

NATS (Services) Limited
Financial statements
Year ended 31 March 2023

Company Number: 04129270

Highlights

- **Results:** revenue of £179.1m (2022: £164.5m); a loss before tax of £17.0m (2022: profit before tax £18.2m).
- **Traffic regeneration:** the volume of aircraft movements at UK Airports we operate recovered strongly after the lifting of travel restrictions last summer and stabilised at an average 87% of pre-pandemic levels for the year. Our planning for recovery, whereby we retained critical skills and delivered simulation training, enabled us to support a safe regeneration.
- **Safety performance:** there were no risk-bearing airprox¹ attributed to our operation (2022: none).
- **Commercial developments:** In October, we took over the ATC and engineering contract at Gatwick Airport after a smooth transition from the previous provider. We are improving the resilience of the operational capability to support the airport's growth ambitions and to meet airlines' and passengers' expectations.

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Company Secretary

Richard Churchill-Coleman

Registered office

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

Registered in England and Wales
Company No. 04129270

Auditor

BDO LLP

Our business model

We provide air traffic control (ATC) and aviation related services to customers in the UK and internationally.

We generate c.99% of our revenue in the UK and c.81% from UK Airports.

Our UK Airports service provides ATC to 14 major UK airports as well as engineering support and airport optimisation services. We operate in a contestable market and compete with other air navigation service providers (ANSPs) and with airports using an in-house service. To maintain our existing market position, we work hard to fulfil our customer's requirements for a safe, efficient and reliable service every day in a changing market place. We are developing more compelling propositions for airport operators through value adding innovations in technology, like the digital tower deployed for London City Airport and our intelligent approach system for Toronto Pearson and Amsterdam Schiphol airports, and operations which also deliver improved price performance. Through performance-led strategic partnerships, as we have with Heathrow Airport, we can support airport operators to deliver improvements for airlines and therefore an improved passenger experience for the travelling public.

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

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

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

While the UK is our core market we continue to develop our business overseas where we can demonstrate our value to governments and airport operators. Our overseas strategy is to focus on those customers and territories most likely to provide long term sustainable business at manageable levels of risk. Our areas of focus remain on regions where growth in the demand for air travel will require airport expansion and advanced airspace management. Our subsidiaries have offices in Delhi, Dubai, Hong Kong, and Singapore to support our customers in these regions.

Our investments include Aquila, an engineering and ATC service provider to the UK MOD; and a minority interest in Aireon which provides space-based air traffic surveillance. Our investment in Aireon will enable us to shape the future of surveillance services to the benefit of customers and ensure that we play a leading role in the development of this technology.

Our purpose

Advancing aviation, keeping the skies safe

Our values



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

NATS (Services) Limited (NATS Services) is one of the principal operating entities of the NATS group of companies whose ultimate parent is NATS Holdings Limited (NHL). As such NATS Services is a key contributor to the strategy of the NATS group, and its purpose and values are aligned with those of the NATS group.

The NATS group 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. It is supported by the guiding principles which underpin the company's culture and its core values, and is centred around four long term objectives, which are deliberately challenging, for delivery by 2040. The objectives are that:

- **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 be able to 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 (in 2021 prices).** We will achieve this by providing competitive and market leading propositions to new and existing UK and international customers aligned with their strategies which we will develop by working alongside our partners.

Business review

Our commercial activities are an important element of our strategic objective to sustainably grow the business and are focussed upon offering market leading and innovative technology-enabled services to our customers around the world. While our key market is currently the UK where we have long-standing and important contractual relationships, we expect in the future more of our revenue will come from growth activities beyond the UK Airports market. As such we are focussed upon delivering the optimal current and future services to our existing customers, while simultaneously broadening our offerings in the UK and internationally. The following paragraphs describe key developments across these activities.

A safe but at times turbulent recovery

It was a welcome relief to see aircraft movements recover strongly last summer following the lifting of Covid travel restrictions in March 2022. Over the course of the year we handled 1.5m movements at the UK Airports for which we provide an ATC service, which was 87% of pre-pandemic levels (2022: 0.7m movements). It became clear early last summer that pent-up demand after two years of lockdowns would buoy the industry's recovery, despite inflationary pressures and geopolitical risks.

Our overriding priority, unsurprisingly, was to ensure that we enabled a safe recovery of aircraft movements. We had made a conscious decision during the pandemic to retain the essential skills to support the recovery, not least because it takes up to three years to train an air traffic controller. In addition, before restrictions lifted, we had supported

operational employees with simulation programmes to maintain skills on higher levels of traffic. This meant we were able to ramp our operation back up very quickly and safely support the level of demand. This was achieved in spite of one of the most challenging operational environments we have seen. The aviation sector in the UK and much of Europe continued to contend with the after-effects of the pandemic - labour shortages and the struggle to rebuild operational capacity to keep pace with consumer demand. This presented us with a number of operational challenges in the first half of the year.

We plan our operational resourcing tactically according to the level of demand we anticipate and based on published flight schedules. As airlines and airports responded to the strength of consumer demand for travel last summer, the daily flight schedule was much more volatile than expected until airlines aligned their schedules with their abilities to meet passenger demand alongside capacity restrictions which some airports also introduced to manage airline demand at their operations.

Safety performance

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

Our safety performance was consistently good throughout the year. We monitor the internal safety performance of our airports service using the Risk Analysis Tool (RAT²) which measures the severity and risk of air traffic events which we use to drive the appropriate safety culture across the business. On a 12-month rolling basis to 31 December 2022, our

performance generated a RAT score of 14.0 per 100,000 flights (calendar year 2021: 30.1).

We also measure our safety performance over a financial year based on airprox incidents, which are assessed independently by the UK Airprox Board. There were no risk bearing airprox events attributed to our operation in the year (2022: none).

Gatwick Airport contract transition

In October 2022 we regained the provision of air traffic control and engineering services at Gatwick Airport, the UK's second busiest airport, following a smooth transition from the previous provider. We are delighted to be working with the airport again. Our immediate focus has been on improving service resilience which is necessary to support the airport with its business ambitions. An important first step was a plan to train and recruit new and experienced controllers which is well underway.

Employee relations

The impacts of Covid and the uncertain economic environment made for a challenging period for industrial relations. However, engagement and effort by both the company and trades unions enabled us to work through some difficult situations and come to agreements on pay settlements which recognised the contribution our employees continue to make, cost of living pressures and the wider challenges facing the aviation sector as it recovers from Covid.

Engagement with trade unions colleagues is constructive as we work through areas of importance to both of us.

We reduced our workforce during Covid and since the start of the financial year have been hiring again across targeted areas of the business though, like

many companies, we are finding recruitment challenging in key areas. The pandemic accelerated trends in remote working and career flexibility and, alongside employers' demand for well qualified employees, these are making for a competitive labour market particularly in relation to the skills we require.

During Covid we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation as well as effective training in a live environment being unfeasible with such low flight volumes. In addition to providing the tactical service day to day, outside of the summer peak, we rely on operational staff to train new controllers and to support the development of new technology. While we have sufficient resources today, we are now training more new recruits than ever before to meet all of our operational and training needs in future, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. We are striving to manage this.

We are clear that building an inclusive culture and making the most of the talent in a diverse workforce are essential if we aspire to be a top 25 company in the UK to work for. Our employee networks continue to expand and propose positive changes that continue to make our workplace an ever more fair, equitable and enjoyable place for everyone. We joined National Inclusion Week again this year, building on the success of our first participation in the prior year. Alongside relevant experts, employee network representatives and senior leaders, we hosted a number of live panel discussions and

presentations. These covered a range of topics including diversity in recruitment, inclusive processes, and the barriers to disability inclusion. Additionally, we heard from key partners on their approaches to equality, diversity and inclusion. While this is an annual event our focus is not just on the week itself, but on how it can be an extension of our everyday commitment to inclusion across the company for the long term.

For the first time in four years we asked our employees how they feel about working at NATS. The survey was conducted by Best Companies, employee engagement specialists, which enables our internal progress to be benchmarked and measured against their accreditation standards. Overall, 62% of employees responded. Based on their feedback, Best Companies rated us as a one-star organisation, one which is very good to work for. This is very encouraging and a high standard that we must maintain and improve on if we are to meet our long-term strategic objective.

With the help of colleagues from across the business, we will use the feedback from the survey to shape and deliver improvement plans particularly in areas of leadership, personal growth and giving something back. We will measure our progress through future surveys and through our ability to attract and retain talent.

Other commercial developments

We are recognised for our world-class capabilities in managing busy and complex traffic flows and we are being sought out for this capability and our innovation in ATC.

We recently contracted with Heathrow Airport for the delivery of the various equipment and systems required to support a new Virtual Contingency Control Tower (VCF), which is to act as a back-up to the existing airport control tower. This represents a major investment for Heathrow Airport and will provide resilience and help protect the nation's aviation infrastructure.

We also successfully deployed our Intelligent Approach system at Toronto Pearson International and at Amsterdam Airport Schiphol. This provides additional tactical capacity across these multi-runway airports and helps reduce delays, fuel burn and CO₂ emissions, particularly in high wind conditions.

Expanding our international presence, our Indian subsidiary opened an office in Delhi in October 2022, establishing a new team there to support the growth in aviation that the country is experiencing. We look forward to building on our already strong local reputation in the country, and thereby continuing to expand our international presence beyond our existing activities across the Middle East and Asia Pacific.

We remain cognisant of the complexity and the increasing pace of development of new technologies in our marketplace. It demonstrates the importance of working with key partners who are aligned to our strategic intent. Our existing investments in Aireon and Searidge Technologies form the foundation to our partnership aspirations and we continue to develop the technology-led offerings available from these investments while simultaneously investigating future venture possibilities with other key industry stakeholders.

Conversely, after more than a decade, we have concluded that market factors indicated that the time was right to sell our stake in FerroNATS, our air traffic control towers partnership in Spain. We are proud to leave a thriving, well established and independent operation.

Our role in a sustainable future

NATS is committed to a net zero estate by 2035 and last summer the group's greenhouse gas emissions (GHG) reduction targets were independently validated by the SBTi as consistent with meeting the goals of the Paris Agreement, limiting the global temperature rise to 1.5°C. Our strategic objective is for our estate to be carbon negative by 2040.

In 2020, the UK aviation industry, including NATS, made a commitment to net zero emissions by 2050 and we are working with our customers, partners and suppliers to support this. Our tools such as arrival manager and intelligent approach have the potential to support lower emissions.

We are also acting to ensure that our infrastructure is more resilient to extreme weather events such as storms and extremes of temperature, which have had impacts in the last two years, but without leading to service disruption. This includes building higher tolerance levels into the specification of new assets, scenario testing the resilience of airport surveillance systems and enhancing protection of our assets and service during extreme events.

Concluding remarks

Our immediate focus is on ensuring that we continue to play our part in working with the rest of the aviation sector to deliver a safe and smooth summer 2023 for the travelling public. We have prepared together for this to ensure a more coordinated management of the demand for air travel.

Guy Adams,
Commercial Director

Financial review

The company reported a loss before tax of £17.0m (2022: profit before tax £18.2m). The principal year on year movements are summarised below:

| | £m | £m |
|----------------------------------------------|--------|---------------|
| 2022 profit before tax | | 18.2 |
| Revenue changes | | |
| UK Airports | 19.9 | |
| Defence | (6.8) | |
| Other service lines | 1.5 | 14.6 |
| Operating cost changes | | |
| Salaries and pensions | (2.6) | |
| Employee share scheme | (1.8) | |
| Job retention scheme grant | (1.2) | |
| Staff costs | | (5.6) |
| Expected credit losses | (5.7) | |
| Depreciation and other asset-related charges | (0.6) | |
| Other non staff costs | (13.0) | |
| | | (19.3) |
| Change in carrying value of subsidiaries | | (25.8) |
| Net investment income | | |
| Investment income | 1.9 | |
| Loss on disposal of joint venture | (0.9) | |
| Other net finance costs | (0.1) | |
| | | 0.9 |
| 2023 loss before tax | | (17.0) |

The reduction in the result mainly reflected:

- higher UK airport ATC and engineering revenue partly offset by lower Defence income (see below);
- an impairment of £18.9m to the carrying value of subsidiaries. A write up of £6.9m was reported in the prior year;
- An increase in expected credit loss provisions on intercompany receivables; and
- higher project delivery costs associated with windfarm and airport engineering projects.

Revenue

| | 2023 | 2022 |
|-------------------|--------------|--------------|
| | £m | £m |
| Airports | 144.3 | 124.4 |
| Defence | 15.9 | 22.7 |
| Other UK business | 16.4 | 13.5 |
| International | 2.5 | 3.9 |
| Total | 179.1 | 164.5 |

Overall, revenue at £179.1m (2022: £164.5m) was £14.6m (8.9%) higher than last year. By service line the significant developments were:

UK Airports: revenue was £19.9m (16.0%) higher for the year. This mainly reflected growth in engineering project income as airport operators restarted their asset enhancement programmes, which had been paused during Covid. The return of Gatwick Airport to our airport ATC contract portfolio in October 2022 and indexation uplifts of other airport contracts also contributed to the revenue increase.

Defence: at £15.9m was £6.8m lower (30.0%), reflecting the delivery schedule for the Project Marshall asset provision contract expected to complete in 2024.

Other UK business: revenue increased by £2.9m (21.5%) mainly from contracts from developers to mitigate the impact of their proposed windfarms on ATC radar data.

International: revenue was £1.4m (35.9%) lower due to a reduction in revenue from our intelligent approach tool, as projects completed in the year.

Operating costs

| | 2023 | 2022 |
|------------------------------------------------------------------|----------------|----------------|
| | £m | £m |
| Staff costs | (105.5) | (99.9) |
| Non-staff costs | (71.1) | (52.4) |
| Depreciation, amortisation and impairment (net of grants) | (3.8) | (3.6) |
| Impairment (charge)/write back of carrying value of subsidiaries | (18.9) | 6.9 |
| (Loss)/profit on disposal of non-current assets | (0.2) | 0.2 |
| Operating costs | (199.5) | (148.8) |

Operating costs at £199.5m (2022: £148.8m) were £50.7m higher.

Staff costs were £5.6m higher at £105.5m (2022: £99.9m). This included a pay award and additional headcount as we lifted the freeze on recruitment put in place in response to Covid to preserve liquidity. The cost of the employee shares also increased in the year

following an independent valuation. These factors were partly offset by lower defined benefit pension costs, explained below.

Non-staff costs were £18.7m higher, mainly associated with the higher level of engineering project activity and the Project Marshall delivery schedule and expected credit losses on intercompany receivables.

Depreciation and asset-related charges, net of grants, were in line with the prior year.

The company also assessed the carrying values of investments in its US and Canadian subsidiaries against the revised plans and prospects for these entities and recognised an impairment charge of £18.9m (2022: £6.9m write back of previous impairment charges).

Investment income

The company received dividends of £2.2m (2022: £0.7m) from its FerroNATS joint venture. After the receipt of the dividend from FerroNATS the company made a loss on its disposal of £0.9m, as the carrying value at that date exceeded the remaining proceeds. Other interest on bank deposits and joint venture loans amounted to £2.4m (2022: £0.2m).

Balance sheet

| | 2023 | 2022 |
|----------------------------------------------|--------------|--------------|
| | £m | £m |
| Intangible fixed assets | 8.7 | 8.0 |
| Property, plant and equipment | 12.7 | 10.4 |
| Right-of-use assets | 2.1 | 2.5 |
| Investments | 27.6 | 48.4 |
| Pension scheme surplus | 12.1 | 71.9 |
| Loans to joint ventures (including interest) | 8.8 | 8.0 |
| Deferred tax liability | (2.0) | (16.2) |
| Other non-current assets | 20.9 | 12.4 |
| Cash | 91.5 | 86.3 |
| Lease liabilities | (2.3) | (2.5) |
| Other net balances | (8.3) | 9.6 |
| Net assets | 171.8 | 238.8 |

The decrease in net assets in the year mainly reflects the reduction of the surplus in the IAS19 funding position of

the defined benefit pension scheme and the loss for the year.

