**Number of institutions**	**£m**	**By credit rating %**	Number of institutions	£m	By credit rating %
AAAm	**5**	**108.0**	**73.0**	6	225.1	82.7
AA-	**1**	**0.3**	**0.2**	-	-	-
A+	**3**	**29.2**	**19.7**	2	33.4	12.3
A	**3**	**10.5**	**7.1**	3	13.6	5.0
		148.0	**100.0**		272.1	100.0

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Liquidity risk management

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

With regard to NERL, the group's policy is to:

a. maintain free cash at a level equivalent to between one and two months' of UK en route services revenues (see below) and at any time not less than £50m. Free cash is defined as cash and cash equivalents and short-term investments;

b. ensure access to committed bank facilities sufficient to withstand a credible range of downside scenarios relative to the prevailing price control business plan. At 31 March 2022 NERL had access to undrawn bank facilities totalling £650m;

c. ensure access to long-term funding to finance its long-term assets;

d. ensure that the ratio of bank funding to total gross borrowings does not exceed 75%; and

e. maintain a portfolio of debt diversified by source and maturity.

The following table shows the ratio of free cash in NERL to average monthly UK en route services income during the year:

	2022 £m	2021 £m
Average monthly UK en route services income	**42.1**	47.5
Free cash at 31 March	**50.9**	113.6
Ratio of free cash to UK en route services income	**1.2**	2.4

The following table shows the ratio of the group's bank borrowings to its gross borrowings at 31 March:

	2022 £m	2021 £m
Bank borrowings	**200.0**	395.0
Gross borrowings (including lease liabilities)	**1,005.6**	778.0
Bank borrowings as a percentage of gross borrowings	**20%**	51%

It is company policy not to issue new guarantees in respect of the borrowings of subsidiaries or to allow the creation of any new mortgages or other charges over group assets.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Maturity of borrowings

The following table sets out the remaining contractual maturity of the group'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 group can be required to repay. The table includes both interest and principal cash flows.

	2022				2021			
	Unsecured lease liabilities £m	**Unsecured loans £m**	**Other liabilities £m**	**Total £m**	Unsecured lease liabilities £m	Secured loans £m	Other liabilities £m	Total £m
Due within one year or less	**9.1**	**13.3**	**125.9**	**148.3**	9.3	57.8	200.8	267.9
Between one and two years	**7.8**	**59.3**	**0.9**	**68.0**	8.0	448.7	3.6	460.3
Due between two and five years	**22.0**	**368.4**	**3.2**	**393.6**	28.5	187.2	2.5	218.2
Due in more than five years	**26.1**	**613.4**	**2.5**	**642.0**	25.9	-	0.4	26.3
	65.0	**1,054.4**	**132.5**	**1,251.9**	71.7	693.7	207.3	972.7
Effect of interest, discount and unamortised bond issue and bank facility fees	**(6.4)**	**(115.5)**	**-**	**(121.9)**	(7.8)	(50.1)	-	(57.9)
	58.6	**938.9**	**132.5**	**1,130.0**	63.9	643.6	207.3	914.8

Other liabilities above include trade and other payables (excluding deferred income of £24.1m (2021: £33.0m), contract liabilities of £93.6m (2021: £90.1m), taxes and social security liabilities of £11.6m (2021: £11.6m)) and advances of en route charges of £nil (2021: £67.4m).

The following table sets out the maturity profile of the group's derivative financial liabilities. Cash flows under the index-linked swaps are not fixed and are subject to movements in inflation. Accordingly, the cash flows associated with the index-linked swaps have been derived from observable market prices for inflation. The table shows undiscounted cash inflows/(outflows) on these derivatives.

	Due within one year or less £m	**Due between one and two years £m**	**Due between two and five years £m**	**Due in more than five years £m**	**Total £m**
2022					
Index-linked swaps receivable	8.0	8.2	21.8	33.4	71.4
Index-linked swaps payable	(8.5)	(10.8)	(85.1)	(57.0)	(161.4)
	(0.5)	(2.6)	(63.3)	(23.6)	(90.0)
Foreign exchange forward contract receivables	101.4	16.6	33.5	3.3	154.8
Foreign exchange forward contract payables	(102.3)	(16.8)	(33.9)	(3.4)	(156.4)
	(0.9)	(0.2)	(0.4)	(0.1)	(1.6)
	(1.4)	**(2.8)**	**(63.7)**	**(23.7)**	**(91.6)**
2021					
Index-linked swap receivable	5.8	4.6	6.6	-	17.0
Index-linked swap payable	(20.9)	(21.3)	(69.3)	-	(111.5)
	(15.1)	(16.7)	(62.7)	-	(94.5)
Foreign exchange forward contract receivables	119.6	28.8	37.1	-	185.5
Foreign exchange forward contract payables	(126.3)	(30.0)	(38.7)	-	(195.0)
	(6.7)	(1.2)	(1.6)	-	(9.5)
	(21.8)	**(17.9)**	**(64.3)**	**-**	**(104.0)**

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Fair value measurements

Set out below is information about how the group 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).

Fair value measurements recognised on the balance sheet

	2022				2021			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Equity investment	**-**	**-**	**40.3**	**40.3**	-	-	39.1	39.1
Derivative financial instruments in designated hedge accounting relationships	**-**	**0.3**	**-**	**0.3**	-	0.1	-	0.1
	-	**0.3**	**40.3**	**40.6**	-	0.1	39.1	39.2
Financial liabilities								
Derivative financial instruments in designated hedge accounting relationships	**-**	**(1.4)**	**-**	**(1.4)**	-	(7.7)	-	(7.7)
Derivative financial instruments at fair value through profit and loss	**-**	**-**	**-**	**-**	-	(1.5)	-	(1.5)
Derivative financial instruments classified as held for trading	**-**	**(75.9)**	**-**	**(75.9)**	-	(93.4)	-	(93.4)
	-	**(77.3)**	**-**	**(77.3)**	-	(102.6)	-	(102.6)

There were no transfers between individual levels in the year.

Notes forming part of the consolidated accounts

21. Financial instruments (continued)

Valuation techniques and key inputs

The fair value of the 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.