Defined benefit pensions (see note 25)

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

a. IAS 19 charge and funding position

The cost (including salary sacrifice and past service) of defined benefit pensions at £15.8m (2022: £18.5m) reflected a lower accrual rate of 44.9% (2022: 60.6%) of pensionable pay, reflecting lower real interest rates at the start of the financial year.

| IAS 19 pension surplus | £m |
|-----------------------------|-------------|
| At 1 April 2022 (restated) | 71.9 |
| Charge to income statement* | (15.8) |
| Actuarial gains/(losses): | |
| - on scheme assets | (395.0) |
| - on scheme liabilities | 330.9 |
| Employer contributions* | 20.1 |
| At 31 March 2023 | 12.1 |
| Represented by: | |
| Scheme assets | 740.8 |
| Scheme liabilities | (728.7) |
| Surplus | 12.1 |

* including salary sacrifice

At 31 March 2023, under international accounting standards (IAS 19) using best estimate assumptions, the company's economic share of the scheme's assets exceeded liabilities by £12.1m (2022: £71.9m surplus).

There have been significant movements in both the gross value of pension scheme liabilities and the fair value of the scheme's assets over the last year which reflect the large movements in bond yields and high current levels of inflation.

The real yield on AA corporate bonds used to value RPI-linked pension obligations increased by 240 basis points over the 12-month period. This had the effect of reducing the value of pension liabilities. Partly offsetting this, experience losses of £51m reflected the impact of

actual inflation on pensioner and deferred member liabilities. Overall, the company's share of the scheme's pension liabilities (under IAS 19) reduced by £313.9m over the year.

The company's share of the fair value of the scheme's assets reduced by £373.7m, with significant reductions in the value of fixed income investments in particular, reflecting broader interest rate increases and the impact of inflation on returns.

The scheme's liability driven investment (LDI) portfolio was managed appropriately through the events that occurred in the gilt market in September 2022.

Subsequently, to further enhance resilience the company's parent and trustees adjusted the level of collateral to withstand further increases in real interest rates and the growth portfolio to provide liquidity for the LDI portfolio, while continuing to meet the scheme's expected return objective.

The size of the scheme relative to the company means changes in financial market conditions can have relatively large impacts on the results and financial position.

b. Trustee valuation and funding obligations

The funding of the defined benefit scheme is subject to agreement between the company 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%, NATS

Services share of this being c. £40m). 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. Contributions have reflected this rate since 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 from the NATS group of £27.2m from calendar year 2023 (NATS Services share being c£6.3m), increasing annually by 2.37%.

During the financial year the company paid deficit contributions of £5.5m and paid contributions at a rate of 41.7% of pensionable pay until December 2022 and subsequently at 66.2%.

Cash flow

| | 2023 | 2022 |
|--------------------------------------------------|-------|--------|
| | £m | £m |
| Net cash inflow from operating activities | 7.8 | 11.8 |
| Net cash used in investing activities | (1.9) | (13.3) |
| Net cash used in financing activities | (0.7) | (1.3) |
| Increase/(decrease) in cash and cash equivalents | 5.2 | (2.8) |
| Cash and cash equivalents at end of year | 91.5 | 86.3 |

Cash and cash equivalents increased by £5.2m in the year to £91.5m (2022: £86.3m). The company generated a net cash inflow from operating activities of £7.8m (2022: £11.8m). Net outflows from investing activities reflected the increase in capital investment, partly offset by a dividend and the proceeds of disposing of FerroNATS and interest income.

Net cash used in financing activities represented lease related payments.

At 29 June 2023 the company had available liquidity of around £89m. Our cash flow forecasts show that the company should be able to operate within the level of its operating cash flows 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.

Going concern and viability

The directors have assessed that the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements (see going concern statement at note 2 to the financial statements).

In addition, the directors have assessed the viability of the company 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 13, and the effectiveness of currently available mitigating actions. In particular, the directors assessed the solvency and liquidity risks arising from the impact of an external shock to the aviation sector, such as a further wave of Covid and related travel restrictions, the continuing impact of the challenging economic and geopolitical situation, a 15% loss of airport contract income in the event of an airport closure, adverse impacts of higher than planned inflation of our operating costs and capital expenditure programme, 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 company will be able to continue in operation and meet its liabilities falling due over the three-year period to June 2026.

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 remaining contractual periods of the company's airport air traffic control contracts in particular.

Specific consideration has been given to:

- The company's available cash resources;
- Airport contract terms: the remaining contractual periods of the company's UK airport contracts;
- A shock to aviation: such as the consequences of a further wave of the Covid pandemic on the aviation sector and the reasonably possible mitigating actions available to the company to manage its financial resources;
- Defined benefit pensions: the trustee's formal valuations at 31 December 2020 and at 31 December 2023 which determine the schedule of contributions over the viability period. The directors consider that the company's contributions will be met from operating cash flows.

Accordingly, the directors have formed the judgement that, taking into account the financial resources available, the range of reasonably plausible future scenarios and potential mitigating actions that could be taken, the company has adequate resources to continue to operate for a period of at least twelve months from the date of approval of the financial statements, and have therefore adopted the going concern basis in the preparation of the financial statements.

Alistair Borthwick

Chief Financial Officer

Principal risks and uncertainties

Enterprise Risk Framework

The Board of NATS Services takes the management of risk very seriously, paying particular attention to key risk areas. Many of the company's risks are common to the NATS group.

NATS Services applies the NATS group's system for the identification, evaluation and management of emerging and principal risks. This system is embedded within the company's management, business planning and reporting processes, accords with the UK Corporate Governance 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. 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 on a monthly basis 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 NATS group's Audit, Safety and Transformation Review Committees in accordance with their remits.

Taking into account the work of the Committees, the Board formally reviews emerging and principal risks on a six-monthly basis. 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 Principal Risks

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. The risks outlined are the most important risks facing the company in seeking to achieve its objectives. The company focuses on mitigating these risks, although many remain outside of our control – for example changes in regulation, security threats, environmental factors and the impact of longevity and financial markets on pension funding.

Safety: the risk of 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.

As a provider of a safety critical service, safety is the company's highest priority. The NATS group maintains an explicit Safety Management System, which includes investigations and reviews of operational safety performance and individual incidents to identify and respond to contributors to safety risk. The effectiveness of the Safety Management System is overseen by the Executive level NATS Safety Steering

Group and the NATS Board level Safety Review Committee.

This year, preparing for traffic recovery following the Covid pandemic has been a key area of focus, particularly over the summer months. A NATS wide Regeneration Review Board met on a fortnightly basis to review the ongoing risks and ensure appropriate activities were 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.

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

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

Strategy: general economy (including inflation), geopolitical issues and uncertainty of air travel demand

The demand for air travel can be sensitive to macro-economic and geopolitical conditions. Factors including government travel restrictions to control pandemics, the conflict in Ukraine, persistent inflation and the cost of living crisis and public concern as to the sustainability of aviation have led to greater uncertainty within demand forecasting.

NATS Services contracts for the provision of ATC services to airport operators are at fixed underlying prices for a contract term, with annual uplifts for inflation. The financial strength of airport operators is

monitored for the impact of reductions in air travel demand.

Strategy: sustainable aviation

NATS Services is committed to becoming carbon negative by 2040, and supporting our customers, partners, and suppliers to achieve a net zero aviation industry by 2050. Our climate targets have been independently validated by the Science Based Targets initiative (SBTi) and awarded 'Business Ambition' status – the highest ambition possible.

There are a range of potential physical and transitional impacts to the company from climate change, and these are outlined, along with how we managed these risks in our risk management system, within our Taskforce for Climate Related Financial Disclosures (TCFD) section on page 34 in NATS Holdings' Annual Report and Accounts.

Operational: business continuity and resilience

A catastrophic event many of which are outside of our control such as adverse weather, another pandemic or terrorist attack, has the potential to disrupt the ATC operation and our ability to resume a safe service to an acceptable performance level within a pre-defined period.

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

The 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 staff 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. 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, confidentiality 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. A cyber-attack on a non-operationally critical part of the business could be reputationally damaging and result in extensive management effort. NATS seeks to mitigate the risk through robust security controls, including physical security, security vetting, identity and access management and security patching, employee training, security monitoring and incident management. The threat of disruptive attacks (such as denial of service) on critical infrastructure elevated since the invasion of Ukraine. The threat of ransomware remains high. 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 and the National Protective Service Authority to monitor threats and minimise the risk of a damaging cyber-attack.

Operational: recovery from pandemic restrictions

The aviation sector experienced challenges, particularly in summer 2022, in restoring staffing levels and capacity to meet air travel demand. There is a risk that if the demand for air travel significantly exceeds the capacity of airlines and airports that the sector experiences similar challenges again.

During Covid we retained our skilled air traffic controllers to support the recovery but we were unable to train new controllers due to the risk of spreading the virus within our operation as well as training in a live environment being unfeasible with such low flight volumes. As a result, there is a risk that during the next five years we may not have adequate resource to meet all of our operational and training needs, as the pipeline of newly trained controllers and less certain rates of staff retirements work through the system. The Operational Resourcing and Training Board and portfolio governance continues to focus on these risks and ensuring we can respond to changing demand, including implementing actions to make our training programme more efficient so that new controllers can validate quicker.

Operational: employee relations

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, high inflation and the cost of living crisis on our employees and the company's financial position has required more dialogue with trades unions on a range of challenging issues, including employee pay, as it has done across the UK economy, and these relationships have enabled us to agree three year pay deals for grades negotiated by PCS and Prospect. 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.

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 (with NATS Services' economic share of this deficit being c.£40m) reflecting market conditions at that date. Trustees will undertake their next formal valuation as at 31 December 2023.

The scheme was closed to new entrants in 2009, pensionable pay rises are negotiated with our trades unions on the basis of affordability and are also capped through an agreement, 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. The company's cash reserves, its projected operating cash flows and the long-term nature of its airport

contracts enable the company to meet the contributions required.

Financial: availability of funding and other risks

In addition to the top risks set out above, the main financial risks of the company relate to the availability of funds to meet business needs (including meeting obligations to the pension scheme) the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. A detailed description of each of these risks and specific mitigations are set out in note 17.

Non-financial risks

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

| Our stakeholders | Why are they important to us? | How 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 our services, our staffing and capital investment. We operate continue to support Project Marshall. | When bidding for airport and other contracts we tender our cost effective and innovative solutions. We engage with airport operators to deliver improvements for airlines and therefore the travelling public. In anticipation of the lifting of Covid travel restrictions last year we engaged to ensure a coordinated industry re-start. Following the industry's challenge in meeting pent-up demand last year, we discussed preparations for summer 2023 across Europe with Eurocontrol (the network manager), customers and other key stakeholders. |
| 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 NATS executive and senior leaders have an open dialogue with trades unions and receive feedback on pay and benefits, a safe and healthy working environment, flexible working, talent development and career opportunities, and a diverse and inclusive culture. The CEO and executive communicate regularly to employees via our intranet and to senior leaders in regular virtual meetings. The Board receives a monthly report from the CEO which includes employee relations, diversity and inclusion and other employee matters. The Board seeks collectively opportunities to engage with groups of employees during the year. We operate a Just Safety culture, enabling employees to raise safety matters, and we seek feedback on a safety culture survey. We also survey employee wellbeing and maintain a whistleblowing facility. This year, the NATS group conducted an employee opinion survey (B-Heard), as a baseline for the strategic objective to be a top 25 company to work for by 2040. Further details on the Board's regard to employees in its decision-making is provided below. |
| REGULATOR | Our regulator ensures we provide our services and develop our infrastructure in accordance with international safety standards and assesses the contestability of the UK market for airport ATC services. Ensuring we develop the business for the long-term ensures the success of the company for all our stakeholders. | The CAA's safety regulator oversees the safety integrity of our training, operational processes and technical systems and we receive recommendations on improvements, which we implement to ensure safety standards are met. The CAA's economic regulator assesses the contestability of the UK's airport ATC market. |
| GOVERNMENT | The government sets UK Aviation Strategy which provides a long-term vision for the industry and a framework for future ATC provision. | The Chief Executive maintains a regular dialogue with the Department for Transport. The government engages on matters of aviation policy that affects NATS, including the recovery in air travel after Covid restrictions were lifted and preparations for summer 2023. |
| SHAREHOLDERS | We are a wholly owned subsidiary within the NATS group. Our decisions have regard to the group's ultimate shareholders as well as the parent company. These parties provide equity investment which finances our activities and enables us to invest in our ATC service and infrastructure, for which they expect a return. An employee share trust owns 5% of our ultimate parent company, which enables employees to share in the company's long-term success. | The NATS Board Chair, CEO and CFO met informally with shareholders and discussed the Board's strategy review and alignment with shareholder interest and the recovery in air travel demand. 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. |
| COMMUNITIES AND ENVIRONMENT | Local communities around airports expect the aviation sector to pay attention to aircraft noise 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, being carbon negative by 2040 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. |
| 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. We engage with them on ESG matters. | 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. |

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 (see Engaging with our stakeholders). Inevitably it is not always 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 20 to 21. Set out below are explanations of how the directors have had regard to section 172 (1) in respect of employee matters and in reaching their key decisions in the year

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

The company has 850 employees and 14 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 NATS 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 of NATS Holdings Limited.

Engaging with employees: we sought feedback through an engagement survey (B-Heard) that will be the baseline for our strategic objective to be a Top 25 UK company to work for. Employees want to see more opportunity for personal growth, stronger leadership and more support for local communities. We are currently holding focus groups to shape our response. Through the year, the CEO, CFO and members of the Executive team engaged with employees on the group's strategy, the uncertain economic environment, business developments and pay. Positive engagement and effort by both the company and trades unions enabled agreement on a pay settlement which recognised the contribution employees make and the wider challenges facing the aviation sector.

Health and wellbeing: while UK Covid restrictions were lifted in March 2022, the Board maintained its focus on the safety and wellbeing of all colleagues. Occupational health professionals continued to monitor internal Covid cases for the Board and provide advice; regular wellbeing surveys gauged employee mental health; and communication of comprehensive internal and external support mechanisms continued. While meeting the needs of the business remains the priority, agile working principles were introduced which provide employees with more freedom to work where, when and how they choose, with a positive impact on employee engagement and performance. The year's safety survey included questions on wider health and safety considerations.

Diversity and Inclusion (D&I): D&I continued to be a Board focus in the year with progress made in the year. This year NATS became a member of Inclusive Companies and signed the Equal Skies Charter as a commitment to equality and the disabled community, respectively. In April 2022 NATS published its first 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. We continue to work with Fantasy Wings to recruit more people from ethnic minorities into aviation and participated in National Inclusion week, which is now a fixture in the calendar. We also established a Faith network, introduced a domestic abuse policy and enabled employees to reassign religious festivals. Our latest gender and ethnicity pay report shows some improvement which reflects the focus of effort including a focus on gender and ethnic diversity in our recruitment processes and early careers campaign.

The Board's regard to wider stakeholders in its decision-making

The summaries below show how, over the course of the financial year, the Board's key decisions had regard to the long-term success of the company and to S172 (1). More detailed explanations are provided elsewhere in this report.

Strategy review (see page 4) and annual business plan alignment: adopted by the Board in the year, the company's long-term direction is defined by the purpose, vision, values, strategy and four objectives for 2040 developed with regard to the value the company will bring to its members, employees as well as other key stakeholders and wider society. In March 2023 the Board approved the company's budget for 2024 and its business plan, aligned to the strategy.

Summer 2022 traffic regeneration (see page 5): The Board's priority was the safe regeneration of traffic last summer. In 2020, supported by airspace users and other key stakeholders, the company committed that it would not impair the recovery of aviation post pandemic and took the decision in the best interests of the wider industry to retain capacity and critical skills. Simulation training for operational employees ensured skills were maintained for higher traffic levels. These measures enabled a safe regeneration in the interests of employees, airspace users, airports and passengers.