The fair values of the financial instruments held at fair value have been determined based on available market information at the balance sheet date and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated with reference to well recognised proprietary financial models used by bank counterparties, and verified using discounted cash flow modelling;
- the fair value of the index-linked swaps reflect valuations provided by bank counterparties using proprietary financial models and debt value adjustments that are based on market parameters. This is validated using discounted cash flow modelling based on the latest published inflation index, observable forecasts of inflation and discount rates taken from the observable interest rate swap curve at the reporting date, as well as observable sources of credit risk values;
- the valuation technique used to determine the fair value of the equity investment in Level 3 of the hierarchy is explained in note 16; and
- the fair value of the fixed rate bond has been derived from its externally quoted price.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Financial liabilities				
£450m 1.375% Bond due 2031	**(448.2)**	-	**(423.6)**	-
£300m 1.750% Bond due 2033	**(298.8)**	-	**(274.2)**	-
£600m 5.25% Guaranteed Secured Amortising Bond	**-**	(251.7)	**-**	(285.1)
	(747.0)	(251.7)	**(697.8)**	(285.1)

Notes forming part of the consolidated accounts

22. Financial and other liabilities

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

Trade and other payables

	2022 £m	2021 £m
Current		
Trade payables	**21.0**	45.2
Other payables	**10.2**	2.8
Tax and social security	**11.6**	11.6
Contract liabilities	**34.8**	17.0
Accruals and deferred income	**96.4**	88.6
	174.0	165.2
Non-current		
Trade payables	**1.7**	-
Other payables	**0.2**	0.2
Contract liabilities	**58.8**	73.1
Accruals and deferred income	**27.1**	36.1
	87.8	109.4
	261.8	274.6

Amounts payable under regulatory agreement

	2022 £m	2021 £m
Current		
Amounts payable under regulatory agreement	**37.3**	34.9
Non-current		
Amounts payable under regulatory agreement	**131.8**	104.5
	169.1	139.4

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (2021: 62 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

Amounts payable under regulatory agreement that are non-current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid after 31 March 2023 through 2023 and 2024 charges. Amounts payable under regulatory agreement that are current include regulatory allowances over-recovered for previous regulatory control periods, which will be repaid by 31 March 2023 through 2022 and 2023 charges.

Notes forming part of the consolidated accounts

23. Provisions

	Property £m	Redundancy £m	Relocation £m	Other £m	Total £m
At 1 April 2021	9.7	0.2	0.5	4.1	14.5
Additional provision in the year	1.2	1.9	-	1.6	4.7
Acquistion through business combination	0.1	-	-	-	0.1
Release of provision in the year	(0.7)	-	(0.2)	(0.1)	(1.0)
Utilisation of provision	-	(2.0)	(0.1)	(1.4)	(3.5)
At 31 March 2022	**10.3**	**0.1**	**0.2**	**4.2**	**14.8**

	2022 £m	2021 £m
Amounts due for settlement within 12 months	**1.2**	2.3
Amounts due for settlement after 12 months	**13.6**	12.2
	14.8	14.5

The property provision represents the best estimate of dismantlement, removal or restoration costs arising from property leases and other property-related costs. The ageing of the provision reflects the expected timing of the settlement of these costs.

The redundancy provision represents the best estimate of the future cost of redundancy payments to employees that have committed to the redundancy terms at 31 March 2022. The ageing of the provision reflects the expected timing of employees leaving the group.

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

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

Notes forming part of the consolidated accounts

24. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £m	Retirement benefits £m	Financial instruments £m	Tax credits and unutilised tax losses £m	Other £m	Total £m
At 1 April 2020	133.0	44.1	(3.4)	-	(7.9)	165.8
Charge to income	3.9	5.8	0.7	-	-	10.4
Credit to equity	-	(55.9)	(1.6)	-	-	(57.5)
At 31 March 2021	**136.9**	**(6.0)**	**(4.3)**	**-**	**(7.9)**	**118.7**
At 1 April 2021	136.9	(6.0)	(4.3)	-	(7.9)	118.7
Acquisition through business combination	0.9	-	-	(0.6)	-	0.3
Charge/(credit) to income	54.2	(1.5)	1.5	(15.7)	(2.7)	35.8
Charge to equity	-	87.5	0.4	-	-	87.9
At 31 March 2022	**192.0**	**80.0**	**(2.4)**	**(16.3)**	**(10.6)**	**242.7**

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.

	2022 £m	2021 £m
Deferred tax liabilities	**272.0**	136.9
Deferred tax assets	**(29.3)**	(18.2)
	242.7	118.7

Notes forming part of the consolidated accounts

25. Share capital

	Authorised		Called up, allotted and fully paid	
	Number of shares	£m	Number of shares	£m
Ordinary shares of £1 each				
At 31 March 2022 and 31 March 2021	144,100,007	144.1	131,000,007	131.0
Ordinary A shares of 80 pence each				
At 31 March 2022 and 31 March 2021	54,272,594	43.4	12,048,193	9.6
		187.5		**140.6**

Each class of ordinary shares has the same voting rights and rights to dividends.

Special share

The authorised and issued share capital of NATS Holdings Limited includes one special rights redeemable preference share with a nominal value of £1. The share is redeemable at any time after the shareholding of the Crown falls below 25%. This share can only be held by a Minister of the Crown, the Treasury Solicitor or any other person acting on behalf of the Crown. The special shareholder is entitled to attend and speak at meetings. The special share does not carry any rights to vote at general meetings except in the following circumstances:

- alterations to the company's share capital;
- alterations to voting rights of any of the company's shares; and
- the removal of any director appointed by a Crown representative.

If an attempt is made to approve any of these events or to pass a resolution to wind up the company at a general meeting, on an ordinary resolution, the special shareholder will have no less than one vote more than the total number of all other votes cast, and on a special resolution, they shall have no less than one vote more than 25% of the total votes cast.

26. Share premium account

	£m
Balance as at 31 March 2022 and 31 March 2021	**0.4**

Notes forming part of the consolidated accounts

27. Other reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided in note 2.

	AESOP reserve £m	Hedge reserve £m	Translation reserve £m	Other reserves[1] £m	Total £m
At 1 April 2020	(0.3)	4.1	3.9	(34.7)	(27.0)
Other comprehensive loss for the year	-	(6.7)	(4.8)	-	(11.5)
At 31 March 2021	**(0.3)**	**(2.6)**	**(0.9)**	**(34.7)**	**(38.5)**
At 1 April 2021	(0.3)	(2.6)	(0.9)	(34.7)	(38.5)
Other comprehensive income for the year	-	1.9	1.8	-	3.7
At 31 March 2022	**(0.3)**	**(0.7)**	**0.9**	**(34.7)**	**(34.8)**

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

28. Non-controlling interest

The non-controlling interest (a 30% ownership interest in NATS Services LLC) recognised at the acquistion date was measured by reference to the fair value of the non-controlling interest and amounted to £0.1m (Omani rial 0.1m).

As at 31 March 2022, a loan to the non-controlling interest amounted to £0.1m (Omani rial 0.1m) and is included in other debtors (see note 17).

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement

	2022 £m	2021 £m
Operating profit/(loss) from continuing operations	**98.3**	(9.2)
Adjustments for:		
Impairment of goodwill	-	111.0
Depreciation of property, plant and equipment	**40.5**	47.8
Amortisation of intangible assets	**37.8**	36.1
Depreciation of right-of-use assets	**5.5**	6.2
Impairment losses	**1.7**	16.2
Deferred grants released	**(0.6)**	(0.6)
Profit on disposal of property, plant and equipment	**(0.4)**	(0.4)
R&D expenditure above the line tax credits	**(1.2)**	(0.9)
Adjustment for pension funding	**(8.3)**	(30.5)
Operating cash flows before movements in working capital	**173.3**	175.7
(Increase)/decrease in amounts recoverable under contracts	**(0.3)**	1.8
Increase in trade, other receivables and amounts recoverable under regulatory agreement	**(314.9)**	(398.2)
Decrease in trade, other payables, provisions and amounts payable under regulatory agreement	**(45.0)**	(31.8)
Cash used in operations	**(186.9)**	(252.5)
Tax received/(paid)	**14.4**	(12.0)
Net cash from operating activities	**(172.5)**	(264.5)

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 liabilities

The table below analyses those net financial liabilities for which cash flows arise from financing activities in each of the periods presented.

	2022 £m	2021 £m
Cash and cash equivalents	**148.0**	272.1
Borrowings	**(938.9)**	(711.0)
Lease liabilities	**(58.6)**	(63.9)
Net debt	**(849.5)**	(502.8)
Index-linked swaps	**(75.9)**	(93.4)
Net financial liabilities	**(925.4)**	(596.2)
Cash and liquid investments	**148.0**	272.1
Gross debt - fixed interest rates (net of unamortised bond issue costs)	**(800.7)**	(314.8)
Gross debt - variable interest rates (net of unamortised bank facility fees)	**(196.8)**	(460.1)
Net debt	**(849.5)**	(502.8)
Index-linked swaps	**(75.9)**	(93.4)
Net financial liabilities	**(925.4)**	(596.2)

Notes forming part of the consolidated accounts

29. Notes to the cash flow statement (continued)

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

	Assets		Liabilities from financing activities (excluding derivatives)				Net debt	Derivatives	Net financial liabilities
	Cash and cash equivalents £m	Short-term investments £m	Lease liabilities £m	Bonds (i) £m	Advances of en route charges £m	Bank loans (ii) £m	Sub-total £m	Index-linked swaps £m	Total £m
Net financial liabilities as at 1 April 2020	538.2	47.3	(70.0)	(292.1)	-	(394.1)	(170.7)	(107.9)	(278.6)
Cash flows	(265.7)	(47.3)	7.1	41.6	(101.5)	1.2	(364.6)	14.1	(350.5)
New leases in the year	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Effect of modification to lease terms	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Lease price changes - market value	-	-	(0.4)	-	-	-	(0.4)	-	(0.4)
Fair value movements on index-linked swaps	-	-	-	-	-	-	-	0.4	0.4
Foreign exchange adjustments	(0.4)	-	-	-	-	-	(0.4)	-	(0.4)
Other non-cash movements (iii)	-	-	-	(0.4)	34.1	0.2	33.9	-	33.9
Net financial liabilities as at 31 March 2021	**272.1**	**-**	**(63.9)**	**(250.9)**	**(67.4)**	**(392.7)**	**(502.8)**	**(93.4)**	**(596.2)**
Cash flows	(124.3)	-	7.0	(451.1)	-	198.6	(369.8)	61.3	(308.5)
New leases in the year	-	-	(1.5)	-	-	-	(1.5)	-	(1.5)
Effect of modification to lease terms	-	-	(0.3)	-	-	-	(0.3)	-	(0.3)
Lease price changes - market value	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Fair value movements on index-linked swaps	-	-	-	-	-	-	-	(43.8)	(43.8)
Loss on redemption of £600m 5.25% Bond	-	-	-	(38.4)	-	-	(38.4)	-	(38.4)
Foreign exchange adjustments	0.2	-	-	-	-	-	0.2	-	0.2
Other non-cash movements (iii)	-	-	0.2	(1.7)	67.4	(2.7)	63.2	-	63.2
Net financial liabilities as at 31 March 2022	**148.0**	**-**	**(58.6)**	**(742.1)**	**-**	**(196.8)**	**(849.5)**	**(75.9)**	**(925.4)**

(i) The amount shown under bonds is net of unamortised bond issue costs.
(ii) The amount shown under bank loans is net of unamortised bank facility fees and accrued bank facility fees.
(iii) Other non-cash flow movements of include amortisation of bond issue costs of £1.7m (2021: £0.4m) and amortisation of bank facility fees of £2.7m (2021: £0.2m). The £67.4m (2021: £34.1m) represents the settlement of advances of en route charges, which have been deducted from income receipts. Lease liabilities other non-cash movements of £0.2m (2021: £nil) relates to the reinstatement element of right-of-use asset additions.

Interest due on bonds and bank loans was fully paid on 31 March 2022 (2021: fully paid) and therefore accrued interest does not form part of net debt.

Notes forming part of the consolidated accounts

30. Financial commitments

	2022 £m	2021 £m
Amounts contracted but not provided for in the accounts	**39.9**	22.1

Guarantees

NATS Holdings Limited has given guarantees to the Ministry of Defence in relation to NERL's performance under its Future Military Area Radar Services contract with the MOD.

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 guaranteed all of the obligations of NATS (USA) Inc to Aireon LLC in relation to its status as a member of Aireon LLC.

As part of the tendering process for new contracts, the NATS group 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 2022 was £9.1m (2021: £9.2m).

Notes forming part of the consolidated accounts

31. Share based payments

The company operates an All-Employee Share Ownership Plan for the benefit of employees to hold 5% of the share capital of the company. 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:

Date of share awards	No. shares awarded to employees	No. employee shares outstanding at 31 March 2022	No. employee shares outstanding at 31 March 2021
Free share awards			
21 September 2001	3,353,742	**156,736**	165,766
20 October 2003	2,459,000	**151,777**	159,777
10 September 2004	1,966,000	**240,722**	255,122
11 January 2008	1,071,840	**192,968**	204,188
18 September 2009	963,200	**217,206**	228,007
Partnership shares			
1 March 2011	694,783	**196,075**	206,285
26 September 2012	714,959	**246,862**	258,032
30 May 2014	496,738	**224,841**	234,891
31 October 2016	530,303	**368,814**	384,690
31 October 2018	635,048	**505,368**	522,551
Matching shares			
1 March 2011	694,783	**195,650**	205,700
26 September 2012	714,959	**246,532**	257,702
30 May 2014	496,738	**224,907**	234,957
31 October 2016	530,303	**368,976**	384,852
31 October 2018	635,048	**509,996**	525,351
		4,047,430	4,227,871
Dividend shares issued on 28 June 2005	247,017	**19,545**	20,549
Total employee shares in issue at 31 March		**4,066,975**	4,248,420