Gatwick airport contract (see page 6): the Board's initial decisions focussed on the safe and smooth transition of the contract from the incumbent. Subsequently, the Board's concern has been integrating new employees, addressing the inherited shortfall in operational resources, maintaining service resilience and planning for summer 2023 with the customer.

The Strategic report was approved by the Board of directors on 29 June 2023 and signed by order of the Board by:



Richard Churchill-Coleman, Secretary

Governance framework

Introduction

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

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

NATS Services' 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;
- 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.

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

Executive Directors

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

Non-Executive Directors

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

Changes to the Directors

From 1 April 2022 to the date of approval of the accounts, there were no changes to the directors.

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 company's expense.

Board meetings

The NATS group has nested board meetings with NATS Services Board meetings taking place as part of the NATS Holdings meetings. The NATS Services 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 seven times. Reports and papers are circulated to Board members in a timely manner in preparation for meetings, and this information is supplemented by any information specifically requested by directors from time to time. The directors also receive monthly management reports and information to enable them to review the company's performance. The company's performance is also reviewed monthly by the NATS Executive team. This includes reviewing performance against operational targets and financial targets.

Compliance with the UK Corporate Governance

Code

NATS Services is committed to maintaining the highest standards of corporate governance. The company has applied the principles of the Corporate Governance Code 2018 since 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 the company did not comply are summarised below.

Provision 3: Engagement with major shareholders

Within the PPP structure NATS Services is a wholly owned subsidiary of NATS Limited which is in turn a wholly owned subsidiary of NHL. There are no institutional or public shareholders. The NHL Board's Chair has regular discussions with the group's shareholders in addition to the formal shareholder meetings.

Provision 24: Establishment of an Audit Committee

Matters pertaining to the integrity of the company's financial statements, its financial performance and significant judgements contained in them are routinely considered by the NATS Holdings Limited Audit Committee, the parent company of the NATS group of companies. The NATS Holdings Audit Committee also considers the internal financial controls and internal control and risk management systems in place across the group, and matters relating to the external audit of the company. For these reasons the company does not have a separate Audit Committee.

Report of the directors

The directors present their annual report on the affairs of the company, together with the financial statements and the auditor's report for the year ended 31 March 2023.

The Governance report is set out on pages 20 and 21 and forms part of this report.

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

Information about the use of financial instruments is given in note 17 to the financial statements.

Dividends

The company has paid no dividends in the year (2022: £nil). The Board recommends a final dividend for the year of £nil (2022: £nil).

Directors and their interests

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

Guy Adams

Alistair Borthwick

Martin Rolfe

None of the directors had any interests in the share capital of the company. The following directors held interests in ordinary shares of NATS Holdings Limited, the company's ultimate parent undertaking at 31 March 2023:

| | |
|-----------|-------|
| Guy Adams | 3,801 |
|-----------|-------|

| | |
|--------------|-------|
| Martin Rolfe | 1,024 |
|--------------|-------|

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

Directors' indemnities

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

Employees

Contracts of employment with employees are held by the company's parent company, NATS Limited (NATS).

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. Employees are frequently involved through direct discussions with their managers, cross company working groups and local committees. Regular employee consultations cover a range of topics affecting the workforce, including such matters as corporate performance and business plans. The directors encourage the involvement of employees in the company's performance through the All-Employee Share Ownership Plan.

The directors have regard to the safety, health and well-being of employees (and contract staff). The NATS CEO, CFO and the Commercial Director maintain high visibility with employees through visits to NATS sites, or through virtual engagements where more appropriate, where they talk to them about current business issues and take questions in an open and straightforward manner. The NATS CEO and the Executive team provide 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. An employee engagement survey was conducted in the year and its feedback will shape and deliver improvement plans. 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 company's pay policy is explained in the Remuneration Committee report of NATS Holdings' Annual Report and Accounts.

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

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

The company strives to maintain the health, safety and wellbeing of employees through an appropriate

culture, well-defined processes and regular monitoring. Line managers are accountable for ensuring health and safety is maintained and responsibility for ensuring compliance with both legal requirements and company policy rests with the Safety Director.

Business relationships

We explain on page 18 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

The directors' assessment of going concern is explained in note 2 to the financial statements.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies 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 company's ability to continue as a going concern.

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

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

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

make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

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

Auditor

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

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

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

Richard Churchill-Coleman, Secretary

29 June 2023

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NATS (Services) Limited ("the Company") for the year ended 31 March 2023 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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 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.

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Financial statements, 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.

Other Companies Act 2006 reporting

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 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.

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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:

Non-compliance with laws and regulations

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company 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, and relevant tax legislation.

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

- the nature of the industry, the Company'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 Company'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.

Fraud

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.

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 Company'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 revenue, the valuation of certain defined benefit pension assets, the valuation of pension scheme liabilities and

impairment of assets in course of construction.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities 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:

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

This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members

those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Chris Pooles
F75710324A07463...

Christopher Pooles (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom
29 June 2023
BDO LLP is a limited liability partnership
registered in England and Wales (with registered
number OC305127).

Income statement

for the year ended 31 March

| | Notes | 2023 £m | 2022 £m |
|-------------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| Revenue | 4 | 179.1 | 164.5 |
| Staff costs | 7 | (105.5) | (99.9) |
| Services and materials | | (19.3) | (12.0) |
| Repairs and maintenance | | (4.0) | (3.3) |
| Depreciation, amortisation and impairment of property, plant, equipment, intangible and right-of-use assets | 6 | (4.1) | (3.9) |
| Impairment (charge)/write back of carrying value of subsidiaries | 6, 27 | (18.9) | 6.9 |
| Change in expected credit losses | 14 | (5.3) | 0.4 |
| Other operating charges | | (42.5) | (37.5) |
| (Loss)/profit on disposal of non-current assets | | (0.2) | 0.2 |
| Deferred grants released | 6 | 0.3 | 0.3 |
| Net operating costs | | <u>(199.5)</u> | <u>(148.8)</u> |
| Operating (loss)/profit | 6 | (20.4) | 15.7 |
| Investment income | 8 | 4.6 | 2.7 |
| Finance costs | 9 | (1.2) | (0.2) |
| (Loss)/profit before tax | | <u>(17.0)</u> | <u>18.2</u> |
| Tax | 10 | (1.0) | (0.9) |
| (Loss)/profit for the year attributable to equity shareholders | | <u>(18.0)</u> | <u>17.3</u> |

Statement of comprehensive income

for the year ended 31 March

| | Notes | 2023 £m | Restated 2022 £m |
|-------------------------------------------------------------------------------------------|-------|---------------|------------------------|
| (Loss)/profit for the year after tax | | (18.0) | 17.3 |
| Items that will not be reclassified subsequently to profit and loss: | | | |
| Actuarial (loss)/gain on defined benefit pension scheme | 25 | (64.1) | 76.7 |
| Deferred tax relating to actuarial (loss)/gain on defined benefit pension scheme | 20 | 14.4 | (19.0) |
| Current tax relating to actuarial loss on defined benefit pension scheme | 10 | 0.8 | - |
| Items that may be reclassified subsequently to profit and loss: | | | |
| Change in fair value of hedging derivatives | | <u>(0.1)</u> | <u>0.1</u> |
| Other comprehensive (loss)/income for the year, net of tax | | <u>(49.0)</u> | <u>57.8</u> |
| Total comprehensive (loss)/income for the year attributable to equity shareholders | | <u>(67.0)</u> | <u>75.1</u> |

Balance sheet

at 31 March

| | Notes | 2023 £m | Restated 2022 £m |
|----------------------------------|-------|---------------|------------------------|
| Non-current assets | | | |
| Intangible assets | 11 | 8.7 | 8.0 |
| Property, plant and equipment | 12 | 12.7 | 10.4 |
| Right-of-use assets | 13 | 2.1 | 2.5 |
| Investments | 27 | 27.6 | 48.4 |
| Loan to joint ventures | 27 | 8.8 | 8.0 |
| Retirement benefit asset | 25 | 12.1 | 71.9 |
| Trade and other receivables | 14 | 20.9 | 12.4 |
| | | <u>92.9</u> | <u>161.6</u> |
| Current assets | | | |
| Trade and other receivables | 14 | 54.5 | 72.4 |
| Cash and cash equivalents | 17 | 91.5 | 86.3 |
| Derivative financial instruments | 16 | 0.1 | - |
| | | <u>146.1</u> | <u>158.7</u> |
| Total assets | | <u>239.0</u> | <u>320.3</u> |
| Current liabilities | | | |
| Trade and other payables | 18 | (48.0) | (45.9) |
| Current tax liabilities | | (0.1) | (0.8) |
| Lease liabilities | 15 | (1.0) | (0.7) |
| Provisions | 19 | (1.5) | (0.7) |
| Derivative financial instruments | 16 | (0.1) | - |
| | | <u>(50.7)</u> | <u>(48.1)</u> |
| Net current assets | | <u>95.4</u> | <u>110.6</u> |
| Non-current liabilities | | | |
| Trade and other payables | 18 | (10.8) | (11.4) |
| Deferred tax liability | 20 | (2.0) | (16.2) |
| Lease liabilities | 15 | (1.3) | (1.8) |
| Provisions | 19 | (2.3) | (4.0) |
| Derivative financial instruments | 16 | (0.1) | - |
| | | <u>(16.5)</u> | <u>(33.4)</u> |
| Total liabilities | | <u>(67.2)</u> | <u>(81.5)</u> |
| Net assets | | <u>171.8</u> | <u>238.8</u> |
| Equity | | | |
| Called up share capital | 21 | 0.1 | 0.1 |
| Hedge reserve | | (0.1) | - |
| Retained earnings | | 171.8 | 238.7 |
| Total equity | | <u>171.8</u> | <u>238.8</u> |

The financial statements (Company No. 04129270) were approved by the Board of directors and authorised for issue on 29 June 2023 signed on its behalf by:



Martin Rolfe
Chief Executive



Alistair Borthwick
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March

| | Equity attributable to equity holders of the company | | | |
|-----------------------------------------------------------|------------------------------------------------------|---------------------|----------------------------------------|-------------------------|
| | Share capital £m | Hedge reserve £m | Restated Retained earnings £m | Restated Total £m |
| At 1 April 2021 | 0.1 | (0.1) | 163.7 | 163.7 |
| Profit for the year | - | - | 17.3 | 17.3 |
| Other comprehensive profit for the year (restated note 2) | - | 0.1 | 57.7 | 57.8 |
| Total comprehensive profit for the year | - | 0.1 | 75.0 | 75.1 |
| At 31 March 2022 | 0.1 | - | 238.7 | 238.8 |
| At 1 April 2022 | 0.1 | - | 238.7 | 238.8 |
| Loss for the year | - | - | (18.0) | (18.0) |
| Other comprehensive loss for the year | - | (0.1) | (48.9) | (49.0) |
| Total comprehensive loss for the year | - | (0.1) | (66.9) | (67.0) |
| At 31 March 2023 | 0.1 | (0.1) | 171.8 | 171.8 |

Cash flow statement
for the year ended 31 March

| | Notes | 2023 £m | 2022 £m |
|-------------------------------------------------------------------------|-------|--------------|---------------|
| Net cash inflow from operating activities | 22 | <u>7.8</u> | <u>11.8</u> |
| Cash flows from investing activities | | | |
| Interest received | | 1.7 | 0.1 |
| Purchase of property, plant and equipment and other intangible assets | | (6.4) | (3.5) |
| Proceeds of disposal of property, plant and equipment | | - | 0.2 |
| Proceeds from sale of joint venture | | 1.4 | - |
| Dividends from subsidiary | | - | 1.8 |
| Investment in joint ventures | | (0.3) | - |
| Dividends from joint ventures | | 2.2 | 0.7 |
| Loan to subsidiaries | | - | (7.0) |
| Loans to joint ventures | | (0.5) | (5.6) |
| Net cash outflow from investing activities | | <u>(1.9)</u> | <u>(13.3)</u> |
| Cash flows from financing activities | | | |
| Principal paid on lease liabilities | | (0.6) | (1.2) |
| Interest paid on lease liabilities | | (0.1) | (0.1) |
| Net cash outflow from financing activities | | <u>(0.7)</u> | <u>(1.3)</u> |
| Increase/(decrease) in cash and cash equivalents during the year | | 5.2 | (2.8) |
| Cash and cash equivalents at 1 April | | <u>86.3</u> | <u>89.1</u> |
| Cash and cash equivalents at 31 March | | <u>91.5</u> | <u>86.3</u> |

1. General information

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

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

2. Basis of preparation and accounting policies

Going concern

The company's business activities, together with the factors likely to affect its performance and the financial position of the company, its cash flows and liquidity position are explained in the Strategic Report above. In addition, note 17 to the financial statements describes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

Given the current uncertainty and the variety of outcomes still possible related to the course of the pandemic, and its adverse impact on the economy and the demand for air travel, the company has considered a wide range of factors related to its future performance and financial position. These include: the economic outlook and the recovery in demand for air travel; future cash flows; the feasibility and effectiveness of planned cost savings and deferral of capital investment. The company has no debt and has substantial cash holdings. The company's principal sources of income are generated mainly from long term contracts.

Following an assessment of these factors and having regard to the impact of a range of scenarios and reverse stress tests, the directors believe that the company is well placed to manage its business risks successfully despite the uncertain current economic outlook.

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

Accounting standards

The financial statements have been prepared on the going concern basis, as explained above, and in accordance with international accounting standards, IFRS and IFRIC, as adopted by the UK. The financial information has also been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB).

Accounting standards adopted in the year

The company has adopted the requirements of 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:

- ◆ IAS 16 (amendments): *Property, Plant and Equipment – Proceeds Before Intended Use*, effective 1 January 2022 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately

the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

- ◆ IAS 37 (amendments): *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract*, effective 1 January 2022 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
- ◆ IFRS 3 (amendments): *Business Combinations*, effective 1 January 2022 includes minor amendments to update references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- ◆ Annual Improvements to IFRS Standards 2018 – 2020, effective on or after 1 January 2022.

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

Prior period restatement

It was identified that, at 31 March 2022, the carrying value of the retirement benefit asset had been understated by £2.2m and the related deferred tax liability understated by £0.3m, as a result of an error relating to the valuation of pension scheme assets. This has been corrected by restating each of the affected financial statement line items at that reporting date. In the comparative balance sheet the retirement benefit asset has been increased by £2.2m and the deferred tax liability has increased by £0.3m. The net impact being to increase the net assets by £1.9m. In the statement of comprehensive income, the actuarial gain on defined benefit pension scheme for the year ended 31 March 2022 has increased by £2.2m and the deferred tax relating to actuarial gain on defined benefit pension scheme charge, increased by £0.3m. The net impact is to increase other comprehensive income, retained earnings and total equity by £1.9m.

The prior year restatement had no impact on the income statement or the statement of cash flows for the comparative period and did not impact any prior reporting periods.

Company background

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

The company entered into a Management Services Agreement with NATS on 25 July 2001. On 1 October 2009, this agreement was amended so that all relevant secondment obligations are now set out in an Inter-company Secondment Agreement (ISA). This agreement is the basis for the provision by NATS of personnel to the company. In addition, an Inter-company Trading Agreement is the basis for the provision of central services by NATS to NATS Services. The cost of central services is recharged based on a fair allocation of costs taking into account the most important drivers for the services provided. The company is responsible for paying to NATS an amount equal to the aggregate of all costs incurred by NATS in connection with the employment of the personnel together with appropriate staff related costs and expenses and disbursements.

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

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

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

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

The company commenced trading from 26 July 2001.

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

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

Revenue recognition

Revenue is recognised from the transfer of goods or services at an amount that the company expects to be entitled to in exchange for those goods or services. Revenue is recognised based on the satisfaction of performance obligations, which are characterised by the transfer of control over a product or service to a customer. A contract asset is recognised to reflect the company'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.