Notes forming part of the consolidated accounts

31. 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 2022	Movement in the no. of shares during the year ended 31 March 2021
Balance at 1 April	**4,248,420**	5,185,624
Forfeited during the year	**(43,866)**	(20,606)
Exercised during the year	**(137,579)**	(916,598)
Balance at 31 March	**4,066,975**	4,248,420

Typically these shares are valued every six months by independent valuers using discounted cash flow and income multiple methods of valuation. Valuations are approved by HMRC for a period of six months unless a significant event arises which has a material impact on the share value. The outbreak of Covid had a significant and material impact and the scheme has been closed for leavers and joiners since 1 April 2020. The fair value of an employee share was estimated by reference to forecasts of discounted future cash flows to be £2.41 at 31 March 2022 (2021: £3.12). The last equivalent independent valuation at 31 December 2019 was £3.75. The liability for the employee shares at 31 March 2022 was £12.5m (2021: £15.6m), which includes amounts owing to good leavers since 1 April 2020 and is included in other accruals and deferred income. The income statement includes a credit of £3.1m (2021: £1.8m debit).

32. Retirement benefit schemes

Defined contribution scheme

The group provides a defined contribution scheme to all qualifying employees who are not members of the defined benefit scheme. The assets of the scheme are held separately from those of the group in funds under the control of a board of Trustees.

The group operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. NATS operates a number of contribution structures. In general, NATS matches employee contributions to the scheme in a ratio 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2022 employer contributions of £17.2m (2021: £17.1m), excluding employee salary sacrifice contributions of £9.7m (2021: £9.4m), represented 16.2% of pensionable pay (2021: 15.8%). In addition, the company paid £nil (2021: £1.0m) in lieu of redundancy payments to defined contribution schemes.

The defined contribution scheme had 1,821 members at 31 March 2022 (2021: 1,902).

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

Defined benefit scheme

NATS Limited (formerly National Air Traffic Services Limited), the company's wholly-owned subsidiary, 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 the CAA) and six member-nominated trustees, as well as an independent chair.

During 2009 the group introduced a number of reforms to manage the cost and risk of pensions. The defined benefit pension scheme was closed to new joiners with effect from 31 March 2009. In addition, from 1 January 2009, annual increases in pensionable salaries were limited to a maximum increase in the retail prices 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 group consulted on further pension reforms to mitigate rising pension costs. These included a change to the limit on increases in pensionable salaries to a maximum of the consumer 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.

The defined benefit scheme had the following membership at 31 March:

	2022 **No.**	2021 No.
Active members	**1,591**	1,653
Deferred members	**1,081**	1,172
Pensioners	**2,945**	2,862
	5,617	5,687

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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 2020 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 2020 was £5,496.2m. 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 £171.9m, corresponding to a funding ratio of 97.0%.

The 2020 valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual and expenses was 71.9% of pensionable pay (66.2% employers and 5.7% employees). The employer contribution includes an allowance to cover administration costs, including the Pension Protection Fund (PPF) levy.

Contributions to the pension scheme

Following the 2020 valuation, NATS and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 December 2029. Under the schedule of contributions, normal contributions are paid at 41.7% of pensionable pay until 31 December 2022 and 66.2% thereafter. The NATS group paid deficit recovery contributions of £26.0m in 2021 calendar year, which will increase by 2.37% for 2022 calendar year. From 1 January 2023 to 31 December 2029, deficit recovery contributions will be paid at £27.2m in 2023 and increase annually by 2.37% for 2024 to 2029.

During the year the group paid cash contributions to the scheme of £89.9m (2021: £97.0m). This amount included £7.6m (2021: £8.1m) of wages and salaries sacrificed by employees in return for pension contributions as well as contributions of £0.1m in lieu of redundancy payments (2021: £2.8m). Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 61.2% (2021: 59.5%) of pensionable pay.

The estimated contributions expected to be paid to the scheme during the financial year ending 31 March 2023 is £101.9m, including salary sacrifice contributions estimated at £8.0m.

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

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 2020, 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.

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

An actuarial valuation for IAS 19 purposes was carried out at 31 March 2022 (based on 31 December 2021 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:

	2022	2021	2020
RPI inflation	**3.40%**	3.05%	2.45%
CPI inflation	**2.95%**	2.55%	1.85%
Increase in:			
- salaries	**2.95%**	2.55%	1.85%
- deferred pensions	**3.40%**	3.05%	2.45%
- pensions in payment	**3.40%**	3.05%	2.45%
Discount rate for net interest expense	**2.75%**	2.15%	2.30%

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2021: 105% S3PMA light and 103% S3PFA light) with future improvements in line with CMI 2019 (2021: CMI 2019) projections for male/female members, subject to a long-term improvement of 1.5% p.a. (2021: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.4 years and a female pensioner is 30.2 years. Allowance is made for future improvements in longevity, such that based on the average age of the current membership (46), when these members reach retirement, life expectancy from age 60 will have increased for males to 29.5 years and for females to 31.3 years.

The principal risks to the financial performance of the group 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.

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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 9.7%/increase by 11.2%
Rate of inflation	Increase/decrease by 0.5%	Increase by 10.7%/decrease by 9.5%
Rate of pensionable salary growth	Increase/decrease by 0.5%	Increase by 2.4%/decrease by 2.3%
Rate of mortality	1 year increase in life expectancy	Increase by 3.5%

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

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

	2022 £m	2021 £m
Current service cost	**(79.8)**	(67.3)
Past service cost	**(0.1)**	(3.3)
Net interest credit	**0.3**	6.4
Administrative expenses	**(2.0)**	(2.3)
Components of defined benefit costs recognised within operating profit	**(81.6)**	(66.5)

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

	2022 £m	2021 £m
Return on plan assets (excluding amounts included in net interest expense)	**139.3**	414.3
Actuarial gains and losses arising from changes in financial assumptions	**254.0**	(801.4)
Actuarial gains and losses arising from changes in demographic assumptions	**-**	106.4
Actuarial gains and losses arising from experience adjustments	**(38.6)**	(13.3)
	354.7	(294.0)

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

	2022 £m	2021 £m
Present value of defined benefit obligations	**(4,957.7)**	(5,145.4)
Fair value of scheme assets	**5,289.2**	5,113.9
Surplus/(deficit) in scheme	**331.5**	(31.5)

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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

	2022 £m	2021 £m
At 1 April	**(5,145.4)**	(4,440.1)
Current service cost	**(79.8)**	(67.3)
Past service cost	**(0.1)**	(3.3)
Interest expense on defined benefit scheme obligations	**(108.9)**	(100.1)
Actuarial gains and losses arising from changes in financial assumptions	**254.0**	(801.4)
Actuarial gains and losses arising from changes in demographic assumptions	**-**	106.4
Actuarial gains and losses arising from experience adjustments	**(38.6)**	(13.3)
Benefits paid	**161.1**	173.7
At 31 March	**(4,957.7)**	(5,145.4)

The average duration of the scheme's liabilities at the end of the year is 20.8 years (2021: 21.8 years). The present value of the defined benefit obligation can be analysed by member group as follows:

	2022 £m	2021 £m
Active members	**(1,939.5)**	(2,039.1)
Deferred members	**(582.5)**	(693.1)
Pensioners	**(2,435.7)**	(2,413.2)
	(4,957.7)	(5,145.4)

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

	2022 £m	2021 £m
At 1 April	**5,113.9**	4,672.1
Interest income on scheme assets	**109.2**	106.5
Return on plan assets (excluding amounts included in net interest expense)	**139.3**	414.3
Contributions from sponsoring company	**89.9**	97.0
Benefits paid	**(161.1)**	(173.7)
Administrative expenses	**(2.0)**	(2.3)
At 31 March	**5,289.2**	5,113.9

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

The major categories of scheme assets were as follows:

	2022 £m	2021 £m
Cash and cash equivalents	**28.6**	43.2
Equity instruments		
- Emerging markets	**75.0**	47.9
- Global	**768.3**	628.3
	843.3	676.2
Bonds		
- Fixed income	**2,426.4**	2,510.5
- Index-linked gilts over 5 years	**1,378.0**	1,120.9
	3,804.4	3,631.4
Other investments		
- Property	**159.4**	231.8
- Hedge funds	**210.1**	129.1
- Private equity funds	**180.5**	146.1
- Other	**49.3**	-
	599.3	507.0
Derivatives		
- Futures contracts	**13.6**	6.1
Other receivables	**-**	250.0
	5,289.2	5,113.9

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 the assets consist of equities and bonds, although the scheme also invests in property, cash and investment (private equity and hedge) funds.

NATS and Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market. As a result of discussions between NATS and the Trustee the amount of interest rate and inflation hedging has increased over time, starting out at 25% in 2012 with subsequent increases to 50% in 2014 and to 65% in 2018, as measured on the Trustee funding basis. In March 2020, NATS and the Trustee agreed a further increase in the level of inflation and interest rate hedging to 75% as measured on a long-term funding target basis of gilts + 0.5% p.a. and the trades needed to achieve this were carried out between May and August 2020. Swap transactions are executed with carefully scrutinisied banks and collateral is provded in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

Notes forming part of the consolidated accounts

32. Retirement benefit schemes (continued)

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 2022 was £248.5m (2021: £520.8m).

33. 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 and AG.

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 AG have not exercised undue influence on the group either acting individually or in concert and therefore the individual transactions with each member of AG have not been disclosed in this set of accounts.

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 subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed in the subsidiary companies' financial statements.

Transactions between the company and its joint ventures and associate, which are related parties, are disclosed below and in note 34.

Notes forming part of the consolidated accounts

33. Related party transactions (continued)

Trading transactions

During the year, group companies entered into the following transactions with related parties.

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m	**Year ended 31 March 2022 £m**	Year ended 31 March 2021 £m	**Year ended 31 March 2022 £m**	Year ended 31 March 2021 £m	**Year ended 31 March 2022 £m**	Year ended 31 March 2021 £m
LHR Airports Limited	**41.0**	37.3	**1.0**	0.5	**4.1**	3.1	**-**	-
Ministry of Defence (MOD)	**39.0**	46.7	**4.2**	0.3	**4.5**	6.6	**7.1**	21.8
The Airline Group Limited (AG)	**-**	-	**0.2**	0.2	**-**	-	**-**	-
Department for Transport (DfT)	**0.5**	0.5	**-**	-	**0.1**	-	**-**	-
Meteorological Office	**-**	0.3	**0.6**	0.7	**-**	-	**-**	-
European Satellite Services Provider SAS	**0.1**	0.1	**-**	-	**-**	0.1	**-**	-
FerroNATS Air Traffic Services SA	**0.4**	0.8	**-**	-	**-**	0.3	**-**	-
Aquila Air Traffic Management Services Limited	**28.2**	26.7	**1.1**	0.8	**5.4**	8.9	**0.4**	0.3
Searidge Technologies Inc	**0.1**	0.4	**-**	2.4	**-**	-	**-**	-

Amounts disclosed above in sales and purchases for Searidge relate to the period up to 21 December 2021, at which point Searidge became a 100% owned subsidiary of NATS.

Sales are made to related parties at the group's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No expected credit loss provisions (2021: £nil) have been made in respect of amounts owed by related parties.

Remuneration of key management personnel

The remuneration of key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures*. Key management includes the Board of directors of the company and the group's principal subsidiaries. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee report.

	2022 £m	2021 £m
Short-term employee benefits	**8.2**	7.2
Post-employment benefits	**0.6**	0.4
Other long-term benefits	**-**	-
Termination benefits	**-**	3.0
	8.8	10.6

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates

The group's subsidiaries at 31 March 2022, all of which have been consolidated in these accounts were:

Name of company	Principal activity	Proportion of ordinary shares and voting rights held	Country of registration	Country of operation
Direct holding:				
NATS Limited*	Corporate services	100%	England and Wales	United Kingdom
Indirect holding:				
NATS (En Route) plc*	En route air traffic services	100%	England and Wales	United Kingdom
NATS (Services) Limited*	Airport air traffic services	100%	England and Wales	United Kingdom
NATS Solutions Limited*	Airport and airfield air traffic services	100%	England and Wales	United Kingdom
NATSNav Limited*	Satellite-based navigation	100%	England and Wales	United Kingdom
NATS Employee Sharetrust Limited*	Corporate trustee of employee share plan	100%	England and Wales	United Kingdom
National Air Traffic Services Limited*	Dormant	100%	England and Wales	United Kingdom
NATS Services DMCC *Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates*	ATM consultancy	100%	UAE	UAE
NATS Services LLC (in liquidation) *PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman*	ATM consultancy	70%	Oman	Oman
NATS Services (Asia Pacific) Pte. Limited *51 Changi Business Park, Central 2, #04-06, The Signature, Singapore 486066*	Airport and ATM consultancy	100%	Singapore	Singapore
NATS Services (Hong Kong) Limited *31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong*	Airport and ATM consultancy	100%	Hong Kong	Hong Kong
NATS (USA) Inc *The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States*	Engineering and ATM consultancy	100%	USA	USA
NATS (Services) Canada Inc *100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada*	Digital airport air traffic services	100%	Canada	Canada
Searidge Technologies Inc** *19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada*	Digital airport air traffic services	100%	Canada	Canada