UK Airports

The company provides ATC, engineering support and airport optimisation services to UK airport customers. Each of these services represents a distinct performance obligation, but with a consistent pattern of delivery over the life of the contract. Revenue for these services is recognised 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 company provides ATC, asset provision and engineering maintenance services under the MOD's Project Marshall contract to the Aquila joint venture. These are separate contracts priced on a standalone basis, using a cost plus a margin approach. The ATC and engineering maintenance services represent distinct performance obligations. The asset provision contract contains two performance obligations (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 company provides other services to UK customers including consultancy, training and information. These contracts can contain multiple deliverables that are considered distinct. The transaction price is allocated to each performance

obligation based on stand-alone selling prices.

Where the transaction price is not directly observable, the prices are estimated based on a cost plus margin. Revenue is recognised in line with costs incurred or labour hours expended for work performed to date, as a proportion of the estimated total contract costs.

International

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

Income from other sources

Rental income from 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.

Operating segments

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

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

third parties. Segment performance is assessed by service line revenue and contribution. Further information is provided in note 5.

Operating profit

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

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; and
- ◆ 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.

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 2022 financial 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 were no unfulfilled conditions or contingencies attached to these grants.

Leases

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

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

Measurement at inception

At the lease commencement date the lessee will recognise:

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

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

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

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

Ongoing measurement

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

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

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

- ◆ If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- ◆ In all other cases where the renegotiated terms increase the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- ◆ If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the

renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Short term, low-value leases and expired leases

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

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

Investments in subsidiaries, associates and joint ventures

An associate is an entity over which the company 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.

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

The company's share of results of associates and joint ventures are not presented in these financial

statements. They are incorporated into the consolidated financial statements of NATS Holdings Limited, the company's ultimate parent, using the equity accounting method.

Internally-generated intangible assets – research and development expenditure

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

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

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

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

recognised as an expense in the period in which it is incurred.

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

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

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

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

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

Share-based payments

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

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

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

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

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

Taxation

The tax 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 company's 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 NATS group's tax policies and guidelines.

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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

Foreign currency translation

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

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

Retirement benefit costs

The CAA Pension Scheme is a funded defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses and return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they

occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

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

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

Defined benefit costs are split into three categories:

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

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

Since 2009, the group and Trustees have introduced a number of pension reforms, as explained in note 25. These include: closing the defined benefit scheme to new entrants with effect from 1 April 2009, and establishing a defined contribution scheme for new entrants from 1 April 2009, limiting the rate of increase in pensionable pay and changing the indexation reference rate for future service.

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

Provisions

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

and are discounted to present value where the effect is material.

Financial instruments

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

The company has financial assets at amortised cost. The company does not have financial assets at fair value through the profit or loss or at fair value through other comprehensive income. Detailed disclosures are set out in notes 14 to 18.

Financial assets: Amortised cost

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

Impairment of financial assets

Equity instruments, including subsidiaries, associates and joint ventures, are assessed at each reporting date to determine whether there was objective evidence of impairment. Impairment write backs and 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, including contract assets, 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 company after deducting all of its liabilities.

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

Derivative financial instruments and hedging activities

The company's activities expose it primarily to the financial risks of changes in interest rates, inflation and foreign currency exchange rates. The company uses forward foreign exchange contracts to hedge these exposures. These are disclosed in notes 16 and 17 to the accounts.

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

Under IFRS derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is

designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge

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

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

3. Critical judgements and key sources of estimation uncertainty

Expected credit loss provisions (see note 14)

The company'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 company'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.

There are expected credit losses of £5.3m at 31 March 2023 from active customers, fellow subsidiaries and company subsidiaries of £72.9m (2022: £nil of amounts due from active customers, fellow subsidiaries and company subsidiaries of £76.0m). A 1% change in customer default would give rise to a c£0.7m change in expected credit loss provision.

Retirement benefits (see note 25)

The company accounts for its share of the NATS group's defined benefit pension scheme such that the net pension scheme position is reported on the balance sheet with actuarial gains and losses being recognised directly in equity through the statement of comprehensive income. At 31 March 2023 the funding position of the scheme reported in the financial statements was a surplus of £12.1m. A number of key assumptions have been made in calculating the fair value of the company's defined benefit pension scheme which affect the balance sheet position and the company's reserves and income statement. Refer to note 25 of the notes to the accounts for a summary of the main assumptions and sensitivities. Actual outcomes may differ materially from the assumptions used and may result in volatility in the net pension scheme position.

Long term contracts (see notes 14 and 18)

The company is fulfilling a number of long term contracts, including providing support to its Aquila joint venture which is undertaking Project Marshall. In assessing the amount of revenue to be recognised in respect of these contracts, judgements are made on the extent of contract completion and the proportion that costs incurred to date bear to the estimated total costs of the

contract. Such judgements are reviewed regularly and may change over the course of a contract, impacting operating results in future periods should a reassessment of contract completion and costs to complete be made.

Leases (see notes 13 and 15)

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

4. Revenue

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

| | 2023 £m | 2022 £m |
|--------------------------------------------|--------------|--------------|
| Revenue from contracts with customers | 179.1 | 164.4 |
| Other revenue: rental and sub-lease income | - | 0.1 |
| Total revenue | 179.1 | 164.5 |
| Investment income (see note 8) | 4.6 | 2.7 |
| | 183.7 | 167.2 |

a) Revenue disaggregated by operating segment

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

The performance of operating segments is assessed based on service line revenue and contribution. Service line contribution represents the revenue and costs which are directly attributed to a service line. Costs which are not directly attributed to a service line include: costs managed outside of service lines, depreciation and amortisation (net of government grants), profit/(loss) on disposal of non-current assets, employee share scheme (costs)/credits, redundancy and relocation costs, impairment adjustments on carrying value of subsidiaries, investment income and finance costs. A reconciliation of service line contribution to profit/(loss) before tax is set out in note 5 below.

Principal activities

The following table describes the activities of each operating segment:

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

Segment information about these activities is presented below.

| | 2023 | | | 2022 | | |
|----------------------------------------------------|----------------|--------------------|--------------|----------------|--------------------|--------------|
| | External £m | Intercompany £m | Total £m | External £m | Intercompany £m | Total £m |
| Revenue from contracts with customers | | | | | | |
| UK Airports | 130.0 | 14.3 | 144.3 | 111.4 | 13.0 | 124.4 |
| Defence services | 14.9 | 1.0 | 15.9 | 21.5 | 1.2 | 22.7 |
| Other UK Business | 13.4 | 3.0 | 16.4 | 9.3 | 4.1 | 13.4 |
| International | 2.1 | 0.4 | 2.5 | 3.2 | 0.7 | 3.9 |
| Total revenue from contracts with customers | 160.4 | 18.7 | 179.1 | 145.4 | 19.0 | 164.4 |
| Other revenue: rental and sub-lease income | | | | | | |
| Other UK Business | - | - | - | 0.1 | - | 0.1 |
| | - | - | - | 0.1 | - | 0.1 |
| Total revenue | 160.4 | 18.7 | 179.1 | 145.5 | 19.0 | 164.5 |

Intercompany revenue includes revenue for services to NATS (En Route) plc of £18.3m (2022: £18.3m), NATS Services (Asia Pacific) Pte. Limited of £0.2m (2022: £0.6m), NATS Services (Hong Kong) Limited of £0.1m (2022: £0.1m) and NATS Services DMCC £0.1m (2022: £nil).

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

| | 2023 | | | 2022 | | |
|--------------------------------------------|----------------|--------------------|--------------|----------------|--------------------|--------------|
| | External £m | Intercompany £m | Total £m | External £m | Intercompany £m | Total £m |
| Over time | | | | | | |
| Revenue from contracts with customers | 159.8 | 18.7 | 178.5 | 144.4 | 19.0 | 163.4 |
| Other revenue: rental and sub-lease income | - | - | - | 0.1 | - | 0.1 |
| | <u>159.8</u> | <u>18.7</u> | <u>178.5</u> | <u>144.5</u> | <u>19.0</u> | <u>163.5</u> |
| At a point in time | | | | | | |
| Revenue from contracts with customers | 0.6 | - | 0.6 | 1.0 | - | 1.0 |
| | <u>0.6</u> | <u>-</u> | <u>0.6</u> | <u>1.0</u> | <u>-</u> | <u>1.0</u> |
| | <u>160.4</u> | <u>18.7</u> | <u>179.1</u> | <u>145.5</u> | <u>19.0</u> | <u>164.5</u> |

c) Revenue disaggregated by geographical area

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

| | 2023 | | | 2022 | | |
|----------------------------------------------------|----------------|--------------------|--------------|----------------|--------------------|--------------|
| | External £m | Intercompany £m | Total £m | External £m | Intercompany £m | Total £m |
| Revenue from contracts with customers | | | | | | |
| United Kingdom | 158.3 | 18.3 | 176.6 | 144.0 | 18.4 | 162.4 |
| Other European countries | 1.3 | - | 1.3 | 0.1 | - | 0.1 |
| Countries in Asia | 0.8 | 0.4 | 1.2 | 1.2 | 0.6 | 1.8 |
| Countries in North America | - | - | - | 0.1 | - | 0.1 |
| Total revenue from contracts with customers | <u>160.4</u> | <u>18.7</u> | <u>179.1</u> | <u>145.4</u> | <u>19.0</u> | <u>164.4</u> |
| Other revenue: rental and sub-lease income | | | | | | |
| United Kingdom | - | - | - | 0.1 | - | 0.1 |
| | <u>160.4</u> | <u>18.7</u> | <u>179.1</u> | <u>145.5</u> | <u>19.0</u> | <u>164.5</u> |

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

Information about major customers

Included in revenues arising from UK Airports are revenues of £41.5m (2022: £38.4m) which arose from the company's largest customer.

d) Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are disclosed in notes 14 and 18. Significant changes in the contract assets and the contract liabilities balances during the year are as follows:

| | Contract assets | | Contract liabilities | |
|-----------------------------------------------------------------------------------------|-----------------|-------------|----------------------|---------------|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| At 1 April | 20.8 | 21.7 | (18.8) | (18.9) |
| Opening contract assets transferred to trade and other receivables | (10.1) | 14.4 | - | - |
| Cumulative catch-up adjustments | (0.1) | (16.5) | - | - |
| Impairment of contract assets | (0.4) | (0.4) | - | - |
| Additional contract asset balances recognised at the balance sheet date | 18.4 | (0.1) | - | - |
| Opening contract liabilities which have now been recognised as revenue | - | - | 7.0 | 5.2 |
| Increases due to cash received, excluding amounts recognised as revenue during the year | - | 1.7 | (7.0) | (5.1) |
| At 31 March | <u>28.6</u> | <u>20.8</u> | <u>(18.8)</u> | <u>(18.8)</u> |

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

e) Revenue recognised from performance obligations satisfied in previous periods

For the year ended 31 March 2023, no revenue was recognised for performance obligations satisfied in previous periods (2022: £nil).

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

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

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

| | 2023 | | | | Total £m |
|-------------------|--------------------------------|------------------------------|--------------------------------------|--------------------------------|-------------|
| | Due within one year or less | Between one and two years | Due between two and five years | Due in more than five years | |
| | £m | £m | £m | £m | |
| UK Airports | 15.3 | 13.1 | - | - | 28.4 |
| Defence services | 3.7 | - | - | - | 3.7 |
| Other UK Business | - | - | 0.1 | - | 0.1 |
| International | 1.2 | 0.4 | - | - | 1.6 |
| | 20.2 | 13.5 | 0.1 | - | 33.8 |
| | 2022 | | | | Total £m |
| | Due within one year or less | Between one and two years | Due between two and five years | Due in more than five years | |
| | £m | £m | £m | £m | |
| UK Airports | 9.7 | 0.1 | 0.3 | - | 10.1 |
| Defence services | 8.2 | - | - | - | 8.2 |
| Other UK Business | 0.8 | - | 0.1 | - | 0.9 |
| International | 1.8 | 0.1 | - | - | 1.9 |
| | 20.5 | 0.2 | 0.4 | - | 21.1 |

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

5. Operating segments

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

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

| | 2023 £m | 2022 £m |
|---------------------------------------------------------------------------------------------|---------------|-------------|
| UK Airports | 27.0 | 26.2 |
| Defence services | (1.9) | 0.5 |
| Other UK Business | 6.7 | 5.6 |
| International | (1.2) | (1.2) |
| Service line contribution | 30.6 | 31.1 |
| Costs not directly attributed to service lines: | | |
| Depreciation, amortisation and impairment (net of deferred grants released) | (3.8) | (3.6) |
| Impairment (charge)/write back of carrying value of subsidiary: NATS (USA) Inc. | (14.6) | 2.6 |
| Impairment (charge)/write back of carrying value of subsidiary: NATS (Services) Canada Inc. | (4.3) | 4.3 |
| (Loss)/profit on disposal of non-current assets | (0.2) | 0.2 |
| Employee share scheme (costs)/credits | (1.2) | 0.6 |
| Change in expected credit losses | (5.3) | 0.4 |
| Redundancy and relocation costs | (0.2) | (0.4) |
| Other costs not directly attributed to service lines | (21.4) | (19.5) |
| Investment income | 4.6 | 2.7 |
| Finance costs | (1.2) | (0.2) |
| (Loss)/profit before tax | (17.0) | 18.2 |

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

5. Operating segments (continued)**Supplementary information**

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

| | 2023 | | | 2022 | | |
|-------------------------|------------------------------------|------------------------------|-------------|------------------------------------|------------------------------|-------------|
| | Airport air traffic services £m | Miscellaneous services £m | Total £m | Airport air traffic services £m | Miscellaneous services £m | Total £m |
| Revenue | 122.9 | 56.2 | 179.1 | 110.5 | 54.0 | 164.5 |
| Costs (net) | (116.5) | (83.0) | (199.5) | (99.2) | (49.6) | (148.8) |
| Operating profit/(loss) | 6.4 | (26.8) | (20.4) | 11.3 | 4.4 | 15.7 |

Non-current asset additions

Additions to non-current assets (including additions to right-of-use assets) presented by service line are: UK Airports £5.2m (2022: £2.2m), Defence services £0.5m (2022: £1.0m), Other UK Business £0.7m (2022: £nil) and International £nil (2022: £nil).

Geographical segments

Capital expenditure and company assets are all located within the UK, with the exception of investments and loans of £33.5m (2022: £54.7m) which the company holds in overseas entities (see note 27). These investments have been established to enable the company to undertake business abroad or to hold foreign equity investments.

6. Operating (loss)/profit for the year

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

| | 2023 £m | 2022 £m |
|---------------------------------------------------------------------------------------------|------------|------------|
| CAA regulatory charges for safety regulation at airports | 0.1 | 0.1 |
| Voluntary redundancy costs | 0.2 | 0.4 |
| Foreign exchange losses/(gains) | 0.5 | (0.2) |
| Amortisation of intangible assets (note 11) | 0.9 | 0.7 |
| Depreciation of property, plant and equipment (note 12) | 2.2 | 2.2 |
| Depreciation of right-of-use assets (note 13) | 1.0 | 1.0 |
| Impairment charge/(write back) of carrying value of subsidiary: NATS (USA) Inc. | 14.6 | (2.6) |
| Impairment charge/(write back) of carrying value of subsidiary: NATS (Services) Canada Inc. | 4.3 | (4.3) |
| Change in expected credit losses | 5.3 | (0.4) |
| Deferred grants released | (0.3) | (0.3) |

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

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

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

Transactions with group companies

| | 2023 | 2022 |
|--------------------------------------------------------------------------------------------|--------------|--------------|
| | £m | £m |
| Charges for seconded staff under the terms of the ISA provided by NATS Limited (see below) | 105.5 | 100.8 |
| Charges for services provided by NATS Limited | 3.1 | 2.6 |
| Charges for services provided by NATS (En Route) plc | 22.0 | 20.3 |
| Charges for services provided by NATS Solutions Limited | 9.3 | 5.4 |
| Charges for services provided by NATS Services DMCC | 1.6 | 1.2 |
| Charges for services provided by NATS Services (Asia Pacific) Pte. Limited | 0.3 | 0.5 |
| Charges for services provided by Searidge Technologies Inc. | 1.0 | - |
| Charges for services provided by NATS Services India LLP | 0.1 | - |
| | <u>105.5</u> | <u>100.8</u> |

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

During the year, NATS Services established a joint venture in NATS Services (India) LLP with its subsidiary NATS Services (Asia Pacific) Pte. Limited, to provide support services to the Asia Pacific region.

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

| | 2023 | 2022 |
|-------------------------------------------|--------------|--------------|
| | £m | £m |
| Salaries and staff costs were as follows: | | |
| Wages and salaries | 72.8 | 69.2 |
| Social security costs | 9.3 | 8.5 |
| Share-based payments charges/(credits) | 1.2 | (0.6) |
| Pension costs (note 7b) | 23.1 | 24.9 |
| | <u>106.4</u> | <u>102.0</u> |
| Less: | | |
| Amounts capitalised | (0.9) | (0.9) |
| Government grants | - | (1.2) |
| | <u>105.5</u> | <u>99.9</u> |

Government grants of £1.2m were received in the prior year, which related to the reimbursement of employee costs for staff furloughed due to Covid under the Coronavirus Job Retention Scheme. There were no unfulfilled conditions or contingencies attached to these grants.

Wages and salaries includes other allowances and holiday pay.

b) Pension costs (see note 25)

| | 2023 | 2022 |
|-------------------------------------------|-------------|-------------|
| | £m | £m |
| Defined benefit pension scheme costs | 15.8 | 18.5 |
| Defined contribution pension scheme costs | 7.3 | 6.4 |
| | <u>23.1</u> | <u>24.9</u> |

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

c) Staff numbers

| | 2023 | 2022 |
|----------------------------------------------------------------------------------|------------|------------|
| | No. | No. |
| The monthly average number of employees (including executive directors) was: | | |
| Air traffic controllers | 434 | 436 |
| Air traffic service assistants | 90 | 86 |
| Engineers | 136 | 141 |
| Others | 169 | 179 |
| | <u>829</u> | <u>842</u> |
| The number of employees (including executive directors) in post at 31 March was: | <u>850</u> | <u>830</u> |

8. Investment income

| | 2023 | 2022 |
|----------------------------|------------|------------|
| | £m | £m |
| Dividends from investments | 2.2 | 2.5 |
| Interest on bank deposits | 1.8 | 0.1 |
| Other interest receivable | 0.6 | 0.1 |
| | <u>4.6</u> | <u>2.7</u> |

Dividends from investments represents dividends received from the FerroNATS joint venture (2022: FerroNATS £0.7m and NATSNav Limited £1.8m). Other interest receivable represents interest accrued on the loans to the Aquila joint venture and Searidge.

9. Finance costs

| | 2023 | 2022 |
|---------------------------------------------|------------|------------|
| | £m | £m |
| Interest on lease liabilities (see note 15) | 0.1 | 0.1 |
| Loss on disposal of FerroNATS joint venture | 0.9 | - |
| Other finance costs | 0.2 | 0.1 |
| | <u>1.2</u> | <u>0.2</u> |

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

10. Tax

| | 2023 | 2022 |
|----------------------------------------------------------|------------|------------|
| | £m | £m |
| Corporation tax | | |
| Current tax | 0.8 | 0.6 |
| Adjustments in respect of prior year - UK taxation | - | 0.1 |
| | <u>0.8</u> | <u>0.7</u> |
| Deferred tax (see note 20) | | |
| Origination and reversal of temporary timing differences | 0.2 | 0.4 |
| Effects of tax rate change on opening balance | - | (0.2) |
| | <u>0.2</u> | <u>0.2</u> |
| | <u>1.0</u> | <u>0.9</u> |

10. Tax (continued)

Corporation tax is calculated at 19% (2022: 19%) of the estimated assessable loss for the year.

| | 2023 | | Restated 2022 | |
|-------------------------------------------------------------------------------------------------------------------|--------|---------|------------------|--------|
| | £m | | £m | |
| The total tax charge for the year can be reconciled to the (loss)/profit per the income statement as follows: | | | | |
| (Loss)/profit on ordinary activities before tax | (17.0) | | 18.2 | |
| Tax on (loss)/profit on ordinary activities at standard rate in the UK of 19% (2022: 19%) | (3.2) | 19.0% | 3.5 | 19.0% |
| Tax effect of change in corporation tax rate from 19% to 25% | (0.2) | 1.2% | (1.0) | (5.4%) |
| Tax effect of prior year adjustments - current tax | - | - | 0.1 | 0.5% |
| Adjustment to deferred grants on property, plant and equipment and intangible assets | (0.2) | 1.2% | 0.1 | 0.5% |
| Impairment charge/(write back) on carrying value of subsidiaries: NATS (USA) Inc. and NATS (Services) Canada Inc. | 3.6 | (21.2%) | (1.3) | (7.1%) |
| Expected credit loss provision | 1.0 | (5.9%) | - | - |
| Employee share scheme | 0.2 | (1.2%) | (0.1) | (0.5%) |
| Disposal of joint venture | 0.2 | (1.2%) | - | - |
| Dividends from subsidiaries and joint ventures | (0.4) | 2.3% | (0.5) | (2.6%) |
| Foreign permanent establishment exemption | (0.2) | 1.2% | - | - |
| Other permanent differences | 0.2 | (1.2%) | 0.1 | 0.5% |
| Total tax charge for year at an effective tax rate of (5.9%) (2022: 4.9%) | 1.0 | (5.9%) | 0.9 | 4.9% |
| Deferred tax credit/(charge) taken directly to equity (see note 20) | 14.4 | | (19.0) | |

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.

Detailed reconciliation of the current tax charge

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

| | 2023 | | 2022 | |
|---------------------------------------------------------------------------------------------------------------------|--------|---------|-------|--------|
| | £m | | £m | |
| (Loss)/profit on ordinary activities before tax | (17.0) | | 18.2 | |
| Tax on loss on ordinary activities at standard rate in the UK of 19% (2022: 19%) | (3.2) | 19.0% | 3.5 | 19.0% |
| Expenses not deductible for tax purposes | | | | |
| - Employee share scheme | 0.2 | (1.2%) | (0.1) | (0.5%) |
| - Dividends from subsidiaries and joint ventures | (0.4) | 2.4% | (0.5) | (2.6%) |
| - Disposal of joint venture | 0.2 | (1.2%) | - | - |
| - Impairment charge/(write back) on carrying value of subsidiaries: NATS (USA) Inc. and NATS (Services) Canada Inc. | 3.6 | (21.4%) | (1.3) | (7.1%) |
| - Foreign permanent establishment exemption | (0.2) | 1.2% | - | - |
| - Expected credit loss provision | 1.0 | (5.9%) | - | - |
| Capital allowances in excess of depreciation | | | | |
| - Capital allowances | (0.7) | 4.1% | (0.7) | (3.8%) |
| - Depreciation and amortisation on eligible assets | 0.3 | (1.8%) | 0.2 | 1.2% |
| Other temporary differences | | | | |
| - Provisions | - | - | (0.1) | (0.5%) |
| - Pension contributions paid in excess of charge to profit and loss account | (0.8) | 4.7% | (0.4) | (2.2%) |
| - Unrelieved tax losses and other deductions arising in the period | - | - | - | - |
| Prior year adjustments | - | - | 0.1 | 0.5% |
| Current tax charge for year at an effective tax rate of (0.0%) (2022: 4.0%) | - | - | 0.7 | 4.0% |

The total current tax charge comprises a £0.8m charge to the Income statement (2022: £0.7m) and a £0.8m credit to the Statement of comprehensive income (2022: £nil) in relation to contributions to the Defined benefit pension scheme.

11. Intangible assets

| | Operational software £m | Non-operational software £m | Assets in course of construction £m | Total £m |
|---------------------------------|-------------------------------|-----------------------------------|-------------------------------------------|-------------|
| Cost | | | | |
| At 1 April 2021 | 4.0 | 6.7 | 1.9 | 12.6 |
| Additions internally generated | - | - | 0.5 | 0.5 |
| Additions externally acquired | - | - | 1.5 | 1.5 |
| Transfers during the year | - | 2.4 | (1.2) | 1.2 |
| At 31 March 2022 | 4.0 | 9.1 | 2.7 | 15.8 |
| Additions internally generated | - | - | 0.1 | 0.1 |
| Additions externally acquired | 0.7 | 0.6 | 0.2 | 1.5 |
| Disposals during the year | - | (0.1) | - | (0.1) |
| Transfers during the year | - | 0.1 | (0.1) | - |
| At 31 March 2023 | 4.7 | 9.7 | 2.9 | 17.3 |
| Accumulated amortisation | | | | |
| At 1 April 2021 | 4.0 | 3.1 | - | 7.1 |
| Charge for the year | - | 0.7 | - | 0.7 |
| At 31 March 2022 | 4.0 | 3.8 | - | 7.8 |
| Charge for the year | 0.1 | 0.8 | - | 0.9 |
| Disposals during the year | - | (0.1) | - | (0.1) |
| At 31 March 2023 | 4.1 | 4.5 | - | 8.6 |
| Carrying amount | | | | |
| At 31 March 2023 | 0.6 | 5.2 | 2.9 | 8.7 |
| At 31 March 2022 | - | 5.3 | 2.7 | 8.0 |
| At 1 April 2021 | - | 3.6 | 1.9 | 5.5 |

An annual review is performed to assess the carrying value of other intangible assets, including assets in the course of construction. During the year no impairment charges were made in respect of assets in the course of construction (2022: £nil)

12. Property, plant and equipment

| | Freehold land and buildings £m | Improvements to leasehold land and buildings £m | Air traffic control systems, plant and equipment £m | Vehicles, furniture and fittings £m | Assets in course of construction and installation £m | Total £m |
|------------------------------------------------|--------------------------------------|----------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------------|-------------|
| Cost | | | | | | |
| At 1 April 2021 | 0.1 | 4.9 | 46.7 | 2.9 | 3.1 | 57.7 |
| Additions during the year | - | - | 0.1 | - | 1.1 | 1.2 |
| Other transfers during the year | - | - | 0.9 | - | (2.1) | (1.2) |
| At 31 March 2022 | 0.1 | 4.9 | 47.7 | 2.9 | 2.1 | 57.7 |
| Additions during the year | - | - | 1.4 | - | 3.2 | 4.6 |
| Disposals during the year | - | - | (0.4) | - | - | (0.4) |
| Other transfers during the year | - | - | 0.5 | - | (0.5) | - |
| At 31 March 2023 | 0.1 | 4.9 | 49.2 | 2.9 | 4.8 | 61.9 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 April 2021 | 0.1 | 4.6 | 36.1 | 2.8 | 1.5 | 45.1 |
| Provided during the year | - | 0.1 | 2.1 | - | - | 2.2 |
| At 31 March 2022 | 0.1 | 4.7 | 38.2 | 2.8 | 1.5 | 47.3 |
| Provided during the year | - | - | 2.2 | - | - | 2.2 |
| Disposals during the year | - | - | (0.3) | - | - | (0.3) |
| At 31 March 2023 | 0.1 | 4.7 | 40.1 | 2.8 | 1.5 | 49.2 |
| Carrying amount | | | | | | |
| At 31 March 2023 | - | 0.2 | 9.1 | 0.1 | 3.3 | 12.7 |
| At 31 March 2022 | - | 0.2 | 9.5 | 0.1 | 0.6 | 10.4 |
| At 1 April 2021 | - | 0.3 | 10.6 | 0.1 | 1.6 | 12.6 |

The company conducts annual reviews of the carrying values of its property, plant and equipment where there is an indicator of impairment. During the year, the company incurred no impairment charges (2022: £nil).

13. 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 2021 | 2.9 | 3.7 | 0.4 | 7.0 |
| Terminations during the year | - | (1.7) | (0.1) | (1.8) |
| At 31 March 2022 | 2.9 | 2.0 | 0.3 | 5.2 |
| Additions during the year | - | - | 0.2 | 0.2 |
| Effect of modification to lease terms | - | 0.4 | - | 0.4 |
| Terminations during the year | - | (0.6) | (0.2) | (0.8) |
| At 31 March 2023 | 2.9 | 1.8 | 0.3 | 5.0 |
| Accumulated depreciation and impairment | | | | |
| At 1 April 2021 | 1.4 | 1.9 | 0.2 | 3.5 |
| Charge during the year | 0.3 | 0.6 | 0.1 | 1.0 |
| Terminations during the year | - | (1.7) | (0.1) | (1.8) |
| At 31 March 2022 | 1.7 | 0.8 | 0.2 | 2.7 |
| Charge during the year | 0.3 | 0.6 | 0.1 | 1.0 |
| Terminations during the year | - | (0.6) | (0.2) | (0.8) |
| At 31 March 2023 | 2.0 | 0.8 | 0.1 | 2.9 |
| Carrying amount | | | | |
| At 31 March 2023 | 0.9 | 1.0 | 0.2 | 2.1 |
| At 31 March 2022 | 1.2 | 1.2 | 0.1 | 2.5 |
| At 1 April 2021 | 1.5 | 1.8 | 0.2 | 3.5 |

The company conducts annual reviews of the carrying values of its right-of-use assets. During the year, no impairment charges have been recognised (2022: £nil).

14. Financial and other assets

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

Trade and other receivables

| | 2023 £m | 2022 £m |
|-------------------------------------------------------------------------------------|-------------|-------------|
| Non-current | | |
| Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited) | 10.5 | - |
| Less: expected credit loss provision for subsidiary undertakings | (3.5) | - |
| | <u>7.0</u> | <u>-</u> |
| Contract assets | 13.7 | 8.1 |
| Prepayments | 0.2 | 4.3 |
| | <u>20.9</u> | <u>12.4</u> |
| Current | | |
| Receivable from customers gross | 20.3 | 29.7 |
| Less: expected credit loss provision | - | - |
| | <u>20.3</u> | <u>29.7</u> |
| Amounts due from subsidiary undertaking (NATS Services (Asia Pacific) Pte. Limited) | - | 10.4 |
| Amounts due from subsidiary undertaking (NATS Services DMCC) | 1.2 | 1.2 |
| Amounts due from subsidiary undertaking (NATS (USA) Inc.) | 0.5 | 0.5 |
| Amounts due from subsidiary undertaking (NATS Services (Hong Kong) Limited) | 0.7 | 0.8 |
| Amounts due from subsidiary undertaking (Searidge Technologies Inc.) | 6.0 | 6.4 |
| Amounts due from subsidiary undertaking (NATS (Services) Canada Inc) | 4.3 | 4.3 |
| Less: expected credit loss provision for subsidiary undertakings | (1.8) | - |
| | <u>10.9</u> | <u>23.6</u> |
| Amounts due from fellow subsidiary (NATS (En Route) plc) | 0.8 | 1.9 |
| Amounts recoverable under contracts | - | 1.4 |
| Contract spare parts | 0.5 | 0.5 |
| Contract assets | 14.9 | 12.7 |
| Other debtors | 0.4 | - |
| Prepayments | 6.7 | 2.6 |
| | <u>54.5</u> | <u>72.4</u> |

The average credit period taken on sales of services is 29 days (2022: 37 days). No allowance has been made for estimated irrecoverable amounts from sales to customers of Enil (2022: £nil).

NATS (Services) Canada Inc, a subsidiary of NATS Services, became the sole shareholder in Searidge Technologies in December 2021 as it purchased the remaining 50% shareholding from NAVCANADA.