* The registered office address of the entities registered in England and Wales is: 4000 Parkway, Whiteley, Fareham, Hampshire, PO15 7FL, United Kingdom.
** Searidge Technologies Inc was previously a 50% owned joint venture. NATS (Services) Canada Inc purchased the remaining share capital on 22 December 2021. See below.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

The group had one associate and two joint ventures as at 31 March 2022, details are as follows:

Name of company	Principal activity	Date of acquisition	Proportion of ordinary shares held	Country of incorporation
European Satellite Services Provider SAS *18, Avenue Edouard Belin - BPI 602, 31 401 Toulouse Cedex 9, France*	Satellite based navigation	1 September 2008	16.67%	France
FerroNATS Air Traffic Services SA *Calle Principe de Vergara, 135, 28002, Madrid, Spain*	Airport air traffic services	28 January 2011	50.00%	Spain
Aquila Air Traffic Management Services Limited, *350 Longwater Avenue, Green Park, Reading, RG2 6GF, United Kingdom*	Asset provision and ATM services to UK MOD	9 October 2014	50.00%	United Kingdom

The associate and joint ventures are indirectly held by NATS Holdings Limited. The investment in ESSP is held by NATSNav Limited and the investments in FerroNATS and Aquila are held by NATS (Services) Limited.

Summary of acquisition of Searidge Technologies Inc

On 22 December 2021, NATS (Services) Canada Inc., a 100% owned subsidiary entity, acquired the remaining 50% of the issued share capital of Searidge Technologies Inc. (Searidge), having previously acquired 50% in April 2017. The primary reason for the combination was strategic and reflects the potential for digital towers for air traffic management. The acquisition makes Searidge a 100% owned subsidiary entity.

Searidge works with airports around the world, providing technology that helps reduce delays, increase efficiency, and overall safety. This includes the development and delivery of digital and remote tower solutions.

Searidge prepares its accounts in accordance with Canadian GAAP and its functional currency is the Canadian dollar. Searidge draws up its accounts to 31 August.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	C$m	£m
Purchase consideration:		
Cash paid	7.1	4.3
Fair value of previous equity interests	7.1	4.3
Total purchase consideration	**14.2**	**8.6**

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value	
	C$m	£m
Cash	1.0	0.6
Property, plant and equipment	0.3	0.2
Intangible assets	5.5	3.3
Trade receivables	2.3	1.4
Contract assets	4.3	2.6
Other receivables	0.4	0.2
Investment tax credits	0.4	0.2
Deferred tax	(0.5)	(0.3)
Accounts payable	(0.5)	(0.3)
Contract liabilities	(0.5)	(0.3)
Other payables	(1.3)	(0.8)
Loan from NATS (Services) Limited	(9.1)	(5.5)
Provisions	(0.2)	(0.1)
Net identifiable assets acquired	2.1	1.2
Add: goodwill	12.1	7.4
Net assets acquired	**14.2**	**8.6**

Goodwill held in the International service line arose on acquisition of Searidge. If reflects an assessment of the potential of digital towers for the future of air traffic management solutions, as well as the assembled workforce. Its carrying value has been assessed based on the expected recoverable amount on a value in use basis. Goodwill was not impaired at 31 March 2022 as the value in use of £8.6m was £0.5m higher than the book value of its net assets and goodwill. Goodwill will not be deductible for tax purposes.

There were no acquisitions in the year ended 31 March 2021.

(i) Initial accounting for Searidge

Prior to Searidge becoming a 100% subsidiary consolidated within the group financial statements, the share of Searidge results were recognised using the equity method of accounting.

The group engaged the services of a professional to assess the fair value of Searidge intangible assets. As a result, acquired identifiable intangible assets of C$5.5m (£3.3m) were recognised on the group's balance sheet. These assets are not recognised on Searidge's own balance sheet as they have been developed internally and expensed.

(ii) Signficant judgement

The fair values of identifiable assets and liabilites was determined at acquisition. This included a judement of the fair value of intagible assets represented by existing customer contracts and proprietary technology. Excess earnings and relief from royalty methods of valuation with discount rates of 15 to 20% were used as appropriate. Overall, a fair value of intangible assets of C$5.5m (£3.3m) was recognised on acquisition together with a related deferred tax liability of C$1.5m (£0.9m).

(iii) Acquired receivables

The fair value of acquired trade receivables is C$2.3m (£1.4m). The gross contractual amount for trade receivables due is C$2.3m (£1.4m), with a loss allowance of C$nil (£nil) recognised on acquisition.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

(iv) Revenue and profit contribution

The acquired business contributed revenues of C$3.2m (£1.9m) and net loss of C$0.9m (£0.5m) to the group for the period from 22 December 2021 to 31 March 2022.

If the acquisition had occurred on 1 April 2021, consolidated pro-forma revenue and regulatory allowances and profit before tax for the year ended 31 March 2022 would have been £753.9m and £7.3m respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

> differences in the accounting policies between the group and the subsidiary; and

> the impact of amortisation of acquired identifiable intangible assets of C$5.5m (£3.3m) which were recognised on the group's balance sheet but not recognised on Searidge's own balance sheet as they have been developed internally and expensed.

(v) Fair value gain on previously held interest in joint venture

IFRS 3 requires NATS (Services) Canada Inc. to remeasure its previously held equity interest in Searidge at the acquisition date fair value and recognise any resulting gain or loss in the income statement. The acquisition date fair value is considered to be equal to the acquisition price.

	C$m	£m
Acquisition date fair value	7.1	4.3
Exchange (to reflect acquisition date fair value at average exchange rate)	-	(0.1)
Less: fair value of the equity interest in Searidge immediately prior to the acquisition date (liability position)	0.4	0.2
Fair value gain on previously held interest in joint venture	**7.5**	**4.4**

(vi) Purchase consideration - cash outflow

	C$m	£m
Outflow of cash to acquire remaining 50% of the issued share capital, net of cash acquired		
Cash consideration	7.1	4.3
Less: Cash balance acquired	(1.0)	(0.6)
Net outflow of cash - investing activities	**6.1**	**3.7**

At the date of acquisition of the remaining share capital, Searidge owed C$4.5m (£2.8m) to both NATS (Services) Limited and the outgoing joint venture partner NAV Canada. NATS (Services) Limited lent Searidge a further C$4.5m (£2.8m) which was used to repay the debt to NAV Canada in full.

	C$m	£m
Outflow of cash to repay loan amount due to NAV Canada	4.5	2.8
Net outflow of cash - financing activities	**4.5**	**2.8**

(vii) Acquisition - related costs

Acquisition related costs of C$55,000 (£32,000) are included in administrative expenses in the income statement and in operating cash flows in the cash flow statement.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

Summarised financial information relating to the associate and joint ventures

European Satellite Services Provider SAS (ESSP)

In September 2008, the group acquired 16.67% of the issued share capital of ESSP for cash consideration of €0.2m (£0.1m).