Movement in the expected credit loss provision

| | 2023 £m | 2022 £m |
|---------------------------------------------------------------------|------------|------------|
| Balance at the beginning of the year | - | 0.5 |
| Increase/(decrease) in allowance recognised in the income statement | 5.3 | (0.4) |
| Amounts written off as irrecoverable | - | (0.1) |
| | <u>5.3</u> | <u>-</u> |
| Balance at the end of the year | 5.3 | - |

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. In order to measure the expected credit losses, the credit risk characteristics of the trade receivables and contract assets have been considered. Based on this, trade receivables and contract assets have been grouped into sub-groups as they are considered to have different credit risk characteristics: UK Airports; Defence services and Other UK Business; and International. For each of these sub-groups separate provision matrices based on the days past due have been used to summarise historic loss patterns. The historical loss rates calculated reflect the economic conditions in place during the period to which the historical data relates and does not reflect forward looking macro-economic factors. Consideration needs to be made as to whether these historical loss rates were incurred in economic conditions that are representative of those expected to exist during the exposure period for each of these sub-groups at the balance sheet date. Therefore we have reassessed lifetime expected credit losses at 31 March 2023 to reflect the default risk by customers during the period of recovering demand within the aviation sector. The historic loss rates have been adjusted accordingly to reflect the appropriate expected credit losses.

The increase in the expected credit loss provision in the year relates to an assessment of the recoverability of intercompany balances with: NATS (Services) Canada Inc. (£1.8m) and NATS Services (Asia Pacific) Pte. Limited (£3.5m)

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

14. Financial and other assets (continued)

At 31 March 2023 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

| | 2023 | | | | | | | Total £m |
|--------------------------------------------------------|-----------------|-------------------------------|------------|------------|-----------|----------|----------------------|-------------|
| | Unbilled income | Receivables - months past due | | | | | In administration | |
| Current | | 1 month | 2-3 months | 4-6 months | >6 months | | | |
| UK Airports service line | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | 16.9 | 14.1 | 1.3 | - | - | - | - | 32.3 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| Defence and Other UK Business service lines | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | - | 14.9 | 0.2 | 0.2 | - | - | - | 15.3 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| International service line | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | 1.0 | 0.2 | 0.1 | - | - | - | - | 1.3 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| Fellow subsidiaries and subsidiary undertakings | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 22.1% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | - | 24.0 | - | - | - | - | - | 24.0 |
| Lifetime expected credit loss (£m) | - | 5.3 | - | - | - | - | - | 5.3 |
| Total expected credit losses (£m) | - | 5.3 | - | - | - | - | - | 5.3 |

14. Financial and other assets (continued)

| | 2022 | | | | | | | Total £m |
|----------------------------------------------------|-----------------|-------------------------------|------------|------------|-----------|----------|----------------------|-------------|
| | Unbilled income | Receivables - months past due | | | | | In administration | |
| Current | | 1 month | 2-3 months | 4-6 months | >6 months | | | |
| UK Airports service line | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | 11.2 | 17.6 | 1.3 | - | - | 0.2 | - | 30.3 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| Defence and Other UK Business service lines | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | 0.6 | 14.8 | 0.4 | - | - | - | - | 15.8 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| International service line | | | | | | | | |
| Expected credit loss rate (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |
| Gross carrying amount (£m) | - | 4.3 | - | - | - | 0.1 | - | 4.4 |
| Lifetime expected credit loss (£m) | - | - | - | - | - | - | - | - |
| Total expected credit losses (£m) | - | - | - | - | - | - | - | - |

Non-current trade and other receivables consist mainly of performance obligations delivered in advance of invoicing to UK Airport customers that will be released against billed revenue over the remaining life of the airport ATC contracts. Of these amounts £4.9m will be released by 31 March 2026, £4.5m by 31 March 2028 and £4.3m by 31 March 2029 (2022: £2.0m will be released by 31 March 2024, £2.4m by 31 March 2026 and £3.7m by 31 March 2029). None of those receivables has been subject to a significant increase in credit risk since initial recognition.

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

There are no trade receivables in the expected credit loss provision which are in administration, receivership or liquidation (2022: £nil).

Cash and cash equivalents

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

Overall, the maximum credit risk relating to cash and cash equivalents, loans to joint venture and trade and other trade receivables, excluding prepayments and contract spare parts, would be £168.3m (2022: £171.7m).

15. Leases

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

| | 2023 £m | 2022 £m |
|--------------------------------|------------|------------|
| Due within one year or less | 1.3 | 0.7 |
| Due between one and two years | 0.5 | 0.7 |
| Due between two and five years | 0.7 | 1.1 |
| Due in more than five years | - | 0.2 |
| | <u>2.5</u> | <u>2.7</u> |
| Less: future finance charges | (0.2) | (0.2) |
| | <u>2.3</u> | <u>2.5</u> |
| Analysed as: | | |
| | 2023 £m | 2022 £m |
| Current | 1.0 | 0.7 |
| Non-current | 1.3 | 1.8 |
| | <u>2.3</u> | <u>2.5</u> |

The income statement shows the following amounts relating to leases:

| | 2023 £m | 2022 £m |
|--------------------------------------------|------------|------------|
| Interest on lease liabilities (see note 9) | <u>0.1</u> | <u>0.1</u> |

The depreciation charge for right-of-use assets included in the income statement, is shown in note 13.

15. Leases (continued)**Nature of leasing activities**

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

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

| Year ended 31 March 2023 | Lease contracts No. | Fixed payments % ⁽ⁱ⁾ | Variable payments % ⁽ⁱ⁾ | Sensitivity £m |
|---------------------------------------------------------|------------------------|------------------------------------|---------------------------------------|-------------------|
| Property leases with payments linked to inflation | 1 | n/a | 1.7% | - |
| Property leases with periodic uplifts to market rentals | 3 | n/a | 18.1% | - |
| Property leases with fixed payments | 1 | - | n/a | n/a |
| Leases of plant and equipment | 26 | 48.5% | n/a | n/a |
| Vehicle leases | 21 | 31.7% | n/a | n/a |
| | 52 | 80.2% | 19.8% | - |

| Year ended 31 March 2022 | Lease contracts No. | Fixed payments % ⁽ⁱ⁾ | Variable payments % ⁽ⁱ⁾ | Sensitivity £m |
|---------------------------------------------------------|------------------------|------------------------------------|---------------------------------------|-------------------|
| Property leases with payments linked to inflation | 3 | n/a | 28.2% | - |
| Property leases with periodic uplifts to market rentals | 3 | n/a | 26.1% | - |
| Property leases with fixed payments | 2 | - | n/a | n/a |
| Leases of plant and equipment | 20 | 42.1% | n/a | n/a |
| Vehicle leases | 20 | 3.6% | n/a | n/a |
| | 48 | 45.7% | 54.3% | - |

(i) The fixed/variable payment percentage is calculated based on the value of the lease liability outstanding as at 31 March 2023, divided by the company's total lease liability outstanding at that date.

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

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

At 31 March 2023, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses where it was considered reasonably certain that the company would not exercise its right to exercise any right to break the lease. In addition, the carrying amounts of some leases include the period to which the company is reasonably certain that options to extend the leases will be exercised. The remaining lease payments on all these leases is £2.2m (2022: £2.6m), of which £0.5m (2022: £0.6m) is potentially avoidable if the leases were not extended and a further £0.8m (2022: £1.5m) is potentially avoidable were the company to exercise break clauses at the earliest opportunity.

The company builds certain airport engineering assets used to satisfy its obligations under its Airport ATC contracts. Dependent on the agreement with individual airports those assets are either sold directly to the airports or the company enters into a sale and leaseback arrangement and recharges the monthly lease cost to the airport on a cost plus administrative fee margin basis. The leases have primary lease periods of between 5 and 7 years and are extendable to secondary and tertiary periods. In the event that an Airport ATC contract is not renewed the assets will be sold by the lease company directly to the Airport and the leases disposed of in the company financial statements. The outstanding discounted liability for these leases at 31 March 2023 was £0.8m (2022: £1.0m).

The company did not enter into any new sale and leaseback arrangements in the year to 31 March 2023 (2022: nil), therefore there are no additions to right-of-use assets (2022: £nil) (note 13) or lease liabilities (2022: £nil).

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

| | 2023 £m | 2022 £m |
|-------------------------------------------------------------------------------|------------|------------|
| Current assets | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | 0.1 | - |
| Current liabilities | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | (0.1) | - |
| Non-current liabilities | | |
| Derivative financial instruments in designated hedge accounting relationships | | |
| Forward foreign exchange contracts (cash flow hedges) | (0.1) | - |

Further details on derivative financial instruments are provided in note 17.

17. Financial instruments

Capital risk management

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

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

Categories of financial instrument

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

| | 2023 £m | 2022 £m |
|------------------------------------------------|---------------|---------------|
| Financial assets: | | |
| Financial assets at amortised cost | | |
| Trade and other receivables | 68.0 | 77.4 |
| Loans to joint ventures | 8.8 | 8.0 |
| Cash and cash equivalents | 91.5 | 86.3 |
| | <u>168.3</u> | <u>171.7</u> |
| Derivative financial instruments | | |
| In designated hedge accounting relationships | 0.1 | - |
| | <u>168.4</u> | <u>171.7</u> |
| Financial liabilities: | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables | (37.6) | (36.5) |
| Lease liabilities | (2.3) | (2.5) |
| | <u>(39.9)</u> | <u>(39.0)</u> |
| Derivative financial instruments | | |
| In designated hedge accounting relationships | (0.2) | - |
| | <u>(40.1)</u> | <u>(39.0)</u> |

Financial assets at amortised cost includes balances for trade and other receivables (excluding prepayments of £6.9m (2022: £6.9m) and contract spare parts of £0.5m (2022: £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 £18.8m (2022: £18.8m), deferred income of £0.2m (2022: £0.5m) and VAT of £2.2m (2022: £1.5m)) and lease liabilities.

Financial risk management objectives

The NATS group's treasury function is mandated by the Board of NATS Holdings Limited to manage financial risks that arise in relation to underlying business needs. The function provides services to the business, co-ordinates access to financial markets and monitors and manages financial risks relating to the operations of the group. The function has clear policies and operating parameters. The Treasury Committee provides oversight and meets at least three times a year to approve strategy and to monitor compliance with Board policy. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the company's activities include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company had no debt at 31 March 2023.

Market risk

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

17. Financial instruments (continued)**Foreign currency risk management**

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

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

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

| | Assets | | Liabilities | |
|------------------|-------------|-------------|--------------|--------------|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| Euro | 0.6 | 1.1 | (0.5) | (0.7) |
| Canadian dollar | 11.6 | 10.7 | (0.2) | - |
| Norwegian krone | 0.1 | 0.4 | (0.1) | - |
| Qatari riyal | 0.5 | 0.8 | - | - |
| Singapore dollar | 0.5 | 0.8 | (0.1) | - |
| Thai baht | 0.7 | 0.7 | (0.1) | (0.3) |
| UAE dirham | 0.1 | 0.1 | - | - |
| US dollar | 0.7 | 1.0 | (0.6) | (0.8) |
| | 14.8 | 15.6 | (1.6) | (1.8) |

Foreign currency sensitivity analysis

The company has assets and liabilities denominated in foreign currencies including cash balances of £3.0m at 31 March 2023 in Canadian dollar, euro, Norwegian krone, Qatari riyal, Singapore dollar, Thai baht, UAE dirham and US dollars (2022: £1.7m in euro, Norwegian krone and Thai baht). Furthermore, the company has entered into forward foreign currency contracts to hedge exchange risk relating to customer receipts and supplier costs which will arise in future periods.

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

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

| Currency | 2023 Impact £m | 2022 Impact £m |
|-----------------|----------------------|----------------------|
| Euro | (0.3) | (0.3) |
| Canadian dollar | (1.2) | (1.2) |
| Norwegian krone | (0.1) | (0.1) |
| Qatari riyal | (0.1) | (0.1) |
| Thai baht | (0.1) | - |
| US dollar | (0.2) | (0.1) |
| | (2.0) | (1.8) |

The company's sensitivity to foreign currencies has remained consistent against the prior year. NATS Services believes that this sensitivity analysis accurately reflects its inherent foreign exchange risk.

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

The company entered into forward foreign exchange contracts to hedge foreign currency receipts and purchases. The company has designated these forward contracts as cash flow hedges. During the year, all remaining forward foreign exchange contracts were determined to be effective.

The following contracts were outstanding at year end:

| | 2023 | | | 2022 | | |
|-------------------------------|------------|------------|-----------------------|------------|------------|-----------------------|
| | €m | £m | Average exchange rate | €m | £m | Average exchange rate |
| Euro bought | | | | | | |
| 0-90 days | 0.7 | 0.6 | 0.8712 | 0.9 | 0.8 | 0.8402 |
| 91-365 days | 1.1 | 1.0 | 0.8872 | 1.2 | 1.1 | 0.8636 |
| > 365 days | 1.1 | 1.0 | 0.9441 | 0.9 | 0.8 | 0.8681 |
| | 2.9 | 2.6 | 0.9047 | 3.0 | 2.7 | 0.8579 |
| Canadian dollar bought | C\$m | £m | | C\$m | £m | |
| 0-90 days | 0.6 | 0.3 | 1.7782 | 0.8 | 0.5 | 1.7426 |
| 91-365 days | - | - | - | 0.7 | 0.4 | 1.6731 |
| > 365 days | - | - | - | 0.6 | 0.3 | 1.7782 |
| | 0.6 | 0.3 | 1.7782 | 2.1 | 1.2 | 1.7266 |
| Norwegian krone bought | NOKm | £m | | NOKm | £m | |
| 0-90 days | 6.0 | 0.5 | 12.0860 | 0.4 | - | 12.1038 |
| 91-365 days | - | - | - | 0.8 | 0.1 | 12.1128 |
| > 365 days | 3.2 | 0.3 | 12.1537 | 0.2 | - | 12.1221 |
| | 9.2 | 0.8 | 12.1097 | 1.4 | 0.1 | 12.1115 |
| Singapore dollar sold | £m | SGDm | | £m | SGDm | |
| 0-90 days | - | - | - | 1.0 | 1.8 | 1.7874 |
| 91-365 days | 0.5 | 0.8 | 1.6255 | - | - | - |
| | 0.5 | 0.8 | 1.6255 | 1.0 | 1.8 | 1.7874 |
| US dollar bought | US\$m | £m | | US\$m | £m | |
| 0-90 days | 1.6 | 1.3 | 1.2253 | - | - | - |
| 91-365 days | 0.6 | 0.5 | 1.2468 | 0.1 | 0.1 | 1.3107 |
| > 365 days | 0.2 | 0.2 | 1.1749 | 0.3 | 0.2 | 1.3134 |
| | 2.4 | 2.0 | 1.2264 | 0.4 | 0.3 | 1.3127 |
| US dollar sold | £m | US\$m | | £m | US\$m | |
| 0-90 days | 0.5 | 0.6 | 1.2394 | - | - | - |
| | 0.5 | 0.6 | 1.2394 | - | - | - |

At 31 March 2023, the aggregate amount of the unrealised losses under forward foreign exchange contracts deferred in the hedge reserve relating to the exposure on these future transactions was £0.1m (2022: £0.1m unrealised gains). The majority of these contracts will mature within the next financial year at which stage the amount deferred in equity will be realised in the income statement for hedges relating to revenue expenditure or capitalised and depreciated for those relating to capital expenditure.

Interest rate risk management

The company had no debt at 31 March 2023 or 31 March 2022 and therefore was not exposed to any interest rate risk on borrowings.

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

The company held cash deposits as follows:

| Currency | 2023 | | | 2022 | | |
|------------------|--------------|--------------------------------|--------------------------|--------------|--------------------------------|--------------------------|
| | Amount £m | Economic interest rate % | Average maturity days | Amount £m | Economic interest rate % | Average maturity days |
| Sterling | 88.5 | 4.1 | 32 | 84.6 | 0.4 | 8 |
| Euro | 0.4 | - | 3 | 0.8 | - | 1 |
| US dollar | 0.2 | - | 3 | - | - | - |
| Canadian dollar | 1.2 | - | 3 | - | - | - |
| Norwegian krone | 0.1 | - | 3 | 0.4 | - | 1 |
| Qatari riyal | 0.1 | - | 3 | - | - | - |
| Singapore dollar | 0.2 | - | 3 | - | - | - |
| Thai baht | 0.7 | - | 3 | 0.5 | - | 1 |
| UAE dirham | 0.1 | - | 3 | - | - | - |
| | 91.5 | | | 86.3 | | |

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

Interest rate sensitivity analysis

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

The following table shows the effect of a 1% increase in interest rates on the company's cash deposits 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.

| | 2023 Impact £m | 2022 Impact £m |
|-------------------------------------------|----------------------|----------------------|
| Cash at bank (2023: £91.5m, 2022: £86.3m) | 0.9 | 0.9 |

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into. The risk of loss from default by customers and the mitigations against this risk are explained in note 14. With regard to funds or contracts held with financial institutions, the company's policy is to transact with counterparties that hold a minimum credit rating as supplied by independent rating agencies, Standard & Poor's, Moody's and Fitch Ratings.

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

The company's cash and cash equivalents take the form of cash at bank of £3.5m (2022: £3.5m), bank term deposits of £40.0m (2022: £25.9m) and money market fund investments of £48.0m (2022: £56.9m). 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 rating.

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

| Rating (Standard & Poor's) | 2023 | | | 2022 | | |
|----------------------------|---------------------------|-------------|-----------------------|---------------------------|-------------|-----------------------|
| | Number of institutions | £m | By credit rating % | Number of institutions | £m | By credit rating % |
| AAAm | 4 | 48.0 | 52.5 | 4 | 56.9 | 65.9 |
| AA- | 1 | 10.0 | 10.9 | - | - | - |
| A+ | 3 | 13.5 | 14.7 | 2 | 20.5 | 23.8 |
| A | 1 | 20.0 | 21.9 | 2 | 8.9 | 10.3 |
| | | 91.5 | 100.0 | | 86.3 | 100.0 |

17. Financial instruments (continued)**Liquidity risk management**

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

To provide liquidity, NATS Services has an uncommitted overdraft facility of £1.0m that was undrawn as at 31 March 2023 (31 March 2022: uncommitted overdraft of £1.0m undrawn).

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

| | 2023 | | | 2022 | | |
|--------------------------------|-------------------------|-------------------------|-------------|-------------------------|-------------------------|-------------------------|
| | Lease liabilities £m | Other liabilities £m | Total £m | Lease liabilities £m | Other liabilities £m | Other liabilities £m |
| Due within one year or less | 1.3 | 37.5 | 38.8 | 0.7 | 36.4 | 37.1 |
| Between one and two years | 0.5 | - | 0.5 | 0.7 | - | 0.7 |
| Due between two and five years | 0.7 | - | 0.7 | 1.1 | - | 1.1 |
| Due in more than five years | - | 0.1 | 0.1 | 0.2 | 0.1 | 0.3 |
| | 2.5 | 37.6 | 40.1 | 2.7 | 36.5 | 39.2 |
| Less: future finance charges | (0.2) | - | (0.2) | (0.2) | - | (0.2) |
| | 2.3 | 37.6 | 39.9 | 2.5 | 36.5 | 39.0 |

Other liabilities above include trade and other payables excluding deferred income of £0.2m (2022: £0.5m), contract liabilities of £18.8m (2022: £18.8m) and VAT of £2.2m (2022: £1.5m).

Fair value measurements

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

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

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

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

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

| | 2023 | | | | 2022 | | | |
|-------------------------------------------------------------------------------|---------|---------|---------|-------|---------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | 0.1 | - | 0.1 | - | - | - | - |
| Financial liabilities | | | | | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | (0.2) | - | (0.2) | - | - | - | - |

There were no transfers between individual levels in the year.

Valuation techniques and key inputs

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

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

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

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

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

| | 2023 £m | 2022 £m |
|----------------------------------------------------------------|-------------|-------------|
| Current | | |
| Trade payables | 3.8 | 1.9 |
| Other payables | 10.1 | 10.6 |
| Contract liabilities | 8.1 | 7.7 |
| Amounts due to parent company | 13.4 | 13.1 |
| Amounts due to joint venture (NATS Services (India) LLP) | 0.2 | - |
| Amounts due to subsidiary undertaking (NATS Solutions Limited) | 0.8 | 0.7 |
| Accruals and deferred income (including deferred grants) | 11.6 | 11.9 |
| | <u>48.0</u> | <u>45.9</u> |
| Non-current | | |
| Other payables | 0.1 | 0.1 |
| Contract liabilities | 10.7 | 11.1 |
| Accruals and deferred income (including deferred grants) | - | 0.2 |
| | <u>10.8</u> | <u>11.4</u> |
| | <u>58.8</u> | <u>57.3</u> |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 48 days (2022: 24 days). The directors consider that the carrying amount of the trade payables approximates to their fair value.

19. Provisions

| | Total £m | |
|---------------------------------------------|-------------|------------|
| At 1 April 2022 | 4.7 | |
| Additional provision in the year | 0.8 | |
| Release of provision in the year | (1.7) | |
| At 31 March 2023 | <u>3.8</u> | |
| | | |
| | 2023 £m | |
| | 2022 £m | |
| Amounts due for settlement within 12 months | 1.5 | 0.7 |
| Amounts due for settlement after 12 months | 2.3 | 4.0 |
| | <u>3.8</u> | <u>4.7</u> |

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.

20. Deferred tax

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

| | Accelerated tax depreciation £m | Retirement benefits £m | Other £m | Restated Total £m |
|---------------------------|---------------------------------------|------------------------------|-------------|-------------------------|
| At 1 April 2021 | (1.0) | (1.3) | (0.7) | (3.0) |
| Charge/(credit) to income | 0.4 | (0.3) | 0.1 | 0.2 |
| Charge to equity | - | 19.0 | - | 19.0 |
| At 31 March 2022 | (0.6) | 17.4 | (0.6) | 16.2 |
| At 1 April 2022 | (0.6) | 17.4 | (0.6) | 16.2 |
| Charge/(credit) to income | 0.3 | - | (0.1) | 0.2 |
| Credit to equity | - | (14.4) | - | (14.4) |
| At 31 March 2023 | (0.3) | 3.0 | (0.7) | 2.0 |

Other deferred tax balances relate to provisions for property reinstatement and holiday pay.

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:

| | 2023 £m | Restated 2022 £m |
|--------------------------|------------|------------------------|
| Deferred tax liabilities | 3.0 | 17.4 |
| Deferred tax assets | (1.0) | (1.2) |
| | <u>2.0</u> | <u>16.2</u> |

The deferred tax liability arises because timing differences, taxable profits will be higher than accounting profits in the future, which results in higher tax payments in future periods. It is forecast that the liability will be reversed within two years.

21. Share capital

| | Authorised Number of shares | £m | Called up, allotted and fully paid Number of shares | £m |
|------------------------------------|--------------------------------|-----|--------------------------------------------------------|-----|
| Ordinary shares of £1 each | | | | |
| At 31 March 2022 and 31 March 2023 | 100,000 | 0.1 | 100,000 | 0.1 |

22. Notes to the cash flow statement

| | 2023 £m | 2022 £m |
|------------------------------------------------------------------|------------|------------|
| Operating (loss)/profit from continuing operations | (20.4) | 15.7 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 2.2 | 2.2 |
| Depreciation of right-of-use assets | 1.0 | 1.0 |
| Amortisation of intangible assets | 0.9 | 0.7 |
| Impairment charge/(write back) of carrying value of subsidiaries | 18.9 | (6.9) |
| Deferred grants released | (0.3) | (0.3) |
| (Loss)/profit on disposal of non-current assets | 0.2 | (0.2) |
| Adjustment for pension funding | (4.3) | (1.8) |
| Operating cash flows before movements in working capital | (1.8) | 10.4 |
| Decrease/(increase) in amounts recoverable under contracts | 1.4 | (0.3) |
| Decrease/(increase) in trade and other receivables | 1.1 | (2.3) |
| Increase in trade, other payables and provisions | 0.3 | 3.9 |
| Decrease in net amounts due from other group undertakings | 7.5 | 0.1 |
| Cash generated from operations | 8.5 | 11.8 |
| Tax paid | (0.7) | - |
| Net cash inflow from operating activities | 7.8 | 11.8 |

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

Reconciliation of net financial assets

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

| | Assets | Liabilities | Net financial assets |
|------------------------------------------|------------------------------------|-------------------------|-------------------------|
| | Cash and cash equivalents £m | Lease liabilities £m | Total £m |
| Net financial assets as at 1 April 2021 | 89.1 | (3.7) | 85.4 |
| Cash flows | (2.8) | 1.2 | (1.6) |
| Net financial assets as at 31 March 2022 | 86.3 | (2.5) | 83.8 |
| Cash flows | 5.2 | 0.6 | 5.8 |
| New leases in the period | - | (0.2) | (0.2) |
| Effect of modification to lease terms | - | (0.2) | (0.2) |
| Net financial assets as at 31 March 2023 | 91.5 | (2.3) | 89.2 |

23. Financial commitments

| | 2023 £m | 2022 £m |
|---------------------------------------------------------------------|------------|------------|
| Capital commitments contracted but not provided for in the accounts | 1.3 | 1.5 |

Guarantees

NATS Services has committed to providing its subsidiaries NATS Solutions Limited, NATS Services DMCC, NATS Services (Asia Pacific) Pte.Limited, NATS Services (Hong Kong) Limited and NATS Services LLC with financial support to enable them to continue trading and to meet all liabilities known or reasonably foreseeable at the year end as they fall due. NATS Solutions Limited had net liabilities at 31 March 2023 of £4,914 (2022: £4,914 net liabilities). NATS Services DMCC had net assets at 31 March 2023 of £0.2m (2022: £0.2m). NATS Services (Asia Pacific) Pte. Limited had net liabilities at 31 March 2023 of £11.1m (2022: £10.6m net liabilities). NATS Services (Hong Kong) Limited had net assets at 31 March 2023 of £3.5m (2022: £2.8m). NATS Services LLC had net assets at 31 March 2023 of £0.2m (2022: £0.2m).

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

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

Bid and performance bonds

As part of the tendering process for new contracts, NATS Services may be required to put in place a tender or bid guarantee which expires once the contract is awarded. Where tenders are successful, contractual terms may also require performance or advance payment guarantees. These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees provided in these respects at 31 March 2023 was £7.5m (2022: £8.7m).

24. Share based payments

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

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

| | No. employee shares outstanding at 31 March 2023 | No. employee shares outstanding at 31 March 2022 |
|--------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Date of share awards | | |
| Free share awards | | |
| 21 September 2001 | 23,386 | 25,896 |
| 20 October 2003 | 20,102 | 23,602 |
| 10 September 2004 | 36,835 | 41,237 |
| 11 January 2008 | 28,400 | 33,240 |
| 18 September 2009 | 34,000 | 39,600 |
| Partnership shares | | |
| 1 March 2011 | 29,754 | 33,762 |
| 26 September 2012 | 38,764 | 45,364 |
| 30 May 2014 | 36,501 | 44,738 |
| 31 October 2016 | 50,654 | 73,254 |
| 31 October 2018 | 99,208 | 102,449 |
| Matching shares | | |
| 1 March 2011 | 29,754 | 33,510 |
| 26 September 2012 | 38,397 | 44,884 |
| 30 May 2014 | 36,461 | 44,488 |
| 31 October 2016 | 50,492 | 73,254 |
| 31 October 2018 | 119,314 | 122,664 |
| | 672,022 | 781,942 |
| Dividend shares issued on 28 June 2005 | 2,767 | 3,166 |
| Total employee shares in issue at 31 March | 674,789 | 785,108 |

24. 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 2023 | Movement in the no. of shares during the year ended 31 March 2022 |
|-----------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Balance at 1 April | 785,108 | 807,692 |
| Forfeited during the year | - | (12,385) |
| Exercised during the year | (119,526) | (30,414) |
| Staff transfers between group companies | 9,207 | 20,215 |
| Balance at 31 March | <u>674,789</u> | <u>785,108</u> |

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 was closed for leavers and joiners from 1 April 2020. In February 2023, the scheme was reopened for leavers and sales following an independent valuation at 31 December 2022 which valued the shares at £3.70. At 31 March 2022, the fair value of an employee share was estimated by reference to forecasts of discounted future cash flows to be £2.41. The liability for the employee shares at 31 March 2023 was £2.5m (2022: £2.4m) and is included in amounts due to parent company. The income statement includes a cost of £1.2m (2022: £0.6m credit). Payments made to leavers and current employees for the shares they exercised during the year was £1.2m (2022: £nil).

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

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

The company operates a salary sacrifice arrangement whereby employees sacrifice an element of their salary in favour of contributions to the pension scheme. The company matches employee contributions to the scheme in a ratio of 2:1, up to a maximum employer contribution of 18%. For the year ended 31 March 2023 employer contributions of £4.7m (2022: £4.2m), excluding employee salary sacrifice contributions of £2.6m (2022: £2.2m), represented 16.7% of pensionable pay (2022: 16.6%).

The defined contribution scheme had 408 members at 31 March 2023 (2022: 383).

Defined benefit scheme

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

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

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

25. 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 the future benefit accrual was 71.9% of pensionable pay (66.2% employer and 5.7% employee). 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 2029. Under the schedule of contributions, normal contributions were paid at 41.7% of pensionable pay until 31 December 2022 and increased to 66.2% thereafter. The NATS group paid deficit recovery contributions of £26.0m in the 2021 calendar year, which increased by 2.37% for the 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. NATS Services' share of the deficit recovery is c. 23%.

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

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

During the year the company paid cash contributions to the scheme of £20.1m (2022: £20.3m). This amount included £1.5m (2022: £1.8m) of wages and salaries sacrificed by employees in return for pension contributions. Excluding the effect of salary sacrifice and past service costs, employer cash contributions were paid at a rate of 59.3% (2022: 61.2%) of pensionable salaries.

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

The estimated contributions expected to be paid by the company to the scheme during the financial year ending 31 March 2024 is £31.9m, including salary sacrifice contributions estimated at £2.0m.

Company's accounting valuation under international accounting standards

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

This valuation differs from the Trustees' funding assessment explained above in a number of critical respects, including for example, differences in timing and frequency as well as in valuation assumptions. The Trustees' last funding assessment was prepared as at 31 December 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.

An actuarial valuation for IAS19 purposes was carried out at 31 March 2023 (based on 31 December 2022 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:

| | 2023 | 2022 | 2021 |
|----------------------------------------|-------|-------|-------|
| RPI inflation | 3.05% | 3.40% | 3.05% |
| CPI inflation | 2.65% | 2.95% | 2.55% |
| Increase in: | | | |
| - salaries | 2.65% | 2.95% | 2.55% |
| - deferred pensions | 3.05% | 3.40% | 3.05% |
| - pensions in payment | 3.05% | 3.40% | 3.05% |
| Discount rate for net interest expense | 4.80% | 2.75% | 2.15% |

The mortality assumptions have been drawn from actuarial tables 105% S3PMA light and 103% S3PFA light (2022: 105% S3PMA light and 103% S3PFA light) with future improvements in line with CMI 2019 (2022: CMI 2019) projections for male/female members, subject to a long term improvement of 1.5% p.a (2022: 1.5% p.a.). These tables assume that the life expectancy, from age 60, for a male pensioner is 28.5 years and a female pensioner is 30.3 years. Allowance is made for future improvements in longevity, such that based on the average age of the current active membership (47), when these members reach retirement, life expectancy from age 60 will have increased for males to 29.5 years and for females to 31.3 years.