The associate is accounted for using the equity method. Pursuant to the shareholder agreement, the group has the right to cast 16.67% of the votes at shareholder meetings. The financial year end is 31 December 2021. For the purposes of applying the equity method of accounting, the financial statements of ESSP for the year ended 31 December 2021 have been used.

Although the group holds less than 20% of the equity shares of ESSP, the group exercises significant influence by virtue of representation on the Board of directors, participation in policy making decisions of ESSP and the provision of essential technical information to ESSP.

Summarised financial information in respect of ESSP is set out below. These amounts have been prepared in accordance with French GAAP and converted from the euro, ESSP's functional currency.

FerroNATS Air Traffic Services SA

In January 2011, the group acquired 50% of the issued share capital of FerroNATS Air Traffic Services SA (FerroNATS) for a cash consideration of €0.1m (£0.1m). In June 2011, the group purchased an additional €0.4m (£0.3m) of share capital, maintaining a 50% holding of the issued share capital. FerroNATS is a joint venture with Serveo Servicios SA.

FerroNATS draws up its accounts to 31 December. For the purpose of these financial statements management accounts have been used to derive its performance as at 31 March 2022.

FerroNATS prepares its accounts in accordance with Spanish GAAP and its functional currency is the euro.

Aquila Air Traffic Management Services Limited

In October 2014, the group acquired 50% of the issued share capital of Aquila Air Traffic Management Services Limited (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. Aquila draws up its accounts to 31 March and therefore these accounts have been used to determine its performance for the financial year. It prepares its accounts under IFRS and its functional currency is pounds sterling.

The group has recognised £3.6m (2021: £2.5m) as the carrying value of its investment in Aquila. This is less than a 50% share of Aquila's net assets of £10.7m (2021: £8.4m) at 31 March 2022. The difference is a result of impairment charges recognised due to differences in accounting policies and the uncertainty surrounding future profit forecasts.

During the year, Aquila drew down loan finance of £4.5m (net) (2021: £14.1m repayment (net)) from the group. At 31 March 2022, the loan (including interest) outstanding was £8.0m (2021: £3.3m).

The group has assessed the carrying values of the loans to joint ventures at the balance sheet date and concluded that there should be no provision recorded under the expected credit loss methodology, based on historic loss experience and assessment of future prospects. The group 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 visbility and past loan performance.

Notes forming part of the consolidated accounts

34. Subsidiaries, joint ventures and associates (continued)

The summarised financial information above is reconciled to the carrying amount recognised in the consolidated financial statements as follows:

	2022			2021			
	Associate ESSP £m	**Joint venture FerroNATS £m**	**Joint venture Aquila £m**	Associate ESSP £m	Joint venture FerroNATS £m	Joint venture Aquila £m	Joint venture Searidge £m
Non-current assets	**1.5**	**0.5**	**45.0**	1.7	0.3	37.1	0.5
Current assets	**32.0**	**7.2**	**21.5**	27.7	9.1	16.7	3.1
Current liabilities	**(17.6)**	**(3.4)**	**(55.8)**	(13.9)	(4.5)	(45.4)	(1.0)
Non-current liabilities	**(0.7)**	**-**	**-**	(0.8)	-	-	(3.1)
Net assets/(liabilities) of associate/joint ventures	**15.2**	**4.3**	**10.7**	14.7	4.9	8.4	(0.5)
Group share	**2.5**	**2.1**	**5.3**	2.4	2.4	4.2	(0.3)
Goodwill on acquisition of joint venture	**-**	**-**	**-**	-	-	-	5.5
Impairment provision brought forward	**-**	**-**	**(1.7)**	-	-	(1.8)	(5.4)
Impairment reversal recognised in income statement	**-**	**-**	**-**	-	-	0.1	-
Other adjustments	**-**	**-**	**-**	-	-	-	0.2
Carrying amount of the group's interest in associate/joint ventures	**2.5**	**2.1**	**3.6**	2.4	2.4	2.5	-
Revenue	**56.3**	**10.0**	**115.2**	53.4	14.6	101.6	3.2
Profit/(loss) after tax for the year	**3.9**	**0.8**	**2.1**	4.1	0.7	2.1	(0.4)
Group share	**0.7**	**0.4**	**1.1**	0.7	0.3	1.1	(0.2)
Impairment provision recognised in income statement	**-**	**-**	**-**	-	-	0.1	-
Group share of profit/(loss) after tax and impairment[(i)]	**0.7**	**0.4**	**1.1**	0.7	0.3	1.2	(0.2)
Dividends received	**(0.6)**	**(0.7)**	**-**	-	(0.7)	-	-
Other comprehensive loss	**-**	**-**	**-**	(0.1)	(0.1)	-	-

(i) The Share of results of associate and joint ventures in the income statement contains £0.2m loss in relation to Searidge, relating to the period when Searidge was a joint venture entity. The £0.2m loss in Currency translation differences arising on consolidation of equity accounted foreign operations in the Consolidated statement of comprehensive income also relates to Searidge.

35. Ultimate controlling party

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.

Company balance sheet

at 31 March

	Notes	2022 £m	2021 £m
Assets			
Non-current assets			
Investments	4	**141.0**	141.0
Net assets		**141.0**	141.0
Equity			
Share capital	5	**140.6**	140.6
Share premium account	5	**0.4**	0.4
Retained earnings		**-**	-
Total equity		**141.0**	141.0

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own income statement for the year. For the year ended 31 March 2022 the company recognised a profit of £nil (2021: £nil).

The financial statements (Company No. 04138218) were approved by the Board of directors and authorised for issue on 30 June 2022 and signed on its behalf by:

Paul Golby
Chairman

Alistair Borthwick
Chief Financial Officer

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 April 2020	140.6	0.4	-	141.0
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**
Dividends paid	-	-	-	-
At 31 March 2021	**140.6**	**0.4**	**-**	**141.0**
At 1 April 2021	140.6	0.4	-	141.0
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**
Dividends paid	-	-	-	-
At 31 March 2022	**140.6**	**0.4**	**-**	**141.0**

Notes forming part of the company accounts

1. Cash flow statement

No cash flow statement has been provided because the company does not maintain a bank account or have any cash transactions.

2. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the UK.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 2 to the consolidated financial statements.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Income from subsidiaries is recognised when received.

3. Profit for the year and dividends

Profit for the year has been arrived at after charging:

	2022 £m	2021 £m
Staff costs	**-**	-
Auditor's remuneration	**-**	-

	2022 No.	2021 No.
Executive directors	**2**	2
Non-executive directors	**10**	10
	12	12

The company incurred no charge to current or deferred taxes in the year (2021: £nil).