25. Retirement benefit schemes (continued)

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

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

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

| Assumption: | Change in assumption: | Impact on scheme liabilities: |
|-----------------------------|------------------------------------|-----------------------------------|
| Discount rate (bond yields) | Increase/decrease by 0.5% | Decrease by 8.2%/increase by 9.4% |
| Rate of inflation | Increase/decrease by 0.5% | Increase by 8.9%/decrease by 7.9% |
| Rate of salary growth | Increase/decrease by 0.5% | Increase by 1.7%/decrease by 1.6% |
| Rate of mortality | 1 year increase in life expectancy | Increase by 2.6% |

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:

| | 2023 £m | 2022 £m |
|------------------------------------------------------------------------|---------------|---------------|
| Current service cost | (17.7) | (18.1) |
| Net interest credit | 2.3 | - |
| Administrative expenses | (0.4) | (0.4) |
| Components of defined benefit costs recognised within operating profit | <u>(15.8)</u> | <u>(18.5)</u> |

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

| | 2023 £m | Restated 2022 £m |
|----------------------------------------------------------------------------|---------------|------------------------|
| Return on plan assets (excluding amounts included in net interest expense) | (395.0) | 26.9 |
| Actuarial gains and losses arising from changes in financial assumptions | 382.3 | 58.7 |
| Actuarial gains and losses arising from changes in demographic assumptions | - | - |
| Actuarial gains and losses arising from experience adjustments | (51.4) | (8.9) |
| | <u>(64.1)</u> | <u>76.7</u> |

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

| | 2023 £m | Restated 2022 £m |
|----------------------------------------------|-------------|------------------------|
| Present value of defined benefit obligations | (728.7) | (1 042.6) |
| Fair value of scheme assets | 740.8 | 1 114.5 |
| Surplus in scheme | <u>12.1</u> | <u>71.9</u> |

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

| | 2023 £m | 2022 £m |
|----------------------------------------------------------------------------|----------------|------------------|
| At 1 April | (1 042.6) | (1 085.2) |
| Current service cost | (17.7) | (18.1) |
| Past service cost | - | - |
| Interest expense on defined benefit scheme obligations | (28.3) | (23.0) |
| Actuarial gains and losses arising from changes in financial assumptions | 382.3 | 58.7 |
| Actuarial gains and losses arising from changes in demographic assumptions | - | - |
| Actuarial gains and losses arising from experience adjustments | (51.4) | (8.9) |
| Benefits paid | 29.0 | 33.9 |
| At 31 March | <u>(728.7)</u> | <u>(1 042.6)</u> |

25. Retirement benefit schemes (continued)

The average duration of the scheme's liabilities at the end of the year is 18.1 years (2022: 20.8 years). The present value of the defined benefit obligation can be analysed by member group as follows:

| | 2023 £m | 2022 £m |
|------------------|--------------|----------------|
| Active members | 267.4 | 435.6 |
| Deferred members | 87.1 | 149.6 |
| Pensioners | 374.2 | 457.4 |
| | <u>728.7</u> | <u>1 042.6</u> |

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

| | 2023 £m | Restated 2022 £m |
|----------------------------------------------------------------------------|--------------|------------------------|
| At 1 April | 1 114.5 | 1 078.6 |
| Interest income on scheme assets | 30.6 | 23.0 |
| Return on plan assets (excluding amounts included in net interest expense) | (395.0) | 26.9 |
| Contributions from sponsoring company | 20.1 | 20.3 |
| Benefits paid | (29.0) | (33.9) |
| Administrative expenses | (0.4) | (0.4) |
| At 31 March | <u>740.8</u> | <u>1 114.5</u> |

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

| | 2023 £m | Restated 2022 £m |
|-----------------------------------|--------------|------------------------|
| Cash and cash equivalents | 67.8 | 6.0 |
| Equity instruments | | |
| - Emerging markets | 18.1 | 15.8 |
| - Global | 89.9 | 161.7 |
| | <u>108.0</u> | <u>177.5</u> |
| Bonds | | |
| - Fixed income | 149.7 | 510.3 |
| - Index-linked gilts over 5 years | 293.9 | 292.1 |
| | <u>443.6</u> | <u>802.4</u> |
| Other investments | | |
| - Property | 23.3 | 33.1 |
| - Hedge funds | 46.2 | 45.3 |
| - Private equity funds | 29.1 | 36.9 |
| - Other | 22.6 | 10.4 |
| | <u>121.2</u> | <u>125.7</u> |
| Derivatives | | |
| - Futures contracts | 0.2 | 2.9 |
| Other receivables | - | - |
| | <u>740.8</u> | <u>1 114.5</u> |

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

Virtually all equity and debt instruments have quoted prices in active markets. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consist of equities, bonds and cash, although the scheme also invests in property and investment (private equity and hedge) funds which are generally illiquid, unquoted assets and trade on a less regular basis. Unquoted investment funds are measured using their most recent net asset valuations adjusted for cash movements between the latest valuation date and 31 March 2023. Where appropriate, management also take into account movements in external quoted benchmarks in order to determine whether a risk adjustment is required in determining fair value as at 31 March 2023.

NATS and the Trustees implemented a liability driven investment (LDI) programme in 2012 in order to hedge the impact of changes in inflation and interest rates on the value of the scheme's obligations, which are sensitive to inflation and movements in yields in the gilt market.

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 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 scrutinised banks and collateral is provided in the form of index-linked gilts to protect against the unlikely event of default by a counterparty bank.

25. 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.

Following the LDI events in late 2022, towards the end of 2022 NATS and the Trustees agreed to adjust the level of collateral within the LDI portfolio such that the portfolio could withstand a 3% rise in real interest rates. In addition, the growth portfolio was restructured to include 7-10% of Scheme assets in liquidity funds that would provide an additional collateral margin for the LDI portfolio, while retaining sufficient expected return to support the assumptions agreed for the 2020 funding valuation.

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 2023 was a loss of £364.4m (2022: gain £49.9m (Restated)).

26. Related party transactions

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

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

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

Transactions between the company and its holding company and fellow subsidiaries are disclosed above in note 6. Transactions between the company and its joint ventures, which are related parties, are disclosed below and in note 27.

Trading transactions

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

| | Sales | | Purchases | |
|------------------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | Year ended 31 March 2023 | Year ended 31 March 2022 | Year ended 31 March 2023 | Year ended 31 March 2022 |
| | £m | £m | £m | £m |
| LHR Airports Limited | 45.4 | 41.0 | 0.7 | 0.9 |
| Meteorological Office | - | - | 0.2 | 0.1 |
| FerroNATS Air Traffic Services SA | - | 0.4 | - | - |
| Aquila Air Traffic Management Services Limited | 13.7 | 27.5 | 1.1 | 1.1 |
| Searidge Technologies Inc | - | 0.1 | - | - |
| | Amounts owed by related parties | | Amounts owed to related parties | |
| | Year ended 31 March 2023 | Year ended 31 March 2022 | Year ended 31 March 2023 | Year ended 31 March 2022 |
| | £m | £m | £m | £m |
| LHR Airports Limited | 4.1 | 4.1 | - | - |
| Aquila Air Traffic Management Services Limited | 1.8 | 5.4 | 0.2 | 0.4 |

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.

The company also entered into transactions with its parent, fellow subsidiary and subsidiary undertakings. Sales to these related parties are disclosed in note 4 and purchases in note 6. Amounts owed by and to these related parties are shown in note 14 and note 18 respectively.

Sales are made to related parties at the company's usual rates and purchases at market prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received other than those disclosed in note 23. Expected credit loss provisions of £5.3m (2022: £nil) have been made for doubtful debts in respect of amounts owed by related parties (see note 14).

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

Directors' remuneration

The aggregate remuneration earned by the directors and the highest paid director of the company in the year was £441,000 (2022: £287,000). The number of directors paid by the company during the year was one (2022: one). The director does not participate in a company pension scheme.

26. Related party transactions (continued)**Remuneration of key management personnel**

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

| | 2023 £m | 2022 £m |
|------------------------------|------------|------------|
| Short term employee benefits | 1.6 | 1.2 |
| Post-employment benefits | 0.1 | 0.1 |
| | <u>1.7</u> | <u>1.3</u> |

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

| | Subsidiary undertakings | | | Joint ventures | | | Total £m |
|---------------------------------|-------------------------|--------------------------------------|-------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------|--------------------------------------------|-------------|
| | NATS (USA) Inc. £m | NATS (Services) Canada Inc. £m | NATS Services (Asia Pacific) Pte. Limited £m | FerroNATS Air Traffic Services SA £m | Aquila Air Traffic Management Services Limited £m | NATS (Services) India Limited LLP £m | |
| Carrying value | | | | | | | |
| At 1 April 2022 | 41.7 | 4.3 | 0.1 | 2.2 | 0.1 | - | 48.4 |
| Impairment provisions | (14.6) | (4.3) | - | - | - | - | (18.9) |
| Disposal of joint venture | - | - | - | (2.2) | - | - | (2.2) |
| Acquisition of joint venture | - | - | - | - | - | 0.3 | 0.3 |
| At 31 March 2023 | <u>27.1</u> | <u>-</u> | <u>0.1</u> | <u>-</u> | <u>0.1</u> | <u>0.3</u> | <u>27.6</u> |

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

Subsidiaries

The company's subsidiaries at 31 March 2023 were:

| Name of company | Principal activity | Proportion of ordinary shares and voting rights held | Country of registration | Country of operation |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------------------------|----------------------------|-------------------------|
| <u>Direct holding:</u> | | | | |
| NATS Solutions Limited* | Airport and airfield air traffic services | 100% | England and Wales | United Kingdom |
| NATSNV Limited* | Satellite based navigation | 100% | England and Wales | United Kingdom |
| National Air Traffic Services Limited* | Dormant | 100% | England and Wales | United Kingdom |
| NATS Services (Asia Pacific) Pte. Limited <i>51 Changi Business Park, Central 2, #04-06, The Signature, Singapore 486066</i> | Airport and ATM consultancy | 100% | Singapore | Singapore |
| NATS Services DMCC <i>Suite 1201, Platinum Tower, Plot No. PH1-I2, Jumeirah Lake Towers, PO Box 392497, Dubai, United Arab Emirates</i> | ATM consultancy | 100% | UAE | UAE |
| NATS Services (Hong Kong) Limited <i>31F Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong</i> | Airport and ATM consultancy | 100% | Hong Kong | Hong Kong |
| NATS (USA) Inc. <i>The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, United States</i> | Engineering and ATM consultancy | 100% | USA | USA |
| NATS (Services) Canada Inc. <i>100 King Street West, Suite 6200, 1 First Canadian Place, Toronto, Ontario, M5X 1B8, Canada</i> | Digital airport air traffic services | 100% | Canada | Canada |

27. Subsidiaries, joint ventures and associates (continued)Indirect holding:

| | | | | |
|-------------------------------------------------------------------------------------------|--------------------------------------|------|--------|--------|
| NATS Services LLC <i>PO Box 533, Ruwi, PC 112, Muscat, Sultanate of Oman</i> | ATM consultancy | 70% | Oman | Oman |
| Searidge Technologies Inc ** <i>19 Camelot Drive, Nepean, Ontario, K2G 5W6, Canada</i> | Digital airport air traffic services | 100% | Canada | Canada |

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

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

** Searidge Technologies Inc was previously a 50% owned joint venture. NATS (Services) Canada Inc purchased the remaining 50% of share capital on 22 December 2021. See below.

NATS Services, through its subsidiaries and joint ventures, operate in certain tax havens. This is a consequence of establishing entities or a business presence for commercial reasons and the provision of air traffic services in these territories.

NATS (USA) Inc.

On 16 May 2018, the company made an investment of £51.0m (US\$68.75m) in its wholly owned subsidiary, NATS (USA) Inc. On the same day NATS (USA) Inc., invested the proceeds to acquire convertible preferred interests with voting rights of 9.1% of Aireon LLC, a limited liability company incorporated in Delaware USA which is developing a space-based air traffic surveillance system. During the year ended 31 March 2019, a new company was created, Aireon Holdings LLC, which now owns 100% of Aireon LLC. At the same time NATS (USA) Inc's holdings in Aireon LLC were transferred to identical holdings in Aireon Holdings LLC. The investment is intended to result in fully diluted ordinary interests with voting rights of 10.35% by 1 January 2024. NATS is entitled to appoint one of the eleven Board members. NATS Services' investment in NATS (USA) Inc. was lower than its net assets and resulted in an impairment charge of £12.1m in the year (2022: £2.6m impairment reversal).

Further information above the NATS group's interest in Aireon is provided in the NATS Holdings Limited Annual Report and Accounts.

NATS (Services) Canada Inc.

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

On 26 April 2018 there was a capital reduction in NATS (Services) Canada Inc. of CAD\$0.7m (£0.5m) which related to unpaid share capital.

On 22 December 2021, NATS (Services) Canada Inc. made an additional investment in Searidge acquiring the remaining 50% of the issued share capital, financed by a CAD\$ 7.1m (£4.3m) loan from NATS Services. This transaction resulted in a reversal to previous impairment charges made by NATS (Services) Canada Inc. in its investment in Searidge. An assessment of the investment value at 31 March 2023 has resulted in an impairment charge of £4.3m (2022: £4.3m impairment reversal).

Searidge Technologies Inc. (Searidge)

On 22 December 2021, NATS (Services) Canada Inc., acquired the remaining 50% of the issued share capital of Searidge Technologies Inc. (Searidge), having previously acquired 50% in April 2017. This 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.

At the end of March 2023, the loan, including interest, outstanding was CAD\$ 10.0m (£6.0m) (2022: CAD\$ 10.4m, £6.4m). This is included with the amounts due from subsidiaries (see note 14).

The financial transactions with these subsidiaries have been disclosed in note 4 and note 6 as appropriate and the balances due from/to these subsidiaries are disclosed in notes 14 and 18 as appropriate.

Joint ventures and associates

As at 31 March 2023, the company held interests in two joint ventures, Aquila Air Traffic Management Services Limited and NATS Services (India) LLP. Its subsidiary entity, NATSNav Limited held an interest in European Satellite Services Provider SAS. Details are as follows:

| Name of company | Principal activity | Date of acquisition | Proportion of ordinary shares held | Country of incorporation |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------|------------------------------------|--------------------------|
| European Satellite Services Provider SAS <i>18, Avenue Edouard Belin - BPI 02, 31 401 Toulouse Cedex 9, France</i> | Satellite based navigation | 1 September 2008 | 16.67% | France |
| Aquila Air Traffic Management Services Limited <i>350 Longwater Avenue, Green Park, Reading, RG2 6GF, United Kingdom</i> | Asset provision and ATM services to UK MOD | 9 October 2014 | 50% | United Kingdom |
| NATS Services (India) LLP <i>Unit No. 216, Second Floor, Square One, C2 District Centre, Saket New Delhi, South Delhi DL 110017 India</i> | Airport and ATM consultancy | 18 January 2022 | 50% | India |

NATS Services (India) LLP is a limited liability partnership, established on 18 January 2022. It is a joint venture between NATS Services and NATS Services (Asia Pacific) Pte. Limited.

European Satellite Services Provider SAS (ESSP)

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

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

27. Subsidiaries, joint ventures and associates (continued)

Aquila Air Traffic Management Services Limited (Aquila)

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

During the year, Aquila drew down loan finance of £0.8m (net) (2022: £4.5m (net) drawdown). At 31 March 2023, the loan (including interest) outstanding was £8.8m (2022: £8.0m).

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

The company has provided guarantees in respect of its subsidiaries, joint ventures and associates and these are explained in note 23.

NATS Services has not presented summarised financial information relating to the year ended 31 March 2023. The summary financial information relating to the above joint ventures and associates is presented in the NATS Holdings Limited consolidated accounts.

FerroNATS Air Traffic Services SA (FerroNATS)

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

NATS Services received dividends of €2.5m (£2.2m) from FerroNATS in the year (2022: €0.8m, £0.7m).

In December 2022 the Company sold its 50% share in FerroNATS Air Traffic Services SA.

28. Parent undertaking

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

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

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

29. Events after the reporting period

There were no events after the reporting period.

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

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

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