Notes forming part of the company accounts

4. Investments

	Investments in subsidiary undertakings £m
Investments at 31 March 2022 and 31 March 2021	141.0

The company's investments in subsidiary undertakings are as set out in note 34 to the consolidated financial statements.

5. Share capital and share premium accounts

These items are disclosed in the consolidated statement of changes in equity and notes 25 and 26 of the consolidated financial statements.

6. Financial instruments

The company held no financial instruments at 31 March 2022 (2021: none).

7. Ultimate controlling party

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.

Abbreviations and definitions

2021	Financial year ended 31 March 2021
2022	Financial year ended 31 March 2022
3Di	3 Dimensional Flight Inefficiency Metric
ACOG	Airspace Change Organising Group
AESOP	All-Employee Share Ownership Plan
AG	The Airline Group Limited
AIREON	Aireon LLC, subsequently Aireon Holdings LLC
AMPRPS	Annual Management Performance Related Pay Scheme
ANSP	Air Navigation Service Provider
AQUILA	Aquila Air Traffic Management Services Limited
ATC	Air Traffic Control
ATM	Air Traffic Management
CAA	Civil Aviation Authority
CAAPS	Civil Aviation Authority Pension Scheme
CANSO	Civil Air Navigation Services Organization
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CJRS	Coronavirus Job Retention Scheme
CMA	Competition and Markets Authority
CPI	Consumer Prices Index
DB	Defined Benefit Pension Scheme
DC	Defined Contribution Pension Scheme
DfT	Department for Transport
DNV GL	DNV GL is a quality assurance and risk management company
DSESAR	Deploying Single European Sky ATM Research
EASA	European safety regulator
EC	European Commission
ESSP	European Satellite Services Provider SAS
EU	European Union
FerroNATS	FerroNATS Air Traffic Services SA
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GDPR	General Data Protection Regulation
GHG	Green house gas
HMG	Her Majesty's Government
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
INEA	Innovation and Networks Executive Agency
ISO	International Organisation for Standardisation
iTEC	Interoperability Through European Collaboration
KPI	Key Performance Indicator
LHRA	LHR Airports Limited
LTIP	Long-term Incentive Plan
MOD	Ministry of Defence
NATS	NATS Holdings Limited and its subsidiaries, together the NATS group
NATS Services	NATS (Services) Limited
NERL	NATS (En Route) plc
NESL	NATS Employee Sharetrust Limited
NHL	NATS Holdings Limited
NR23	New price control from 1 January 2023
NR28	New price control from 1 January 2028
PPP	Public Private Partnership
R&D	Research and Development
RAB	Regulatory Asset Base
RAT	Risk Analysis Tool
RP2	Reference Period 2 (2015-2019)
RP3	Reference Period 3 (2020-2024)
RPAS	Remotely Piloted Aircraft Systems
RPI	Retail Prices Index
SAIP AD6	Airspace changes in Essex airspace
SEARIDGE	Searidge Technologies Inc
SES	Single European Sky
SESAR	SES ATM Research
SPA	Strategic Partnership Agreement
WBS	Whole Business Securitisation

Explanatory notes

1 NATS (En Route) plc's (NERL) gearing is the ratio of its net debt (as defined by its licence) to regulatory assets. Net debt for this ratio differs from statutory net debt in three areas: (i) borrowings are recorded at face value, rather than net of remaining capitalised original issue discounts and issuance costs; (ii) leases are included, but only to the extent that they would have been treated as finance leases prior to application of IFRS 16; and (iii) it includes a value for NERL's RPI swaps that represents the historic accretion on the notional of the swaps. This value differs from the fair value of the RPI swaps within the derivatives on the balance sheet.

The regulatory asset base (RAB) represents the capital employed in the economically regulated businesses operated by NERL, and is reported annually in regulatory accounts prepared on a calendar year basis. The regulatory accounts are published at www.nats.aero. The CAA's economic regulatory framework determines the basis for measuring regulatory assets. NERL's RAB was established at the time of the Public Private Partnership in 2001. The RAB is uplifted annually by RPI inflation and increases by capital expenditure and reduces by regulatory depreciation. The RAB excludes balances relating to tax, financing and the IAS 19 pension position. The CAA sets a net debt to RAB target and bank covenants are set on a net debt to RAB basis. At 31 December 2021 the value of NERL's RAB was £1,519.0m.

2 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.

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

4 Aireon LLC provides a space-based air traffic surveillance system with global coverage capable of tracking and monitoring aircraft in real-time. This improves ATC and surveillance over regions with limited or no radar coverage and backup surveillance for regions with full radar coverage. Aireon is a private company whose investors are Iridium Communications, NAV CANADA, ENAV, IAA, Naviair and NATS.

5 Impact score is a measure of delay placing greater weight on long delays and departures in the morning and the evening peaks. Variability score is a daily excess delay score based on weighted delays exceeding pre-determined thresholds on a daily basis.

6 The three-dimensional inefficiency score (3Di) measures the environmental efficiency of a flight by comparing its actual radar track to an optimal profile. A lower score represents better flight efficiency. NATS has made the 3Di environmental insight tool freely available to aviation stakeholders to use to track their carbon efficiency.

7 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.

8 Link to Gender Pay Report: https://www.nats.aero/wp-content/uploads/2022/04/GenderPayReport2021.pdf

9 Link to NATS Slavery and Human Trafficking statement 2021: https://www.nats.aero/wp-content/uploads/2021/06/Modern-Slavery-Annual-Statement-May-2021-002.pdf

10 Link to Responsible Business policy: https://www.nats.aero/wp-content/uploads/2018/03/EMP01RB.pdf

11 The non-financial & sustainability statement and the related performance reported above have been prepared in accordance with non-financial information reporting guidance from the Financial Reporting Council, the Climate Disclosure Standards Board, the Task Force on Climate-related Financial Disclosures and others. An operational control approach is taken to non-financial information using the same boundary as NATS Holding Limited.

12 Modelled enabled ATM-related CO_2 reductions represent the saving in CO_2 emissions from improvements to the ATM network, such as technical changes which enable us to provide more fuel-efficient flight profiles, based on projections of the volume of flights likely to take advantage of the improvements. The enabled reduction in emissions is reported in full in the year in which the improvement is made.

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Customer website

Our dedicated customers website www.customer.nats.co.uk provides the latest news, operational information, meeting details, contacts and links to other resources.

Customer Forums

We have a number of forums for engaging with customers including our monthly lookahead sessions, Lead Operator for airspace design, Service & Investment Plan consultation as well as future price control consultations. Please get in touch for any more information.

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